

CHAPTER 7

ANATOMY OF RELATIONSHIP SIGNIFICANCE: A CRITICAL REALIST EXPLORATION

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ABSTRACT

Markets-as-networks (MAN) theorists contend, at least tacitly, the significance of business relationships to the firm – that is, business relationships contribute somewhat to corporate survival or growth. One does not deny the existence of significant business relationships but sustain, in contrast to the consensus within the MAN theory, that relationship significance should not be a self-evident assumption. For significance cannot be a taken-for-granted property of each and every one of the firm's business relationships. The authors adopt explicitly a critical realist meta-theoretical position in this conceptual paper and claim that relationship significance is an event of the business world, whose causes remain yet largely unidentified. Where the powers and liabilities of business relationships (i.e., relationship functions and dysfunctions) are put to work, inevitably under certain contingencies (namely the surrounding networks and markets), relationship effects ensue for the firm (often benefits in excess of sacrifices, i.e., relationship value) and as a consequence relationship significance is likely to be brought about. In addition, relationship significance can result from the dual impact that business

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relationships may have on the structure and powers and liabilities of the firm, that is, on corporate nature and scope, respectively.

1. INTRODUCTION

Markets-as-networks theory (henceforth “MAN theory”), also referred to as industrial networks theory, aims to describe and explain the vertical interactions and relationships established and maintained between firms, in the role of buyers and sellers. This theory is the notorious offspring of the voluminous analytical and empirical work undertaken almost over the past four decades by the Industrial Marketing and Purchasing Group (frequently referred to as “IMP Group” or simply IMP), a worldwide research community dedicated to the study of interfirm or business relationships and networks (McLoughlin & Horan, 2000; Turnbull, Ford, & Cunningham, 1996).

Although clearly not monolithic, MAN theory features at least three major conceptual cornerstones: the existence, connectedness, and uniqueness of business relationships (Hakansson & Ostberg, 1975); business relationships as a third type of governance structure, alternative to both hierarchies and markets (Hakansson & Johanson, 1993b); and the significance of business relationships to the firm, henceforth “relationship significance” (Gadde, Huemer, & Hakansson, 2003). This conceptual paper is exclusively concerned with the last of these cornerstones, in particular with the identification of the causes eventually bringing about relationship significance.

The significance of a business relationship exists in relation to a particular entity, for example, the firm, supplier A or customer B. One needs to oppose to the (more or less dominant) view among MAN theorists that relationship significance should be considered in and of itself, that is to say, business relationships are significant per se and not for a specific entity. It seems however senseless to think of relationship significance in abstract. For whenever the significance of something or of someone is presumed, a question immediately arises: “significant to whom?” That one considers here the significance of business relationships to the firm (i.e., adopts the firm’s viewpoint) looks appropriate at least if one acknowledges that “relationships are...an important structural dimension [of the business network] as fundamental as organisations themselves” (Ford & Hakansson, 2006b, p. 252). This viewpoint should not be equated with the “firm-centred view of the world” or the “single-firm perspective” so commonly found in management theory, whereby the firm is presumed to be an atomistic entity

concerned solely with own objectives and interests and having complete discretion in behavior. Although MAN theory usually endorses the perspective of the focal business relationship or the focal business network, the firm's viewpoint needs not be at odds with a "relative world" within which interfirm interaction predominates (Easton & Hakansson, 1996). But what is relationship significance is all about?

Relationship significance pertains to "the influence of business relationships on corporate survival or growth." That one is sticking to the meaning as often assumed by MAN theorists, and not advancing a putative one, is supported by Hakansson and Snehota's (1995, p. 267) words: "In order to survive and develop you have to have counterparts...." Ford and Hakansson (2006a, p. 22) convey the same: "Companies can choose if and how they want to do something particular relative to a specific counterpart. But they cannot choose whether or not to have relations with others, including their suppliers and customers." Blois (1998, p. 256) goes even further, by stating that "it is impossible for firms not to have [vertical] relationships" The existence of the firm cannot be conceived of without business relationships, in contrast to what most orthodox economists postulate (Robertson & Dennison, 1923, p. 73). No existing (i.e., surviving) firm is "an island in a sea of arm's-length relations" (Hakansson & Snehota, 1989). All the business relationships that the firm initiates, develops, sustains, and terminates with counterparts – most notably suppliers and customers – affect somewhat corporate functioning and development. In the event of deliberately terminating the business relationships in which the firm is involved (or seeing those abruptly ended by the counterparts' will), the firm is not only somehow impeded to operate and grow, but most importantly, is likely to perish.

As Ford et al. (1998, p. 13) put it: "A company's relationships are important assets and without them it could not operate, or even exist." Business relationships are one of the most valuable resources at the firm's disposal (Easton & Araujo, 1993; Hakansson, 1989, 1987). "A [business] relationship is one of the resources the company can exploit and use in combination with other resources (other relationships) available to the company" (Hakansson & Snehota, 1995, p. 27). Interestingly, the most illustrious theorists of the so-called competence-based theory of the firm – the theory whose focus is on corporate resources and competences – include business relationships either as one of such resources (Barney, 1991) or as a part of the "strategic assets" (Amit & Schoemaker, 1993) or the "asset position" of the firm (Teece, Pisano, & Shuen, 1997). Business relationships are a particular kind of resource that is not unilaterally owned, but rather jointly controlled by the two parties directly involved in the relationship (Hakansson & Ford, 2002). As resources, business

relationships are non-depreciable – for their utility or value does not necessarily decrease over time, in fact the contrary seems to be the case (Hakansson & Snehota, 1995) – and extremely difficult to replicate or substitute (Hakansson, 1989) as well as to acquire or sell across markets (Anderson, Havila, & Salmi, 2001). A business relationship, being essentially an implicit contract embedded in the identity of the involved parties without which it loses meaning (Ben-Porath, 1980), can be thus seen as an intangible and idiosyncratic (i.e., counterpart-specific) resource, not easily if at all tradable between firms (Hakansson & Snehota, 1995).

Business relationships are therefore significant to the firm. Needless to say, relationship significance also exists in relation to the counterparts with which the firm is connected. Suppliers and customers are as dependent on business relationships (for survival or growth) as the firm is.

Understandably, MAN theorists are inclined to admit that business relationships contribute somewhat to corporate survival and growth and stress the “strategic importance” or “significance” of business relationships (Gadde et al., 2003; Hakansson, 1989) or refer to business relationships as of “strategic status” (Moller & Halinen, 1999) and “critical,” “crucial,” “good,” “high-performing,” “high-quality,” “important,” “relevant,” “significant,” or “valuable” (Cunningham, 1980; Ford et al., 1998; Ford & McDowell, 1999; Gadde & Snehota, 2000; Hakansson, 1987; Hakansson & Snehota, 1995; Johanson & Mattsson, 1987; Kutschker, 1982; Naude & Buttle, 2000). Even the celebrated Edith Penrose (1959, p. 147, fn. 2), whose seminal research shed light on the limits to the growth and size of the firm presciently remarks “[t]he importance attached by firms to the maintenance of their existing business relationships”

Very frequently significant business relationships are, more or less explicitly, likened to business relationships maintained with significant counterparts (Wiley, Wilkinson, & Young, 2006, p. 5) or business relationships held with interesting (or value-providing) counterparts (Hakansson & Snehota, 1995, pp. 202–203). The significance of a certain business relationship is not (and cannot be) explained by appealing to the significance of a particular firm, for instance, in terms of its internally available resources and competences – that would necessarily deny the suitability of the network perspective on industrial markets and, just to mention one aspect, the impact of connected business relationships. Only recently has the (focal) firm’s significance been unequivocally recognized within the MAN theory, that is to say, the firm being as an individually significant and interdependent entity (Ford & Hakansson, 2006a, p. 7). The author’s focus of interest here is relationship significance, rather than the significance of the firm.

Given that relationship significance is a primordial cornerstone of MAN theory, it seems paradoxical that the causes of relationship significance are for the most part left unidentified. Within any theory some issues are corroborated by previous research and thus reckoned as beyond challenge while other issues, less obvious, remain greatly unexplored. The causes of relationship significance, the authors think, are bound to be one of the “currently hidden aspects of business networks” pointed out by Alajoutsijarvi, Eriksson, and Tikkanen (2001). The deconstruction and analysis of the metaphorical structure of the “network talk” devised and deployed at large by the IMP undertaken by Alajoutsijarvi et al. (2001) can help one understand why the neglect or omission of some relevant questions and issues also happens within MAN theory. Alajoutsijarvi et al. (2001) hint that, on account of metaphors predominantly employed in the theoretical discourse of MAN theorists (and in diverse sub-discourses), some aspects of business relationships and networks are inquired while others simply remain out of investigation. Dominant metaphors guide theorists toward certain research questions and acceptable answers.

Although MAN theory provides a “general picture of the significance of business relationships” (Ford & Hakansson, 2006b, p. 251), the authors claim that relationship significance is largely an understudied and taken-for-granted issue whose potential causes are not yet subject to a systematic and thorough analysis by MAN theorists. To the author’s best knowledge, Wiley et al.’s (2006) and Wiley, Wilkinson, and Young’s (2003) empirical research on the “sources” of relationship significance (as perceived only by suppliers) in Sweden, Germany, and China is a meritorious exception.

