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## **What are Relationships in Business Networks?**

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### *Abstract*

An understanding of business networks and the specific processes affecting change in networks is intimately connected to the understanding of the nature of relationships. Relationships constitute the core aspect which connect actors, resources and activities in a business network. This paper presents an overview of basic features of relationships. Relational concepts from the business marketing literature are grouped into a structural, an economic and a social dimension. A marketing model of three network layers in business networks is thereafter outlined based on different types of actors. The proposed network layers in the model constitute of the production network layer, the resource network layer and the social network layer. Finally, relational concepts are assigned to their related network layers in a relationship matrix.

**Keywords**

business relationships, business networks, relational concepts, network layers, relationship matrix

**Suggestions for further reading**

Reading on the nature of relationships in business networks can be found in, for example; Axelsson, B. & G. Easton, (Ed.), *Industrial Networks. A New View of Reality*, Routledge, London, 1992; Ford, D. (Ed.), *Understanding Business Markets; Interaction, Relationships and Networks*, Academic Press, London, 1990; Håkansson, H. & I. Snehota (Ed.), *Developing Relationships in Business Networks*, Routledge, London, 1995; Iacobucci, D. (Ed.), *Networks in Marketing*, Sage Publications, Thousand Oaks, California, 1996; Möller, K. & D. T. Wilson (Ed.), *Business Marketing: An Interaction and Network Perspective*, Kluwer, Boston, 1995.

**Application questions**

1. How can relationships be understood and used as a competitive tool in the business-to-business market? Are there differences between different types of products and markets?
2. What technological benefits and risks may relationships entail for companies? What may the financial advantages and disadvantages be?
3. What is the influence of culture on the nature of the business network? For example, are business networks in Western countries different from networks and relationships in the Asian countries?
4. How can relationship marketing be applied to “new markets” in, for instance, Eastern Europe and the Pacific region?

## INTRODUCTION

During the 90's the role of relationships has been accepted as a marketing strategy in many lines of business. Simultaneously, researchers from many different disciplines have also started to pay increasing attention to relationships. Many researchers within marketing (1, 2, 3, 4) claim that a general paradigm shift is taking place within marketing in terms of relationship management instead of managing separate discrete transactional exchanges with business counterparts. Marketing through relationships, as opposed to transactional marketing, acknowledges; a) that interactions are connected to both previous and future interactions between the counterparts; and b) that two (or more) counterparts may become interdependent over time as they continue to interact. Many researchers have started to employ a relational perspective in line with these assumptions to understand, explain and describe marketing and purchasing.

The relationship concept has thus become a core concept among researchers in many different research disciplines within the social sciences and in business economics. Within marketing research the approaches focusing on relationships are the interaction and network approach (1, 5, 6, 7, 8, 9) and the service marketing and management approach (3, 10, 11, 12). The former approach has focused on relationships in an industrial context and the latter approach has mainly concentrated on the service sector. Compared to the interaction and network approach the service marketing and management approach deals with relationships that are much simpler both as to substance and as to functions. The network approach, on the other hand, deals primarily with very complex/ multi-functional relationships that furthermore are considered to be embedded in a web of interconnected relationships in a network (8). Despite differences with regard to the type of product described, the general view of relationships in both approaches is that these develop over time, as a chain of interactions taking place between counterparts - as a sequence of acts and counteracts.

Understanding relationships in business networks is the core focus of this paper. The paper addresses two issues. Firstly; *what are relationships*, or more specifically *what constitutes relationships in an industrial marketing setting*, and, secondly, *how can relationships be described conceptually and theoretically?* To our mind there seems to be a need to study and understand relationships in business networks in a more rigorous manner than has often been the case and to use more formalised models when analysing relationships. Additionally, the relationship concept needs to be applied in different types of business settings.

The aim of this paper is to build a marketing model of relationships in a business marketing setting by using relational concepts. We delimit the concepts under study to those related to the nature of business relationships. The paper is conceptual and theoretical and does not, at this stage of research, present any empirical findings.

We start by reviewing concepts from the interaction and network approach in business marketing. The service marketing and management approach has also to some extent been included. Thereafter, we proceed by integrating business relationship concepts along three dimensions, i.e. a structural, a social and an economic dimension. We use this conceptual basis to construct our marketing model depicting relationships on three business network layers, i.e. a production network layer, a resource network layer, and a social network layer.