Several MAN theorists assert and reiterate relationship significance but seldom if ever discuss the issue in depth. Such a discussion is allegedly unneeded because all research conducted by the IMP is “about the various ways in which business relationships are significant,” to cite an anonymous reviewer’s comments to the authors’ arguments in an earlier version of this paper. Or, even more emphatically, MAN theorists may argue that “the IMP research confirmed the significance of lasting customer-supplier relationships” (Blankenburg-Holm & Johanson, 1992, p. 6). Such foundationalist position, for sure dispensable, is easy to explain. MAN theorists take business relationships to be almost by definition significant to the firm. The reasoning is basically the following: if business relationships are *de facto* deliberately initiated, nurtured, and sustained by the firm, then *a fortiori* business relationships must have some usefulness (i.e., be somewhat significant) for that purposive entity. MAN theorists observe and report recurrently the firm as willingly related to and heavily dependent on several counterparts,

inferring therefore that business relationships ought to be significant to some extent to the firm. In a nutshell, MAN theorists have taken the pervasive existence of business relationships as a secure warrant of relationship significance. The taken-for-grantedness of relationship significance is attested by the absence of explicit debate within MAN theory and is made clear by Hakansson and Snehota (1995, p. 330) who contend that the foci of interest of MAN theorists are “the important [vertical] relationships” to the disfavor of “uninteresting [and unimportant]” ones, as if business relationships are *a priori* significant to the firm while arm’s-length or purely transactional relations with suppliers and customers are as a rule insignificant to the firm.

One does not deny the existence of significant business relationships but argue, *contra* the consensus within MAN theory, that relationship significance should not be an axiom. For “significance” cannot be a property of each and every one of the firm’s business relationships. Relationship significance is real but does not exist always and at all times – that is, business relationships need not all be necessarily significant to some extent to the firm. Business relationships are not inevitably “islands of significance in a sea of ordinariness” (cf. Ford & Hakansson, 2006a, p. 11), since relationship significance is liable to change over time and business relationships can even become on occasion burdens or liabilities to the firm (Hakansson & Snehota, 1998). That the firm is likely to have but a few (highly) significant business relationships is corroborated by the frequent observation made by MAN theorists that a limited number of suppliers and customers account for the majority of firms’ total purchases and sales respectively, the so-called 80/20 rule.

The authors adopt explicitly a critical realist perspective here and claim that relationship significance is a notorious event of the business world, taking place intermittently (with no easily or unambiguously identified beginning and end) and “here and there” – an event that co-exists with other events (e.g., transactional interfirm relations) and is not always rightly perceived as such by the firm, let alone other firms. Surely, the occurrence of that event does not depend on the existence of any perception, correct or not. Each business relationship is what it is – highly significant, totally insignificant, or somewhere in between – regardless of any perceptions or knowledge held in that regard by the firm or any other firm. Ford and Hakansson’s (2006a) enumeration of the core features of vertical interfirm interaction include the “subjective interpretation” of individuals and groups within the firm. For the sake of simplicity, one considers here the anthropomorphic perception of the firm concerning the significance of business relationships – acknowledging that relationship significance as

perceived by the firm needs not match exactly the real relationship significance. Even though the firm's perceptions per se do not make a business relationship significant or contrariwise, the possibility that such perceptions may have repercussions on the degree of significance of that relationship (and possibly on the degree of significance of other, connected business relationships) in the future should not be excluded altogether. For instance, the firm can misjudge the (averagely significant) business relationship with supplier A as completely insignificant and as a consequence, decide not to nurture that business relationship, possibly leading to the relationship's fading over time, or even take deliberate steps to end it.

Although relationship significance is unlikely to be objectively identified by firms, it is "something" – an event – that can or cannot result on account of (mostly unidentified) causes. Therefore, the main objective of this paper is to identify in a tentative manner the causes (i.e., the structures and powers) potentially responsible for bringing about such event of the business world. The paper is organized as follows. The next section addresses the authors' meta-theoretical point of departure, namely critical realism. While the third section offers a brief outlook of the business world (and constitutive entities and events), the fourth section tentatively advances underlying causes of relationship significance. The last section features the concluding remarks, namely theoretical and managerial implications and limitations of the paper as well as a research agenda for the future.

2. THE META-THEORETICAL POINT OF DEPARTURE

Scholars and researchers build necessarily upon a particular set of assumptions when investigating the world, that is, a "meta-theory" or "philosophy of science": the way the world is (i.e., ontology), how the world can be known (i.e., epistemology), which methods and techniques can be employed in the world's inquiry (i.e., methodology), and what causes the world to be as it is (i.e., etiology). Questions formulated as well as answers tentatively offered by scholars and researchers are likely to differ on account of different meta-theoretical commitments.

Each and every scholar and researcher adopts often in an implicit way one of three meta-theories: positivism, postmodernism, or (critical) realism. Positivists see the world as a closed system wherein determinism prevails and cause-effect relations can be empirically observed and recorded, whereas postmodernists argue that the world "lies in the eyes of the beholder," being

fully socially constructed by humankind through discourse or interpersonal interaction and convention. For critical realists, on the contrary, the world as a whole is an open system that exists regardless of any knowledge one may have of or develop about the world and – as the “critical” label suggests – social scientists should be critical of the social world on which provide tentative descriptions and explanations.

Critical realism takes the world to be composed of a myriad of entities and events, both of which need not be confined to the realm of the observable. Entities exhibit peculiar structures, that is, sets of interrelated properties that make them the kind of entities that are and not anything else. In virtue of structures, entities necessarily possess (though may not exercise) emergent powers and liabilities, hence being both capable of doing some things and incapable of doing others. The powers and liabilities of an entity emerge mostly from the powers and liabilities of individual structural constituents but also from the powers and liabilities of relations that the entity maintains with other entities. Nevertheless, the powers and liabilities of an entity are irreducible to any of (i.e., are more than the sum of) the powers and liabilities of both constituents and relations. Not only entities have a structure and, as a consequence, powers and liabilities. Some relations that entities establish and maintain among themselves possess a particular structure, hence being endowed with powers and liabilities. The powers and liabilities of any relation derive at large from the powers and liabilities of the interrelated entities, primarily the powers and liabilities of the two parties directly connected through the relation but also of others directly and indirectly connected to them.

The world’s events result when the powers of entities are exercised (or, on the contrary, liabilities are impeded) under specific contingencies, namely particular geo-historical conditions or the presence (or absence) of other entities and the activation (or obstruction) of powers and liabilities. One example usually given to illustrate the critical realist view is that of human beings. Humans, by virtue of an intricate physiological, anatomical, and social make-up (e.g., brains, respiratory systems, arms, legs, status, and so on), have the outstanding powers to think, talk, listen, run, jump, and swim – powers put to work always under (restrictive or enabling) spatial and temporal conditions (e.g., a man cannot speak fluently a foreign language without proper and lengthy instruction and repeated practice nor can play tennis in the absence of either a court, an opponent, a racket, or a reasonable knowledge of the game).

Ontological, epistemological, methodological, and etiological assumptions of the three mutually exclusive meta-theories mentioned earlier are summarized, for instance, by Sousa (this volume).

2.1. The Suitability of a Critical Realist Approach

The world is usually seen as divided in two: the natural and the social, that is, nature and society. The authors stand with those that believe that the world largely predates all human beings, for the world has existed and still exists at large independently of human knowledge or identification of it. While holding the realist conviction – that the world at large is what it is regardless of what humans choose to say, think, or write – one must also acknowledge the social construction of some parts of the world.

The social world (and in particular, the business world on which the authors are mostly interested) is to some degree socially constructed by humans through discourse or interpersonal interaction and convention (e.g., theories, rules, symbols, and so forth). *Contra* the arguments of those espousing a “strong social constructivist” or postmodernist stance, one needs to acknowledge that the social world is not merely a tour de force of humankind or the feasible aftermath of human intents and actions.

The authors adopt explicitly a critical realist approach throughout this paper – an approach which is suitable by bearing in mind not only the foregoing meta-theoretical assumptions but also the research’s unit of analysis, namely business relationships (as notorious entities of the business world).

3. ENTITIES AND EVENTS OF THE BUSINESS WORLD

One should acknowledge that the world exists for the most part independently of what anyone may think, say, or write about it, for the world’s entities and events exist and endure regardless of any human identification or knowledge of them. One also recognizes that the social world in general – and the business world in particular – is to some extent a social construction of humankind through theories, frameworks, or concepts. In respect of business relationships’ creation, see for instance Blois’ (2003) arguments.

The conventional depiction of the business world is that of neoclassical economics whereby firms are portrayed as atomistic units, hence operating in markets (i.e., placing bids and replying to asks). Markets, naturally faceless, are aggregates of the arm’s-length relations established instantly and frictionlessly among numerous buyers and sellers. In such a stylized picture, one can only find firms and vertical pure market relations (and the markets that these transactions overall form). However, the business world

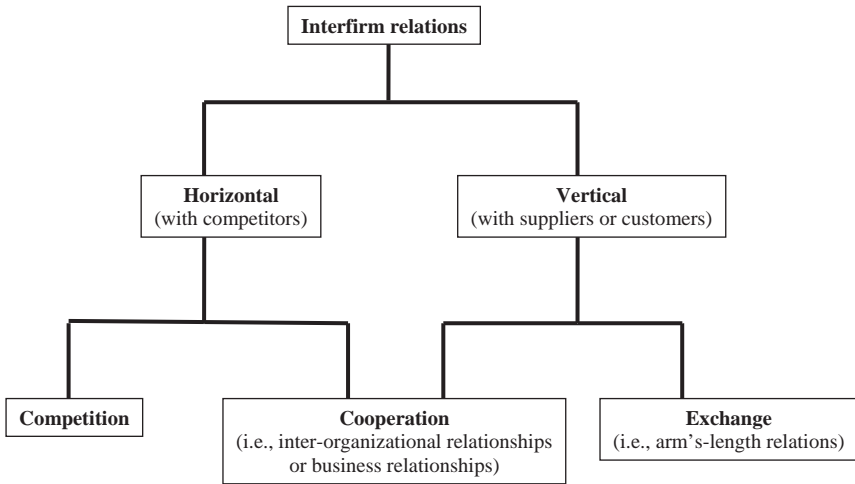


Fig. 1. Types and Forms of Interfirm Relations.

is not like that at all, being composed of firms that are interdependent units (with a strongly interconnected behavior and performance), necessarily developing and sustaining multiple kinds of relations among themselves (Fig. 1). As Allyn Young (1928) wisely advances, the division of labor takes place not only within firms but also among them. That is to say, specialization and “integration” (typically in the form of interfirm cooperation) go hand in hand, with the former both requiring and propelling the latter (Blois, 1972; Piore, 1992). Specialization and integration are two indissociable features of the division of labor, whose benefits are first pointed out by Adam Smith (1776 [1999]). George Richardson (1972) extends Smith’s pioneering analysis by claiming that the division of labor does not take place either in firms or in markets. Richardson rejects the “distorted view” of standard theories of firm and of markets in which the governance (or management) of economic activities is carried out either through hierarchical direction (within firms) or by the price mechanism (operating spontaneously among firms). Richardson alludes to pervasive phenomena of the business world, arguing for the existence of a governance structure alternative to the “visible hand” of firms and the “invisible hand” of markets: “interfirm cooperation.” The usually “close, complex and ramified” (vertical) cooperation is clearly distinguishable from markets (and the constitutive interfirm transactions) wherein “there is no continuing

association, no give and take, but an isolated act of purchase and sale...” (Richardson, 1972, p. 891).

The business world is composed of multiple and complexly interrelated entities and events, not just the ones alluded to by neoclassical economists. Besides the prominent firms and the markets in which these operate, one should acknowledge that (horizontal and vertical) interfirm cooperative relations – so-called inter-organizational relationships and business relationships, respectively – are also notorious entities of the business world. And besides the oft-noted exchange transactions of firms (i.e., arm’s-length relations), one is bound to find relationship significance as a pervasive event of the business world. The arm’s-length relation (also referred to as “purely transactional relation” or “interfirm transaction”) is a basic constituent of the market in the same way as the business relationship (or “interfirm interaction”) is a basic constituent of the network. The dichotomous view of the vertical interfirm linkages (including either arm’s-length relations or business relationships, i.e., either isolated transactions or enmeshed interactions, respectively) can be deemed by some scholars and researchers as overly simplifying. One challenging perspective is that of Macneil (1980) who postulates a continuum ranging from “discrete” to “relational” exchanges within which the majority of interfirm exchanges fall, arguing in favor of the unlikely existence of purely discrete transactions between firms. That Macneil’s – and Macaulay’s (1963) – relational contract theory can be of great help in the conceptualization of the business world is attested by, for instance, Dwyer, Schurr, and Oh (1987) and Blois (2002).

Whereas firms and business relationships (and networks) and markets are all entities of the business world, arm’s-length relations between firms are mere phenomena devoid of any structure and powers (i.e., transitory events taking place).

The authors address briefly in turn these entities and events, giving particular emphasis to both firms and business relationships (and the structure and powers that these entities commonly display) while ruling inter-organizational relationships out of discussion. The horizontal cooperative relationships that firms develop mostly with direct competitors but also with “complementors” (i.e., producers of complementary products) (Nalebuff & Brandenburger, 1996) and third parties (e.g., universities, technological centers, or trade associations), usually exhibit a distinctive set of characteristics, are established for specific and clearly delimited purposes, formal (i.e., ruled by written, detailed, and legally enforcing contracts), and rather short-termed. Inter-organizational relationships can take various forms, for example, alliances, consortia, interlocking directorates, joint

ventures, strategic networks, and trade associations (Barringer & Harrison, 2000). Such entities of the business world are likely to have some powers and liabilities (e.g., can foster the development of new products and allow free-riding by a partner, respectively) on account of the aforementioned structural features. This kind of interfirm cooperation – horizontal, formal, and momentary – is much less predominant in the business world than the vertical, informal, and lasting interfirm cooperation (Hakansson & Johanson, 1988). For an overview of the literature on inter-organizational relationships, see the *Organization Science* 9(3), 1998 or the *Strategic Management Journal* 21(3), 2000. The authors' decision to leave out of discussion the structure and powers and liabilities of inter-organizational relationships (and the potential impact of these relationships upon the structure, powers, and liabilities of firms) is accounted for by the primary focus here being the description and explanation of the causes potentially responsible for bringing about relationship significance, an event which is not directly related to the firm's inter-organizational relationships – as will be seen in Section 4.

3.1. Firms

Firms are heterogeneous entities exhibiting complex structures and therefore powers and liabilities. Firms include a myriad of resources and competences, for the most part internally owned and controlled, but also externally accessed and explored (Penrose, 1959). Several degrees of authority and empowerment, hierarchical levels, communication channels, rites, explicit rules, tacit conventions, and so forth can also be found within firms. Owing to such complexly interrelated constituents (especially resources and competences, both internal and external), firms are entities potentially endowed with certain powers and liabilities, for instance, being able to perform activities and generate goods, services, cash-flows, or profits.

Firms are surely interconnected entities, establishing, developing, sustaining, and terminating several types and forms of relations with one another. Interestingly, almost all the interfirm relations are themselves entities, mostly immaterial ones – the exception being arm's-length relations that are events (see Section 3.2). Interfirm relations, interrelated to some degree and not necessarily in a reinforcing manner, can be classified for one as horizontal or vertical. Horizontal interfirm relations display competition and cooperation facets, whereas vertical interfirm relations feature exchange and cooperation. In general competition is the basic feature of horizontal interfirm relations and cooperation prevails in vertical ones. But that needs

not be the case, and horizontal cooperation and vertical exchange are also found in the business world (Fig. 1).

These fourfold interfirm relations are now described briefly. First, firms often compete with one another for business with (common) suppliers and customers, primarily for acquisition of inputs or sale of outputs. Competition is likely to be a more or less notorious relation between firms aiming to effect exchange or engage in cooperation with counterparts, presently or in the future. Arguably, competitive relations impact – differently and to diverse extents – upon the exchange and cooperative interfirm relations. One offers two illustrative examples: given the limitedness of the firm's resources and competences, to undertake transaction A (with a certain supplier) often means not to undertake transaction B (with another supplier), presuming the acquisition of substitute products, and to effect cooperation with counterpart C may impede (or at least constrain) the cooperation with counterpart D. Some arm's-length relations as well as some business relationships rival with one another to some extent, vying for the limited resources and competences of firms – and these two forms of vertical interfirm linkages are themselves “rivals,” for example, the firm's transaction with counterpart E may preclude cooperation with that same or with another counterpart (or vice-versa). Although one considers competitive interfirm relations to be entities of the business world (showing characteristics, some of them that are commonly found in vertical cooperative relations, e.g., high degrees of informality and continuity), the structure and powers and liabilities of those entities are not addressed in detail here – for the same reasons that inter-organizational relationships are neglected.

Second, although competitors “rival” most of the time, horizontal (formalized and short-lived) cooperation is likely to emerge, for instance, aiming at new product co-development. Third, firms engage in purely transactional relations with suppliers and customers, buying inputs and selling outputs only at arm's-length distance. And finally, firms are often committed to lasting, informal, complex, and symmetrical relationships with (important) suppliers and customers. In sum, interfirm relations boil down to competition, cooperation (horizontal or vertical, i.e., inter-organizational relationships or business relationships), and exchange (i.e., arm's-length relations).

Given the interrelatedness of firms (mostly vertical but also horizontal), corporate structures and consequential powers and liabilities are themselves connected to each other. That is to say, the structure, powers, and liabilities of each and every firm affect and are affected by, to varying extents and in different ways, the structure, powers, and liabilities of counterparts to which firms are directly or indirectly connected (mostly suppliers and customers

but also competitors) – what Ford et al. (1998) refer to as the “co-evolution” feature of business networks. Most importantly, and seemingly a pivotal argument of this paper, the structure, powers, and liabilities of firms are likely to be somewhat affected (i.e., enhanced or impaired) by the structure, powers, and liabilities of the linkages that firms establish, develop, and sustain among themselves over time – that impact being possibly stronger in the case of business relationships. Surely, the reverse is valid: the structure, powers, and liabilities of firms are bound to affect differently and to different degrees the structure, powers, and liabilities of interfirm relations, most notably business relationships (Ford, Gadde, Hakansson, Snehota, & Waluszewski, 2008).