By a business network we mean a set of connected actors that perform different types of business activities in interaction with each other. In this study we have distinguished three types of actors operating in a business network, i.e. firm actors, resource actors and human actors. The network layer, in turn, refers to a network of a particular type of connected actors embedded in a particular business network. A set of identifiable connected firm actors in a value chain constitutes a production network layer, identifiable resource actors constitute a

resource network layer, and connected human actors in a business network constitute a social network layer.

In addition to the three proposed network layers, it would also be possible to identify, for example, infrastructural networks, technological networks and institutional actors and nets in business networks. These will, however, not be covered in this paper.

A “research triangle” (see fig. 1) depicts the purpose of this study.

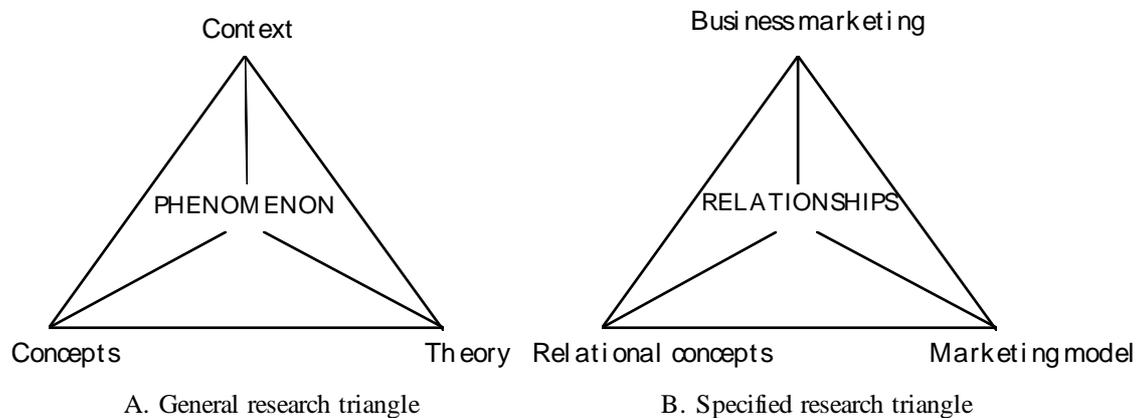


Figure 1. The research triangle

The studied phenomenon is noted in the middle of each triangle. The general research triangle (see A in fig. 1) traces three core elements in doing research, i.e. context of the study, origin of concepts chosen in the study, as well as theory in terms of models and frameworks to be constructed. The core elements in the general research triangle can also be specified (see B. in fig. 1).

## THE OVERALL NATURE OF RELATIONSHIPS

Relationships have in the marketing literature been described from many different perspectives. One way to structure relationships is to describe their

antecedents, contents and consequences. However, it is very difficult to distinguish between, for instance, trust and commitment and to analyse how they affect each other in an ongoing relationship. Many concepts are simultaneous and highly interrelated in an ongoing relationship.

Another way of grasping the nature of relationships is to outline what activities and exchanges they encompass. Since it is human beings that enact relationships, relationships may be analysed from a socio-psychological and/ or a political perspective by focusing on the individual actors. Relationships may also be described and understood based on their technical content and importance. These aspects typically constitute core elements in a business-to-business setting. An additional way to describe relationships is to approach them from an economic viewpoint. This implies describing the types and origins of different kinds of economic costs and benefits stemming from the relationship.

In this paper *a relationship is defined as an interdependent process of continuous interaction and exchange between at least two actors in a business network context.* This definition corresponds to definitions of relationships found in the interaction and network approach in business marketing. Relationships are often compared to marriages as opposed to "affairs" which denote short-term exchanges and transactions. However, recently it was proposed that relationships should be compared to different types of "dances" instead of to the dichotomous marriage-affair metaphor (13).

In a review of the interaction and network literature and the service management literature, similar features of relationships tend to be covered. We have chosen a number of concepts which are frequently used but recognise that there are additional concepts which we could have included as well. The concepts in this paper have been used to a large extent within business marketing and especially in the business-network stream of research. This does

not imply that other concepts except the ones described in this paper are not important in studying business relationships.