3.2. Markets and Arm's-Length Relations

All firms are vertically linked, upstream with suppliers and downstream with customers. Firms' vertical linkages can however differ sharply, ranging from almost instant exchanges undertaken in markets (i.e., arm's-length or purely transactional relations) to the lasting and complex relationships in networks (i.e., business relationships). Firms have in general the option to engage in either (instantaneous) transactions or (recurring) interactions with each of suppliers and customers. That is, firms either choose to effect discrete, on-off transactions governed by the price mechanism wherein price and quantity prevail at large or instead establish and develop a pattern of interactions with suppliers or customers wherein parties exchange both economic and social elements, and mutual trust and commitment, reciprocity, and future interaction all matter. A firm's decision to transact with a certain counterpart implies necessarily the decision of not to interact with that same entity. Although exchange and cooperation are mutually exclusive linkages (at least with regard to a specific counterpart), arm's-length relations often precede business relationships – for only after repeated (purely economic) purchases and sales can firms begin to get to know each other and decide to develop a cooperative relationship that goes far beyond mere interfirm exchanges. Yet not always do firms have the option to develop business relationships, for instance because of counterparts' lack of interest or decreased commitment in the development of such relationships (Biong, Wathne, & Parvatiyar, 1997).

These two forms of vertical linkages feature dissimilar contents, thus serving utterly different purposes. Although arm's-length relations enable the acquisition or sale in markets of standardized resources, business

relationships allow firms to access and explore (complementary) resources and competences of counterparts (e.g., a customer's reputation or a supplier's know-how in a field of expertise, respectively).

In essence, arm's-length relations are but fleeting (and naturally structureless and powerless) events that come about whenever at least two firms demonstrate the will to and agree in bringing to completion an exchange – a transaction that is (almost) instantly initiated and terminated. Although one can (more or less) easily point out the beginning and end of an arm's-length relation, that task can hardly or unequivocally be done in the case of a business relationship. This view of interfirm transactional relations as potential events is not completely strange to economists, being endorsed for instance by Alfred Marshall (1890 [1997], p. 182): “An exchange is an event...it is something that happens. A market is a setting within which exchange may take place....” Yet, those same economists are prone to neglect grossly the existence of prominent entities of the business world, in particular business relationships and the overall networks in which firms are deeply embedded. As the authors argue for in the following section, such (intricate and evolving) vertical cooperative relationships are entities, surely not transitory events. More awkwardly, economists fail to acknowledge that markets (i.e., aggregates of interfirm transactions) are themselves entities – the exception being those that argue that markets are “institutions” constructed, reproduced, and transformed by firms (Loasby, 2000).

Markets comprise *inter alia* all the intermittent events constituting (and taking place in) them, that is, the set of transactional relations instantly linking firms. Markets include necessarily a large number of other elements that are to some extent indispensable for framing and governing the undertaking of interfirm transactions such as physical spaces (marketplaces), legal or contractual rules, cultural conventions, and technologies.

3.3. Networks and Business Relationships

Business relationships go beyond purely economic transactions between firms. Such “substantial” vertical relationships entail multiple personal interaction episodes – face-to-face or through telephone, fax, or email – that involve the exchange of both economic and non-economic elements (e.g., money and products, and trust, commitment, and knowledge, respectively). Business relationships are “patterns of (previous and current) interaction and interdependence between two firms, vertically connected and reciprocally

committed to each other” (Ford, Hakansson, & Johanson, 1986, p. 390; Hakansson & Snehota, 1995, p. 25, 2000, p. 38).

Business relationships are not only direct relationships that the firm initiates, develops, and maintains upstream with suppliers and downstream with customers, including all the other vertical yet indirect relationships (e.g., those between the firm and suppliers’ suppliers or customers’ customers). “An indirect relationship is most simply described as the relationship between two firms which are not directly related but which is mediated by a third firm with which they both have [direct] relationships” (Easton, 1992, p. 15). Understandably, indirect business relationships far outnumber direct ones. In contrast to the discreteness of arm’s-length relations, business relationships are necessarily interconnected in many ways, not only directly or indirectly (as mentioned), but also positively or negatively – that is to say, interfirm interaction in one business relationship depends respectively on the existence or absence of interaction in another business relationship. The “generalised connectedness” of business relationships brings about co-produced, self-organizing, and adaptive macrostructures, the so-called (business) networks whose evolution is beyond any firm’s control or intent and in which all firms seek to manage (Easton, Wilkinson, & Georgieva, 1997; Wilkinson, 2006). Networks are formed and modified through multiplex interaction, thus being partly opaque (even to participant firms), “centerless”, and unbounded (Johanson & Hallen, 1989).

The development of any business relationship is a time-consuming, path-dependent, and costly process (Johanson & Mattsson, 1985). Business relationships are developed over time as: reciprocal investments are made in the relationship; the “distance” that normally exists at an early phase of interaction (e.g., of a social, cultural, technological, temporal, or geographical basis) and the reluctance of firms to cooperate (partially related to the uncertainty regarding counterparts’ actual intentions or future behavior) are greatly reduced; and interdependence, mutual trust, and commitment, and expectations of future interaction all gradually increase among the parties (Ford et al., 1986). One may be thus prone to consider that business relationships always develop toward an ideal state – “a successful marriage” – where interfirm conflict is totally absent, as the likes of Ford (1980) and Dwyer et al. (1987) do in traditional life cycle models of relationship development. Yet one is unable to find a totally cooperative business relationship, and some business relationships may even fail to develop or are eventually terminated, owing largely to persistent barriers to interaction (e.g., mismatches between firms in terms of organizational culture or strategy, conflicting expectations, or behavior of individuals) (Cunningham, 1982).

Business relationships evolve gradually over time (though not toward any pre-determined end), as firms learn to “dance” with one another, both leading and following (Wilkinson & Young, 1994).

Both history and structure matter in business relationships. Current interfirm interaction is strongly rooted in the past and shapes future interaction. Firms interact with an eye on the future of the business relationship but always remembering previous interaction episodes. As Axelrod (1981) notes, cooperation can emerge and thrive in a world of individual egoists and without the assistance of a central authority. Friendship, mutual interests and objectives, or trust may all be necessary but are not sufficient conditions for the development of cooperation. Although may at first seem counterintuitive, reciprocity – which can come close to the avoidance of retaliation or “tit for tat” – is the indispensable base for cooperation. Although Axelrod is focused on cooperation among self-centered individuals in society, he believes that his theory is equally applicable to the business world (Axelrod, 1981, pp. 178–179). In this regard, the incentive of firms to cooperate at a given point in time (e.g., through business relationships) comes largely from the existence of a history of previous, mutually rewarding interactions and a large “shadow of the future” (i.e., the parties’ anticipation of mutually rewarding interactions in the future) (Axelrod, 1984; Johanson & Smith, 1992). Finally, the surrounding structure of interactions – that is, connected business relationships and even the overall business network – impact upon the extant interaction among firms, either reinforcing or hindering that interaction.

3.3.1. Structure, Powers, and Liabilities of Business Relationships

Business relationships, on account of the aforementioned development process, are likely to exhibit a peculiar and changeable nature or structure. For sure, business relationships do not change on their own. Only firms are capable of effecting changes in the structure of business relationships, for example, by increasing mutual adaptations, reducing the extent of interpersonal contacts, and so forth.

Hakansson and Snehota (1995) list the (more or less easily perceptible) eight features of business relationships: continuity, complexity, symmetry, informality, adaptations, “coopetition,” social interaction, and routinization. That is to say, business relationships are long-lasting, entail a multiplex interpersonal contact pattern between firms and can be deployed to pursue different corporate objectives, are symmetrical in terms of parties’ interest to develop and sustain them, are ruled by implicit and incomplete contracts, involve a large amount of relationship-specific investments

(so-called “adaptations”), display both cooperative and competitive facets, involve a myriad of extensive and interlinked social bonds between individuals and groups of both parties, and give rise to norms of mutual conduct and institutionalized rights and duties.

Owing at large to such an intricate structure (and to a smaller extent to relationship connectedness), business relationships are likely to exhibit a sixfold set of emergent powers and liabilities and are thus capable to produce positive and negative effects for firms. In general, MAN theorists refer to the powers and liabilities of business relationships and the effects resulting from exercising those powers and liabilities as “functions” and “dysfunctions” (or “non-functions”), and “benefits” and “sacrifices,” respectively (Hakansson & Johanson, 1993a; Walter, Muller, Helfert, & Ritter, 2003; Walter & Ritter, 2003; Walter, Ritter, & Gemunden, 2001). The authors stick here to the realist terminology of powers and liabilities, though taking advantage of the “benefits-sacrifices” dichotomy to address relationship effects.

Like any other structured and powerful entity of the business world, business relationships are “causally efficacious” entities. Business relationships have the potential to be causal, that is, can bring about to diverse degrees change anywhere in the business world including within other entities (e.g., enhance the structure of firms directly linked, impair the powers of third parties directly and indirectly linked to the cooperating parties, or even hinder the exercise of liabilities in connected business relationships) and in transitory events (e.g., impede cooperating parties to establish new arm’s-length relations with other entities or contribute to the decrease in the degree of significance of a connected business relationship).

Business relationships are established, developed, and maintained mostly because of the rewarding powers that perform (or are expected to perform in the future) and, as a result, the actual benefits that result (or the potential benefits that are likely to result) mostly for firms directly involved in those cooperative relationships but also for indirectly connected counterparts (Kalwani & Narayandas, 1995). Benefits, however, can only be obtained by firms at the expense of some (actual or potential) sacrifices that are in part related to the liabilities of business relationships – this is not to say that the possibility of temporary free-riding by opportunistic firms, benefiting without incurring any sacrifice whatsoever, is not real. Potential (yet inactive) powers and liabilities of business relationships (and the respective benefits and sacrifices resulting thereof) can be as crucial as actual ones in firms’ decisions to nurture and sustain business relationships.

Business relationships are bound to display six main powers, namely “access,” “control,” “efficiency,” “innovation,” “stability,” and “networking.” That is to say, business relationships can have the power to provide firms with, respectively, access to and exploration of (and sometimes even development of) counterparts’ complementary resources and competences (Pfeffer & Salancik, 1978); increase of influence over (or reduction of dependence on) counterparts or promotion (or block) of relationship or network change (Lundgren, 1992; Mattsson & Johanson, 1992); reduction of production or transaction costs (Mouzas, 2006); identification of previously unknown characteristics of resources and competences or discovery of new ways of employing or new uses for those same resources and competences, or the stand-alone or co-development of new ones (Hakansson, 1989; Hakansson & Waluszewski, 2007); learning and reduction of environmental uncertainty (Hakansson, Havila, & Pedersen, 1999; Hakansson & Johanson, 2001); and management of interdependences at resource and activity levels (Hakansson & Ford, 2002).

Business relationships are likely to display likewise six liabilities: those of failure in each (though not necessarily all) of the aforementioned relationship powers. Liabilities follow whenever some powers are left unexercised – powers expected or desired by firms to be put to work at a given point in time, in a certain business relationship or in other, connected relationships. For instance, the firm’s business relationship with customer A may not activate the access power (as wanted by the firm) or merely hinders the exercise of the control power in the firm’s relationship with supplier C.

3.3.2. Relationship Benefits and Sacrifices

Relationship benefits and sacrifices are two sides of the same coin. Benefits are not obtained automatically, easily or costless, being partly dependent on sacrifices. Sacrifices (at the very least costs) need to be incurred before benefits can be harvested by firms (Araujo, Dubois, & Gadde, 1999; Gadde & Snehota, 2000).

Relationship benefits include all the positive effects ensuing to firms from the activation of any of the referred powers, for instance, access to and exploration of external resources and competences (Anderson, Hakansson, & Johanson, 1994). Relationship sacrifices, on the contrary, encompass both costs incurred by firms (indispensable to obtain benefits) and deleterious effects that may result to firms from being involved in business relationships. Three relationship costs are usually borne by all firms (Blois, 1999): opportunity costs (e.g., the firm’s relationship with customer A precludes the obtainment of benefits in the business relationship with customer B or

hinders the appropriation of greater benefits or lower sacrifices in the business relationship with supplier C); “relationship handling costs” (i.e., costs of establishing, developing, maintaining, and terminating each of the firm’s business relationships); and “network handling costs” (i.e., overhead costs incurred with all or most of the firm’s business relationships). Relationship deleterious effects include (Araujo & Harrison, 2002): lock-in effects (e.g., the firm’s business relationship with supplier D impedes the development of a business relationship with supplier E); opportunistic behavior of counterparts (e.g., “free-riding” or “hold-up” problems) (Biong et al., 1997); and several other harmful consequences (e.g., damaging effects on reputation and attractiveness as a potential partner resulting from the firm’s business relationship with supplier F) (Mattsson, 1989).

3.3.3. Potentiality and Connectedness of Relationship Powers, Liabilities, Benefits, and Sacrifices

Not all business relationships necessarily exhibit all the aforementioned sixfold set of powers and liabilities. Each business relationship may be endowed with and put into practice different powers and liabilities over time, whereas similar powers and liabilities (bringing about similar benefits and sacrifices) can be exercised in different business relationships. Some powers and liabilities of a certain business relationship may be at work simultaneously at a given point in time, whereas others may remain dormant.

Inasmuch as business relationships are connected to one another in multiple ways (directly or indirectly, positively or negatively), relationship structures and powers and liabilities, as well as relationship benefits and sacrifices, are likely to be complexly interrelated to varying extents. For instance, the exercise of access power (and the resulting effect) in the firm’s business relationship with supplier A may – directly and positively – affect and be affected by the exercise of both access and innovation powers (and the resulting effects) in the firm’s business relationships with supplier B and customer C, respectively; and the incapacity or failure to put to work the control power (and the non-resulting effect) in the firm’s business relationship with customer D may – only indirectly – be conducive to the incapacity or failure to put to work the stability power (and the non-resulting effect) in the firm’s business relationship with supplier E. The connectedness of business relationships has two important implications with regard to relationship powers and liabilities and consequently the ensuing benefits and sacrifices: the obtainment of benefits and sacrifices in a business relationship can be dependent not only on the exercise of the respective powers and liabilities in that relationship but most importantly may require

the exercise of powers and liabilities in other, connected business relationships, and the exercise of powers and liabilities (and thus the obtainment of benefits and sacrifices) in a business relationship can obstruct or impair the exercise of powers and liabilities in connected business relationships and therefore impede or impair the obtainment of (other) benefits and sacrifices.

The firm can safeguard itself against likely changes in surrounding contingencies – what can be referred to as “showery weather” – by drafting umbrella agreements that “transform implicit norms which are embedded in customs and commercial practices into explicit, basic norms for interaction”, thus “providing flexible guidance for future contractual decisions...” (Mouzas & Ford, 2006, pp. 1249–1250). Such written agreements feature “re-negotiation [clauses dealing with sensitive issues, e.g., those of exclusivity, confidentiality, or warranty] and the inclusion of extreme contextual contingencies in the form of force majeure...” and “regulate continuing interaction between actors and translate the consequences of fulfilling or breaching exchange promises” (Mouzas & Ford, 2006, p. 1250).

In sum, business relationships are heterogeneous entities of the business world facing a set of diverse contingencies. Relationship powers and liabilities are inevitably put into practice under (and relationship structure may be altered by) a myriad of different and varying surrounding conditions, primarily connected business relationships but also arm’s-length relations and inter-organizational relationships in which each or both of the parties may be involved. As a consequence, relationship powers and liabilities do not necessarily generate the events that are in general brought about whenever put to work. When a certain power of a business relationship is exercised at some point in time, “usual” effects are not necessarily brought to be (i.e., the “tendency” remains unfulfilled) on account of other – more or equally powerful – counteracting powers at work in connected business relationships.

A power “does not always bring about certain effects, but it *always* tends to. Hence, it acts transfactually.” (Fleetwood, 2001, p. 212, emphasis in original). Entities’ powers may act transfactually owing to several and changeable contingencies (e.g., geo-historical conditions). When a certain power is exercised, “normal” outcomes (i.e., the effects that generally ensue whenever that power is put to work) may be impeded to result because of certain prevailing contingencies, namely the exercise of countervailing powers (e.g., an aircraft with the power to fly can fail to do so in the presence of severe atmospherical conditions). Nevertheless, a power acts “factually” whenever usual effects are not deflected or countervailed by the exercise of other powers (or the effects brought about). Effects resulting from the exercise of a power cannot be known a priori, although scholars and

researchers are usually able to identify a power's tendency, that is, which effects that power tends to generate. The realist conception of tendency is different from that of positivists that often employ the term to connote the statistical character of (nearly law-like) event regularities styled, for example, as "whenever event X, event Y tends to follow."

That relationship benefits and sacrifices are often interconnected, mediate (i.e., obtained in the future, sometimes long after relationship powers and liabilities are put to work), and partly intangible, helps explain why relationship effects can neither be unequivocally identified by firms *ex ante* nor are easily prone to quantification *ex post*.

3.3.4. Relationship Significance

In opposition to a common stance within MAN theory, relationship significance should not be taken as a given. The authors challenge here the presumption of the ubiquitous significance of business relationships and claim instead that relationship significance is but one of the business world's events and, as such is eventually brought about whenever certain causes are at work. Those causes are the focus of the next section.

4. HOW IS RELATIONSHIP SIGNIFICANCE BROUGHT ABOUT?

4.1. Relationship Benefits and Sacrifices Appropriated by the Firm as a Potential Cause of Relationship Significance

Relationship significance is commonly taken to be self-evident, or at the very least, its causes are not made explicit within MAN theory. One recognizes nevertheless that in case of any formal attempts to be made by MAN theorists to justify relationship significance, such attempts are likely to allude to benefits and sacrifices resulting from the exercise of relationship powers and liabilities. MAN theorists are prone to claim tacitly that relationship significance is brought about by either or both of two causes: relationship benefits outweigh (related) sacrifices in a particular business relationship, that is, "relationship value" is co-created and partly appropriated by the firm; and relationship benefits are greater than and/or relationship sacrifices less than benefits and sacrifices (a) expected by the firm (when experience with similar business relationships in the past is taken into account) or (b) potentially stemming from alternatives to the business

relationship in question, that is, substitute business relationships or conventional governance structures (such as hierarchies and markets).

Relationship benefits are usually weighted against sacrifices (mostly costs) needed to attain the former. And very often, relationship benefits exceed sacrifices and as a result relationship value results for the firm. Relationship value is the positive, for the most part perceived trade-off between all the benefits and sacrifices ensuing from the involvement in a business relationship, whatever those relationship effects may be (Anderson, 1995; Wilson & Jantrania, 1994). The subjectivity of relationship value is related to the incommensurability of both relationship benefits and sacrifices. How is relationship value co-produced and afterwards distributed as well as how can be assessed or measured by cooperating parties, remain objects of dissension within MAN Theory and no deliberate attempt is made here to shed light on the matter. On relationship value, see for instance the *Industrial Marketing Management*, 30(4), 2001.