A relationship is based on the notion that there exist ties that connect actors together. Relationships in business networks have been studied mainly from a dyadic point of view, i.e. as encompassing two counterparts. However, relationships may also be approached from the viewpoints of three counterparts, i.e. triads. The number of involved partners and relationships may be increased further to encompass chains of relationships or a network of relationships.

Characteristics of relationships in business networks that are found in the business marketing literature are depicted in the following figure and they will be discussed in the subsequent text.

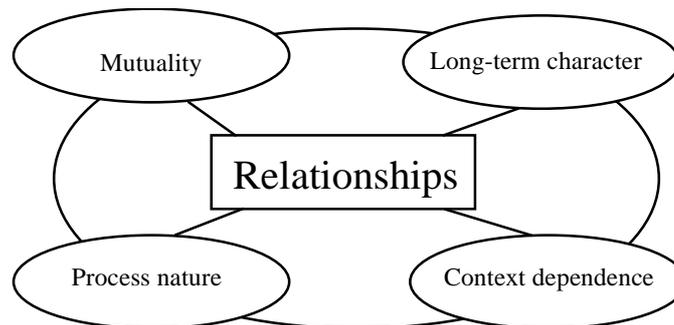


Figure 2. Core features of relationships

Relationships are typically characterised by at least the following core features:

#### Mutuality

- *degree of mutuality*. Relationships may continue despite low degree of mutuality because of different kinds of bonds (that is, technical, economic, planning, social, knowledge, and legal) between business actors. Mutuality between the partners may be expressed with concepts such as trust and commitment. Conflicts and the solving of these are also a part of relationships.

The nature of relationships affects the occurrence and handling of conflicts and *vice versa*.

- *symmetricality*. Counterparts within a relationship may be relatively balanced in their ability to influence the relationship, alternatively one of the partners dominate a relationship.
- *power-dependence structures*. None of the partners are assumed to have absolute control over their relationships, although their roles may differ. Large and small firms may have distinct power positions which change over time.
- *resource dependence*. Firms develop some resources internally but most resources are gained through relationships with others in a business network. The resources might constitute financial, human and/ or technological assets. The combination of complementary skills and heterogeneous resources may be a major strength of business networks. A notable characteristic of business since the 1980's has been the vertical disintegration of hierarchies and the formation of alliances and different types of business networks.

Long-term character

\* *continuation*. Relationships may endure for a long time, that is be temporally long-lasting (14). Relationships evolve over time and temporality is therefore a vital component of relationships. It takes some time before a sequence of interactions can be labelled an effective relationship. Both the past and future expectations related to business relationships influence the present state. In this sense, time is a relational factor (15). Continuation reflects the strength of using learning effects and built-in-skills for mutual benefits. Continuation might also be a competitive tool where the manifestation of relationships forms a specific asset and creates entry barriers for competitors.

- *strength*. Strength refers to a firms' resistance to disruption in a relationship. Strength is usually assumed to increase over time as the partners learn to work with each other and create bonds. The strength of business relationships is related to necessary investments which make it costly to switch

counterparts. The frequent lack of alternative partners also adds to switching costs. The strength is enhanced through commitment among interacting actors.

#### Process nature

- *exchange, interaction.* Relationships are composed of different interactions. The interaction process consists of a multitude of exchanges and adaptations between the firms. The content of exchange may be products, money, social contacts or information, etc. (5).

- *dynamics.* Relationships are characterised by change because of their dynamic nature. Processes and events within a relationship as well as in the surrounding network produce change and dynamics in relationships (8, 16, 17, 18, 19). Critical incidents in interactions are important in this respect as well as cyclical patterns within long term change processes.

- *use potential.* Relationships are valuable to firms as they provide a form of access to resources. It has also been recognised that relationships may represent a possibility structure (20). This implies that a firm's latent relationships and the opportunities that these enable constitute valuable resources that may be activated when needed (cp. the notion of the strength of weak ties by Granovetter (21)). On the other hand, it has also been pointed out that relationships may function as burdens for the firms as they limit future options and may entail large unexpected costs (8).

#### Context dependence

- *embeddedness.* Embeddedness relates to the fact that economic action and outcomes, like all social action and outcomes, are affected by the actors' dyadic relations and by the overall structure of network relations (19, 20, 22) Relationships are embedded in a network and connected to other relationships in that particular network. Relationships are therefore highly context bound, i.e. their features are highly dependent on their particular setting.