In addition to (or sometimes, instead of) relationship benefits and sacrifices being estimated or compared to each other, the firm can contrast those relationship outcomes with (a) expected effects, by bearing in mind the benefits and sacrifices brought about in similar business relationships in the past and/or potentially generated in next-best substitute relationships – benefits and sacrifices which are referred to as “comparison level” and “comparison level for alternatives,” that is, CL and CL_{alt} respectively, or (b) benefits and sacrifices likely to emerge in alternative governance structures, that is, if the firm decides to vertically integrate a counterpart or instead engage in an arm’s-length relation with that counterpart, respectively (Anderson et al., 1994; Zajac & Olsen, 1993).

Although benefits and sacrifices potentially obtainable in hierarchies and in markets are exhaustively detailed elsewhere, for example, in the property rights approach (Grossman & Hart, 1986; Hart & Moore, 1990) and transaction cost economics, respectively (Coase, 1937; Williamson, 1985, 1981), the authors address here briefly in turn these benefits and sacrifices. The “costs of using the price mechanism” (i.e., “the costs of discovering what the relevant prices are” and “the costs of negotiating, making, and concluding a separate contract for the supply of each article or service”) are presciently discovered by Coase (1937, pp. 390–391). So-called marketing costs are claimed by Coase to be the crucial factor explaining the existence of the firm, being later referred to “costs of transacting” (Demsetz, 1968) and “transaction costs” (Williamson, 1981). With regard to benefits associated with the firm’s engagement in purely transactional relations with counterparts, one is likely to point out the reduction of transaction costs

(at least when “asset specificity” and “uncertainty” are both low and “transaction frequency” is high) (Williamson, 1981).

Benefits of employing hierarchies often include (Grossman & Hart, 1986) the provision of incentives’ alignment, hence mitigating hold-up problems (and other potential opportunistic behaviors); the reduction of transaction costs (in face of highly specific assets); or the minimization of ex post losses related to ex ante investment distortions (on account of contracts’ incompleteness).

Sacrifices of vertically integrating counterparts are the following: dis-economies of scope (e.g., “diminishing returns to management”), increasingly internal governance costs (e.g., deriving from individuals’ pursuit of own self-interest), or incentives’ impairment (mostly for the acquired party) and consequently the need for monitoring costs on behalf of the acquiring firm (Grossman & Hart, 1986). To the authors’ best knowledge, benefits and sacrifices of hierarchical and market governance structures are only explicitly contrasted by Phelan and Lewin (2000).

One agrees with the implicit claim of MAN theorists that relationship benefits and sacrifices per se or comparatively (i.e., relationship benefits versus sacrifices or relationship benefits and sacrifices versus relationship benefits and sacrifices expected or resulting from alternatives to the business relationship in question, respectively) are a potential cause bringing about relationship significance.

Yet other causes can account for relationship significance. In the authors’ viewpoint, at least one other cause (that underlies somewhat the aforementioned “functional” cause – as this cause is related to relationship functions) can produce relationship significance: the strong impact that business relationships may have on the structure, powers, and liabilities of the firm or, in other words, on corporate nature and scope (i.e., firm’s resources and competences, and activities, respectively). One can find management scholars and researchers referring to the structure and powers and liabilities of firms as corporate nature and scope respectively – for the distinguishing constituents of firms are resources and competences (explaining largely corporate heterogeneity) and on account of those constituents, corporate activities can be performed.

The failure to acknowledge this “competence-based” cause – as the cause pertains to corporate nature and scope – may be justified by the spatial boundaries of MAN theory, that is, theorists’ main units of analysis being the “interaction,” “relationship,” or “network” (Easton & Hakansson, 1996). All theories, conceptual frameworks or models are necessarily bounded in space and in time given the existence of certain spatial and temporal conditions under which are argued to hold (Bacharach, 1989).

4.2. Impact of Business Relationships on Corporate Nature and Scope as Another Potential Cause of Relationship Significance

Relationship powers and liabilities are in principle sixfold each. Although the authors do not wish to advance a hierarchy of those powers and liabilities, two of them (namely access and innovation ones) are more consequential than all others, by affecting the nature and scope of the firm. Access and innovation powers (and liabilities) supply the firm with (or impede it to obtain) respectively: access to and exploration (and on occasion development) of external, often complementary resources and competences; and identification of formerly unrecognized features of resources and competences, discovery of new ways of deploying or novel uses for those resources and competences, or stand-alone or co-development of new resources and competences. Exercising these two relationship powers, and most importantly resulting effects, shape to a considerable extent the resources, competences, and activities of the firm (both internal and external, actual and potential), that is to say, the “inputs” to and the “things” that the firm does by itself and the “things” that gets done by others at present and in the future.

4.2.1. The Firm Does Only Some Things by Itself

The firm is a complexly structured, powerful, and interrelated entity of the business world. In a similar but mundane vein, one can depict *à la* Loasby (1998) the firm as a specialized system of resources and competences operating in faceless markets and deeply embedded in intricate networks – markets and networks wherein external resources and competences are available for acquisition or sale and for access and exploration, respectively. The firm has but a limited set of internal resources and competences, thus “knowing how to do only a limited number of things” (Patel & Pavitt, 1997). The firm is necessarily devoted to a certain set of activities (i.e., scope), undertaking only those activities for which has required resources and competences. That is, the firm is bound to be specialized in certain activities for which corporate resources and competences – internally developed, acquired, and/or accessed and explored – offer some sort of “comparative advantage” (Richardson, 1972, p. 891).

The firm’s common decision to specialize (i.e., be increasingly competent only at some activities within a given field of expertise), and therefore appropriation of specialization gains (e.g., in the form of experience curve effects), implies that the firm deliberately relies on the specialisms of others (Young, 1928). Since in general the firm knows how to do only a few things, the firm needs to “know how to get (other) things done by others”

(Nelson & Winter, 1982) – notably by counterparts to which the firm is (or will be) vertically connected, that is, current (and prospective) suppliers and/or customers. The firm's specialization (in scope) thus requires and propels "integration" with counterparts, for the most part through cooperation but on occasion through exchange.

4.2.2. The Firm Gets Some Things Done by Others, Through Cooperation or Exchange

The firm's proneness to cooperation (mostly vertical), that is, to establish, develop, and sustain business relationships with suppliers and customers, is explained at large by the fact that the firm owns and controls a limited set of resources and competences within (vertical) boundaries.

The firm has also the possibility of getting some things done by others through exchange, that is, by engaging in arm's-length relations with counterparts. Although the firm can get things done in either or both of ways, business relationships and arm's-length relations fulfill different roles. Access to and exploration (and potential development) of external resources and competences – to be effected in networks – are accomplished only through interfirm cooperation. Exchange – taking place in markets – offers a very different route, namely internalization of external (and disposal of internal) resources and competences typically embodied in final products. Core competences of others – the closely complementary competences that the firm is commonly in need of – can be accessed and explored only through business relationships. In alternative, arm's-length relations provides the firm merely with the possibility to internalize external resources from (or dispose of internal resources to) counterparts or buy final products (which embody to some degree external competences) of or sell productive outputs (embodying somewhat the firm's internal competences) to others. For counterparts' products (e.g., high-quality printers or premium software applications) may be all that the firm wants or needs.

That the firm engages in arm's-length relations with suppliers and customers is generally because the firm is unable (or chooses not) to access and explore external resources and competences through (costlier but potentially more beneficial) business relationships. Business relationships presently developed and sustained with suppliers and customers are often preceded by the firm's engagement in arm's-length relations with those same counterparts in the past. In short, the firm gets different kinds of things done through cooperation and exchange with counterparts – and it is likely that the firm needs both of these kinds of things to diverse extents, over time.

The firm gets things done by others at present and in the future because of (current and upcoming) participation in business relationships and, to a probably smaller extent, engagement in arm's-length relations. The things that the firm gets done, in particular external resources and competences subject to access and exploration, are inextricably tied to business relationships that the firm is able (and chooses) to initiate, develop, and sustain with counterparts. More interestingly, the things that the firm does – largely owing to a combined deployment of internal resources and competences – are in part affected by the business relationships (and to a smaller extent, by the arm's-length relations) that the firm is unable (or even if capable, decides not) to establish and develop with counterparts. The firm may do some things by itself that cannot or does not want to get done by others. The authors find advisable to distinguish between business relationships that the firm is able and chooses to develop and sustain and those relationships that the firm (even if able to effect) decides not to. Not always does the firm have possibility to participate in vertical cooperation for one or various reasons, for example, because the firm neither is endowed with sufficient resources to devote to the development of a business relationship nor possesses necessary relational or network competences to effect relationship management or the firm is simply unaware of the existence of a competent, willingly cooperative counterpart. Even when the firm has the possibility of developing the business relationship with a supplier or customer, the firm may prefer instead to engage in an arm's-length relation with that counterpart (e.g., by virtue of facing significant opportunity costs in that business relationship or perhaps because participation in that business relationship would be perceived by one of present suppliers or customers as a threat to established, lasting cooperation).

The firm may do some things by itself that cannot or does not want to get done by others. So, and what seems to be a neglected issue within MAN theory, the things that the firm does and the things that the firm gets done are likely to be interrelated to some extent, over time. For the firm does things – that is capable of doing (i.e., performs activities for which has the necessary resources and competences) and – that on occasion is unable to get done elsewhere (and unable to persuade others to do, timely or competently).

Sometimes the firm needs resources and competences that do not have in-house nor can acquire in the market or access and exploit through business relationships. In the absence of needed external resources and competences, the firm may either choose to develop internally those resources and competences or instead convince others – judged by the firm

to be potentially more resourceful and competent – to effect such development. The latter solution is likely to be preferred whenever low “dynamic transaction costs” are incurred by the firm – these costs are “the costs of not having the [resources and] capabilities you need when you need them ...,” that is, “the costs of persuading, negotiating, coordinating with, and teaching outside suppliers [to develop needed yet inexistent external resources and competences]” (Langlois, 1992, p. 113).

The firm is always in need of some things – things that can only be found outside firm’s boundaries. The firm then chooses often to get those things done through business relationships or arm’s-length relations, instead of internalizing things through vertical integration (of counterparts). Assume, for instance, that the firm demands a particular set of resources and competences that are dissimilar but closely complementary to those owned and controlled internally and that this set of resources and competences is externally available, that is, housed within a counterpart’s boundaries. Why should the firm internalize those resources and competences or instead develop them internally *ab initio*? No advantage seems to result for the firm if those resources and competences are brought within boundaries – or in other words, benefits of employing hierarchical or market governance structures are less than (or/and sacrifices are greater than) the ones attained in a relational governance structure. As Barney (1999) stresses, the firm usually takes into consideration the costliness of acquisition (or sale) and/or of internal development – and in many cases, costs of buying (or selling) in markets and/or of organic development are likely to exceed the costs of access and exploration through vertical cooperation.

4.2.3. Business Relationships and the Evolution of Corporate Vertical Boundaries: The Firm’s “Make-or-Buy-or-Access” Decisions

Vertical boundaries circumscribe internal resources, competences, and activities of the firm, therefore demarcating the things that the firm does from the things that gets done by suppliers and customers. Vertical boundaries delimit corporate nature and define at large corporate scope. These boundaries are prone to display two features: changeability and fuzziness (Araujo et al., 1999; Hakansson & Snehota, 1989). First, vertical boundaries are changeable, being subject to expansion or reduction over time (e.g., in accord with “make-or-buy” decisions taken by the firm). Second, vertical boundaries are fuzzy owing to the continued existence of business relationships and the significance of external resources and competences for corporate survival or growth. Given the extent of interfirm cooperation, it is difficult to trace at least unequivocally “where the firm

ends' and 'where suppliers and customers begin.'" And it is meaningless to draw vertical boundaries just by bearing in mind the "ownership and control" criteria, as if only internal resources, competences, and activities are included within the firm's boundaries. Vertical boundaries not only separate the firm from suppliers and customers but also bring these cooperating parties together – boundaries display "buffer" and "bridge" functions (Araujo, Dubois, & Gadde, 2003; Thompson, 1967).

The dual impact of business relationships on (the inputs to and most importantly) the things that the firm does and the things that gets done is naturally implicated in the exercise of (and the effects resulting from) access and innovation relationship powers and liabilities. Business relationships are bound to impact the firm's vertical boundaries, in particular by exerting a substantial influence over where the (changeable and blurred) vertical boundaries are to be drawn. That impact is corroborated by theoretical and empirical research conducted by MAN theorists (Araujo et al., 2003; Ford, Cotton, Farmer, Gross, & Wilkinson, 1993; Mota & de Castro, 2004, 2005) as well as other scholars and researchers (Barney, 1999; Langlois & Robertson, 1995). By keeping that impact in mind, make-or-buy decisions of the firm – about which resources, competences, and activities reside (or are to be brought within) and which ones remain outside vertical boundaries – are transformed. Delimitation of corporate vertical boundaries is not reduced to a series of discrete make-or-buy decisions. Contrary to what is traditionally assumed (e.g., by Williamson, 1981, 1975), those decisions are not static, independent, or dichotomous. The firm's make-or-buy decisions are closely and dynamically connected to each other over time (e.g., the decision to "make X" may imply the decision of not to "buy Y" later on) and most importantly, incorporate a third option, "access" (Gibbons, 2001). As an illustrative example, consider the firm's decision to integrate supplier A with negative and null repercussions, respectively, on the business relationship with supplier B and on the arm's-length relation with customer C.

The firm is not always obliged to either develop or internalize all the external resources and competences that needs – to do the things that the firm does or intends to do in the future – since the firm has usually the possibility of (continually) accessing and exploring those resources and competences (whenever residing outside corporate boundaries) through cooperation with suppliers and customers.

Boundary decisions of the firm are hence about "making-or-buying-or-accessing," that is to say: internally developing resources, competences, and activities; acquiring resources, competences, and activities (through engagement in arm's-length relations with or even vertically integrating

counterparts); or accessing and exploring external resources and competences (through development of business relationships), respectively. One can identify an alternative to make or buy conventional options, namely access to and exploration of external resources and competences (through vertical cooperation), and that alternative allows the possibility to expand (or reduce) the nature and scope of the firm while leaving unaltered corporate vertical boundaries. Although opting for make or buy or access is necessarily conducive to enlargement of the firm's nature and scope, the making or buying options effect the expansion of corporate vertical boundaries while the accessing option leaves those boundaries unaltered. The nature and scope of the firm are therefore not defined once and for all by corporate vertical boundaries (given that corporate nature and scope can be enlarged or reduced while vertical boundaries remain the same, for instance, when the firm develops or terminates business relationships, respectively) but are largely the outcome of multiple and complexly interrelated make-or-buy-or-access decisions taken over time.

In other words, the structure, powers, and liabilities of the firm are likely to be affected to a great extent by the structure, powers, and liabilities of business relationships that the firm develops and sustains with counterparts. So, the primary constituents of the firm and the things that the firm does by itself and gets done by others (i.e., corporate resources, competences, and activities respectively) are all strongly impacted upon by business relationships established, nurtured, and maintained with several suppliers and customers over time. The conspicuous yet unarticulated impact of business relationships on corporate nature and scope over time is another potential cause of relationship significance – in addition to the aforementioned cause that emphasizes the effects resulting from exercise of relationship powers and liabilities and being appropriated by the firm.

5. CONCLUDING REMARKS

This conceptual paper builds explicitly upon a critical realist meta-theory, thus acknowledging the largely mind-independence and openness of the business world composed of a myriad of entities (endowed with own structures and exhibiting powers and liabilities, all somewhat interconnected) and events (likely to be brought about whenever powers and liabilities are put to work, under varying contingencies). The authors attempt here to perform an exploration into the causes of relationship

significance, that significance being a pervasive and yet insufficiently inquired event of the business world.

5.1. Theoretical Contributions

5.1.1. The Business World: Firms, Markets, and Networks

The paper provides a realist-inspired view of the business world, a part of the social world that one inhabits. Firms are complexly structured and powerful entities, the most prominent of the entities existing in the business world given that are responsible for bringing into existence other entities (notably, inter-organizational relationships, business relationships, and even networks and markets) as well as some events (namely arm's-length relations). Firms comprise a diversity of components, the most important of which are resources and competences. Owing to such intricate structures, firms are endowed with several powers and liabilities and thus capable of performing activities and producing outputs, cash flows, or profits.

Given the limitedness of corporate resources and competences, firms are prone to embark on different kinds of linkages with one another, mostly through vertical cooperation but also through exchange. Vertical cooperation is more prevalent than horizontal cooperation in the business world, that is, business relationships are more frequently developed and sustained by firms than inter-organizational relationships. Business relationships are entities that exhibit an intricate structure (e.g., are long-lasting, ruled by informal contracts, entail multiplex interpersonal contacts, and so forth) and therefore a sixfold set of powers and liabilities (namely access, control, efficiency, innovation, stability, and networking). Networks are entangled webs of connected business relationships and firms.

Exchange, ruled by the price mechanism, is also commonly found in the business world. These interfirm relations at arm's-length distance are mere on-off events constituting, together with other elements that frame and govern such transactions (e.g., technologies, marketplaces, and contractual rules), other entities of the business world (namely markets).

Firms' interrelatedness (through cooperation and exchange) implies that corporate structures, powers, and liabilities are necessarily connected to one another. Corporate powers and liabilities are exercised under particular contingencies, especially business relationships and networks but also arm's-length relations and markets.

5.1.2. Potential Causes of Relationship Significance

Relationship significance pertains to the influence that business relationships have on corporate survival or growth. Relationship significance exists even when the firm is totally unaware of it – though, as the authors acknowledge earlier, a potential and mediate influence of corporate perceptions or knowledge (and subsequent decisions and actions) on relationship significance exists.

Relationship significance is a basic conceptual cornerstone of MAN theory. In general MAN theorists consider relationship significance to be (almost) an axiom, taking in uncritical fashion that significance to be a corollary of the ubiquitous existence of business relationships in the business world. The authors challenge here such a foundationalist position for the mere existence of business relationships does not mandate automatically relationship significance (to the firm or any other counterpart). Despite business relationships being potentially significant to the firm, not all those vertical cooperative linkages are so all the time. Significance is not a given attribute of each and every business relationship of the firm. Relationship significance is not a regularity of the business world, being instead a potential event that may be brought about by certain causes and enduring for the most part regardless of any perception or knowledge (even that of any of the parties involved). Relationship significance varies along a continuum (rather than being a dichotomy), since one is able to find a diversity of business relationships in the business world, ranging from absolutely insignificant through lowly significant and averagely significant to highly significant ones.