## RELATIONSHIPS IN BUSINESS NETWORKS

### Relational concepts on three dimensions

Relational concepts in the marketing literature of business marketing aim at understanding and describing what relationships are in a network setting. We have reviewed the interaction and network literature and chosen a number of concepts that are frequently used. These concepts seem to relate to different aspects of a relationship and thus we have formed three dimensions to better explain the content of business relationships. These dimensions pertain to structural, economic and social aspects of a relationship. The separation of relational concepts into different dimensions has been made to facilitate our later conceptual analysis. In figure 3 below, common relational concepts have been grouped according to these dimensions.

	<i>DIMENSION</i>	<i>RELATIONAL CONCEPTS</i>
<b>R E L A T I O N S H I P S</b>	Structural	Links
		Ties
		Connections
		Institutional bonds
	Economic	Investments
		Economic bonds
	Social	Commitment
		Trust
		Atmosphere
Attraction		
	Social bonds	

Figure 3. Three dimensions of relational concepts in business networks

Firstly, concepts relating to the structural dimension of relationships, e.g. activity links, resource ties, connections, and institutional bonds. By links we mean which activities the partners perform and how these activities are interlinked. Ties, on the other hand, refer to how the partners are resource-wise tied together. Connections refer to how relationships are connected to other relationships in the business network (8). Relationships between actors in a business network are also connected to institutional actors and creating institutional bonds. These concepts relate closely to visible aspects of relationships in terms of how they are materialised in the activity patterns and flows of goods taking place between firms.

Secondly, relational terms referring to the economic dimension of relationships, contain investments and financial adjustments that the partners make. However, some types of costs and benefits may be difficult to measure or detect since they need a long time-span to materialise. The investment concept is many-sided and complex in network settings. Investments are connected to value creation and especially to profit expectations and mutual gains. Investments may be made in monetary, technological, market and in trust and commitment terms.

Thirdly, relational concepts related to social aspects of relationships are based on how people in firms interact with each other. Relational concepts within this dimension are, for example, commitment, trust, atmosphere, attraction, and social bonds. These reflect the behaviour and perceptions of the people involved in the relationship.

We want to emphasise that the grouping of relational terms into these three dimensions is problematic because of the interconnectedness of the terms. The model notes this through the dotted lines between the dimensions. Through communicative mechanisms the three dimensions are connected to the change processes shaping business networks over time. Communication is implicitly a part of all concepts forming a “glue” which brings them together.

### A marketing model of three network layers in business networks

A business network can be described in terms of embedded layers which reveal its content and structure. We have distinguished three network layers in a business network, i.e. a production network layer, a resource network layer, and a social network layer (see fig. 4 below). It is, however, necessary to point out that the layers affect each other in complex ways. The separation has been made to understand each of them better and to make more refined descriptions.

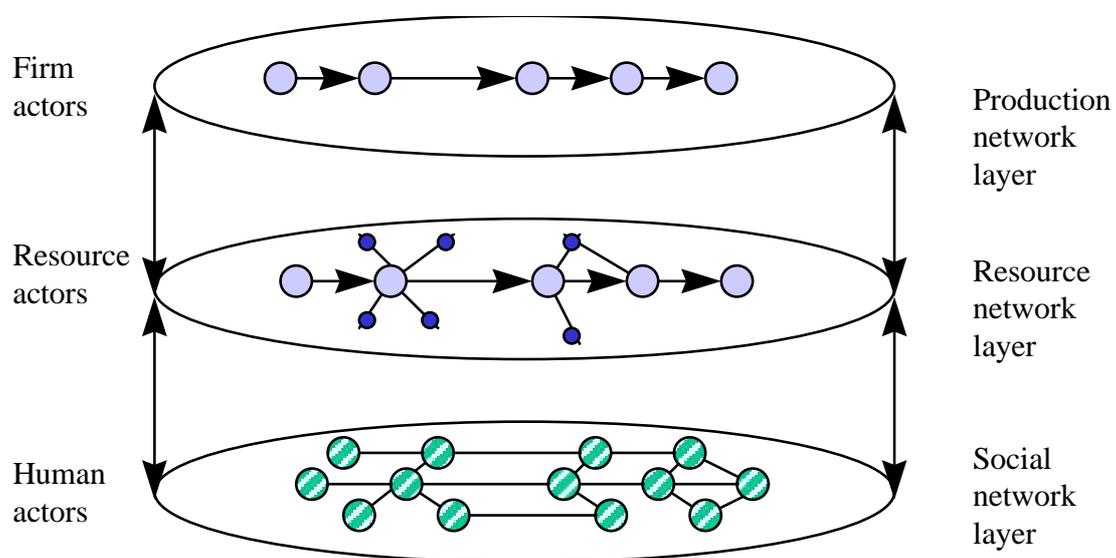


Figure 4. Three network layers in a business network

The figure shows three embedded network layers in a business network and reflects different types of actors in a business network. First, firm actors refer to actors which are firms performing production activities in the business network. The connected firm actors in a business network engaged in production activities constitute the production network layer of the business network. This network layer is delimited by a value chain and is highly related to the produced products/ services and systems.

Second, resource actors provide important resources which are necessary for carrying out the production activities which the firm actors do not possess

themselves. The resources may be financial resources, technological and marketing know-how, etc. These actors may, for instance, be consultants, banks, insurance companies, or forwarding agents.

Together with the firm actors, these actors constitute the resource network layer within a particular business network. The resource network layer thus consists of more actors than the production network layer and is more difficult to delimit, because of the many different types of included resource actors. A resource network layer in a business network consists, consequently, of the interconnected web of firm actors and resource actors that uses and combines the competencies of the web.

The third network layer refers to the network of interconnected human actors in the business network. The layer consists of the web of actors on the individual level, and reflects how people and groups of people in the different firms in a business network are interconnected. Individuals and groups are important carriers and providers of knowledge, they act as representatives of their firms and they make vital decisions.

Besides this notion of layer-embeddedness presented above, other ways of understanding networks can be identified. For example, vertical embeddedness takes into consideration different levels of actors embedded into a business network, related spatial levels where business activities are embedded, for example national, regional and local levels.

#### Relational concepts on different network layers and levels

The two classifications presented above are now depicted in a matrix (shown in table I below).

Table I. A relationship matrix of relational concepts on the three network layers

<b>Network layer</b>	<b>Dimension</b>		
	<i>Structural dimension</i>	<i>Economic dimension</i>	<i>Social dimension</i>
<i>Production network layer</i>	Links Connections	Investments Bonds	Connections Bonds
<i>Resource network layer</i>	Ties Connections	Investments	Connections Bonds
<i>Social network layer</i>	Links Connections	Investments	Atmosphere Bonds Trust Commitment

This relationship matrix shows the three proposed dimensions of relational concepts and how these relate to the proposed network layers. This classification of concepts may be useful to bring together theoretical relational concepts. In connection with empirical studies the classification may be used to distinguish between different aspects of relationships. The notion of embeddedness adds considerably to network complexity, but according to our understanding this is an inevitable pre-requisite to understand relationships better in a business network context.

The matrix allows focus to shift between different perspectives which allows aspects of relationships to be highlighted and analysed. The matrix is, however, at this stage of research, highly tentative and should be studied empirically and refined and developed accordingly. The use of a relationship matrix is thus offered to unfold the multitude of relationships in a business network setting.

## SUMMARY AND DISCUSSION

Contemporary business marketing and services marketing research emphasise relationships as opposed to earlier marketing studies which are to a great extent

transaction-oriented. Relationships are both complex, and multifaceted as well as highly dependent on the particular context in which they are embedded. In this paper we have proposed that concepts describing the nature and the content of relationships can be classified according to whether they relate to structural, economic or social aspects of the relationship. These three groups of aspects form three dimensions of relational concepts.

In the paper we have also distinguished between three network layers embedded in business networks. These network layers are the production network layer, resource network layer and a social network layer. The paper additionally contains a relationship matrix that combines the dimensions of relational concepts with the marketing model of network layers to distinguish between different concepts related to business relationships.

The way an actor is embedded in a business network - at a specific point in time - is an outcome of the previous activities of the actor. The embeddedness of business networks means that these are socially and historically constructed.

Finally, a caveat empirically, relationships can be traced by different methods. However, social-related aspects of relationships need longitudinally oriented research approaches. Without a process perspective the changing facets of relationships may not be adequately revealed.

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