The authors' main claims here are that relationship significance is brought about by either or both of two causes: first, relationship powers and liabilities are put to work under changeable contingencies (e.g., connected business relationships) and as a consequence benefits in excess of sacrifices (i.e., relationship value) are appropriated by the firm or relationship benefits are respectively greater than and/or relationship sacrifices are less than benefits and sacrifices expected by the firm (when takes into account benefits and sacrifices obtained in similar business relationships in the past) or eventually resulting from alternatives (i.e., substitute business relationships or alternative governance structures such as hierarchies and markets); and second, the effects resulting from the exercise of access and innovation powers and liabilities of business relationships impact upon corporate structure, powers, and liabilities, that is to say, impact upon internal and external resources and competences at the firm's disposal (nature) and the activities that performs (scope).

The latter of these causes demands particular attention for is in line with the intuitive view that business relationships are privileged means by which the powers and liabilities of counterparts are made available to the firm for access and exploration. Participation in business relationships (and the effects resulting from the exercise of relationship powers and liabilities, in particular the access and innovation ones) can help the firm to alter own structure (e.g., to modify internal resources or explore new external competences) and as a result – with considerable importance to corporate survival or growth – to modify corporate powers and liabilities (e.g., to increase efficiency in the performance of marketing activities).

5.2. Managerial Implications

The authors' analysis here is of a conceptual kind. First, the indisputability of relationship significance is called into question and then a causal account of potential causes for that significance is provided. The main objectives of this paper are description and explanation, not prediction. The authors attempt to answer a major research question: “why are business relationships significant to some extent to the firm?” or in other words, “how is relationship significance brought about?” Since the causes of relationship significance are only tentatively advanced here, only tentative answers can be given. And no definitive answers can be provided to questions such as “which business relationships are in general significant to the firm? to what extent?” or “is the business relationship with counterpart A highly significant to the firm at present? when is that degree of relationship significance likely to change?” For even fallible knowledge on causes of relationship, significance can give the ability to offer “tendential predictions” about the event's future occurrence (e.g., “why is it likely that relationship significance is ever brought about in the firm's relationship with supplier A?”) or issue normative guidelines (e.g., “what needs to be done in order to increase the actual degree of significance in the business relationship with customer B?”).

That the main contributions are here theoretical does not imply that managerial implications are entirely absent from the paper. The authors aim to add directly to a more robust knowledge about – and indirectly to a more effective and efficient management of – the business relationships and networks in which the firm is deeply embedded. Given that business relationships differ in the relative degree of significance (over time) and the firm is endowed with limited resources and competences (and consequently, can be highly involved with only a limited number of counterparts), “there is

a need for giving certain [business] relationships priority over others' (Hakansson & Snehota, 1995, p. 131). Easton (1992, p. 25) asserts the same point: "[The firm] must choose how much, and in what fashion, it will devote to each [business] relationship, potential or actual." Prioritizing, however, is not only about assigning both high priorities to certain business relationships and low priorities to others. The firm needs to get (similar) priorities from the counterparts with which interacts through those business relationships (Hakansson & Snehota, 1995, p. 202). The firm is likely to employ some criteria when prioritizing business relationships. A possible criterion is the degree of trust and commitment of the counterpart, explicitly declared or somehow inferred from the counterpart's behavior – for instance, the firm assigns a higher priority only to business relationships with trustworthy and highly committed counterparts (Hakansson & Snehota, 1995, p. 265). Another very reasonable criterion which is likely to be used by the firm is (the mostly perceived) relationship significance, either presently or in the future. To prioritize business relationships boils down to "single out the significant ones" (Hakansson & Snehota, 1995, p. 125).

The firm is advised to be rather selective in the development and maintenance of business relationships. That is, different priorities are (or should be) attributed to and attained in differently significant business relationships. This means that the firm needs to effect a differentiated "relationship posture" in business relationships (Gadde & Snehota, 2000). Relationship posture pertains to the firm's degree of involvement in a particular business relationship. The best way for the firm to "make the most" of diverse business relationships is to establish, nurture, and sustain both low- and high-involvement relationships, committing lesser and greater amounts of resources and competences respectively to such relationships.

The firm is in general strongly committed to business relationships that are (or can become) highly significant. A low-involvement posture, on the contrary, is likely to be adopted by the firm in business relationships that are (or merely perceived as of) low in significance. The message is clear: business relationships should be managed in varied ways by the firm, in accordance with (present and/or future) degree of relationship significance. Differentiation in relationship posture, in essence relationship and network management (Moller & Halinen, 1999; Ritter, Wilkinson, & Johnston, 2004), can be implemented only when the firm is able to identify which business relationships are (or will be) significant and to what degree and most importantly, understand why that is the case. Only by probing into relationship significance and identifying tentatively potential causes can the

firm acquire or improve corporate understanding concerning the individual and collective management of business relationships.

Independently of the field of study, advances in knowledge go hand in hand with improvements in practice. “By extending and improving firms’ understanding and sensitivity regarding relationship and network issues, better performing firms and networks will emerge” (Wilkinson & Young, 2002, p. 127).

5.3. Limitations and Future Research

5.3.1. Interplay Between Business Relationships and Inter-Organizational Relationships

No matter how thorough research efforts are, some issues are unconsciously neglected or intended set aside by scholars and researchers. Much is inevitably left unaddressed in any piece of research, and this paper is no exception. Time and other resources available play a crucial role in the incompleteness of research as well as the usually narrow foci of interest of scholars and researchers. The authors address in turn the aspects that are somewhat overlooked by or only briefly discussed in this paper.

One is certain to find among the multiple entities of the business world, inter-organizational relationships that the firm develops and maintains for the most part with competitors. Interfirm horizontal cooperation differs from vertical cooperative relationships in structure, powers, and liabilities respects. Inter-organizational relationships are often ruled by explicit contracts, short-lived, and aiming at clear objectives (e.g., new product co-development). The horizontal and vertical cooperative relationships of the firm are necessarily interrelated to some extent: despite being sought for diverse motives, inter-organizational relationships and business relationships “compete” for the firm’s limited resources and competences, in particular resources and competences dedicated to effecting cooperation with counterparts.

Inasmuch as firms are responsible for bringing about business relationships and inter-organizational relationships, the structure, powers, and liabilities of both business relationships and inter-organizational relationships are heavily affected by (and affect) the structure, powers, and liabilities of firms responsible for the establishment, development, and maintenance of those cooperative relationships. For instance, the firm’s commitment to consolidate the structure and thus powers of inter-organizational relationships are likely conducive to the absence of commitment to strengthen the structure and thus powers of business relationships, on account of the

limitedness of corporate resources and competences. The interaction between the structure, powers, and liabilities of both inter-organizational relationships and business relationships is not here given the attention that probably deserves.

5.3.2. Relationship Significance: A Subject on Need of Further Research

The absence of empirical research and findings is a shortcoming recurrently pointed out to conceptual papers. Although “research is likely to involve a division of labor between theorists and empirical researchers” (Ackroyd, 2004, p. 158), unpretentious scholars and researchers are in general expected to immerse in empirical sources and gather evidences to corroborate or refute a postulated hypothesis or theory, by undertaking case studies or surveys or employing any other methodological tools. Those scholars and researchers are not urged to devise, extend, or improve the current state-of-the-art of scientific knowledge by using conceptualization. Contrary to positivist conceptions of science, (critical) realists take purely conceptual analyses – such as the authors’ analysis here – not to be sterile, for such analyses can help to shed light on matters of interest. Tsoukas (1989, p. 558) synthesizes this point very eloquently, by claiming that both “up in the clouds” (i.e., analytical) and “down to earth” (i.e., empirical) research are necessary.

This paper has called into question the taken-for-grantedness of relationship significance, providing a tentative account of potential causes bringing about this notorious event of the business world. One of the paper’s major thrusts is to trigger some discussion over the (usually taken-for-granted) relationship significance, expecting that a near future contemplates more conceptual and empirical research, with each feeding back the other.

First, it is desirable that other conceptual works on the subject are carried out. This paper is only a starting point and the authors hope that the arguments here can draw enough interest to be analytically reviewed, criticized, modified, or extended (e.g., by resorting to other bodies of knowledge). Second, relationship significance needs to be subject to empirical investigations, for instance, concerning the heterogeneous contingencies faced by the firm (namely intricate networks of business interactions and faceless markets of transactions) and how potential causes of relationship significance evolve, are put to work under (and interact over time with) these changing contingencies.

A diversity of more specific questions may guide empirical research: “in what ways do prevailing contingent conditions (e.g., relationship connectedness) impact on the significance of the firm’s business relationship

with customer A?” or “which dominant powers presently at work, bring about the significance of the firm’s business relationship with supplier B?” “what enhances or impairs the exercise of the ‘networking’ power of the business relationship with supplier C?” or “how do access and control powers of the firm’s business relationship with customer D, interact over time?”

In a nutshell, a (critical realist) spiral-like approach to theory and evidence is as opposite here as in social sciences at large. Analytical explanations of the world’s causes need to be complemented with intensive case studies of causes’ operation under a diverse set of contingencies. So far, relationship significance can be adequately depicted as a “black box” on the grounds that its causes are for the most part left unidentified. MAN theorists are therefore urged to open up tentatively that box, by describing and explaining the structure, powers, and liabilities potentially responsible for bringing about relationship significance. That is what the authors attempt to do here.

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