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Interactive resource development in new business relationships

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ABSTRACT

Interaction in business relationships is a significant means of resource development. Studies of these processes have focused on interactive development in long-term relationships between buyer and supplier. This study explores the characteristics of joint resource development in new business relationships, where the two parties have no previous experience of interacting with each other. The study is based on the industrial network model and contains two cases of interactive development of new products with entirely different features. This research shows that joint development in a new relationship is strongly dependent on the resources of other business partners, since no previous adaptations exist between the two focal actors. Access to these resources is achieved through the established business relationships of the two parties. Furthermore, previous interactions with other business partners have a significant impact on the outcome of interactive development in a new business relationship. The main reason for these conditions is that the features of the resources of the two parties have evolved during these interactions.

1. Introduction

Resources provide the basis for the operations of a firm, and the way in which they are utilized is always a significant determinant of financial outcome. Owing to this crucial role of resources, firms have been portrayed as resource entities (Penrose, 1959). From this perspective the specific features of a firm in terms of its uniqueness and evolution are explained by the abilities to combine the heterogeneous resources that render the services offered to customers. Some of these resources are influential in terms of their financial impact, while a specialized resource "may be critical to the organization even though it comprises only a small proportion of the total input" (Pfeffer & Salancik, 1978: 46).

Business conditions change continuously and so the resource base of a company is modified over time. Resource development is therefore a critical issue to any organization. Firms are actively involved in efforts to "alter their resource base — acquire and shed resources, integrate them together and recombine them" (Eisenhardt & Martin, 2000: 1107). In this combining and recombining of resources, interaction in business relationships plays a crucial role because companies are increasingly dependent on access to the resources of their business partners (e.g., Bensaou, 1998; Dwyer, Schurr, & Oh, 1987; Gadde & Håkansson, 2001; Håkansson & Snehota, 1995; Leenders, Johnson, Flynn, & Fearon, 2006). Hence the relationship between two companies provides an arena for interactive resource development. Furthermore, what has been built up jointly in this relationship over time represents major resources that actively impact on the combining and development of other resources (Christensen, 1997; Ford, Gadde, Håkansson, & Snehota, 2003; Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009; Norman & Ramirez, 1993).

The relationship base of a company evolves over time. A highly influential business partner may become less important for various reasons. Owing to changing conditions significant relationships are dissolved (see e.g., Giller & Matear, 2001; Halinen & Tähtinen, 2002). For example, Alajoutsijärvi, Möller, and Tähtinen (2000) provide recommendations for these procedures. One pertinent example is that technological changes may require connections to new business partners in order to enhance long-term resource acquisition and development. In these situations no previous relationship exists between the two parties. This implies particular conditions for interaction and joint development. Previous research on resource development in business relationships focuses on interaction in relationships to which buyer and supplier have been committed for long time. Since only scant attention has been directed to resource development in newly established relationships, this calls for more research in this area.

This paper centers on interactive resource development when there is no established relationship between the two parties. The overall purpose of the paper is to explore the consequences for resource development in interaction when the buyer and the supplier have no previous experience of interaction with each other. Since

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business relationships need time to evolve it is expected that a lack of familiarity between the parties provides specific conditions for joint action. In this light the paper begins with a description of central features of interactive development in established relationships which are then modified in order to frame the situation focused on in this research. The three following sections contain the research methodology applied and the two case studies providing the empirical basis for the paper. The concluding section comprises a discussion of the research findings followed by theoretical and managerial implications.

2. Interactive resource development

According to the argument of Penrose (1959) the value of a specific resource is determined by the services it provides through the way it is combined with other resources. The significant role of this interplay among resources is further emphasized by the claim that the features of a resource are actually created through these connections, which become manifest over time (Rosenberg, 1994). In a similar vein, other scholars argue that this combining and connecting implies that a single resource is systematically confronted with other resources "and through this process is given some specific characteristics" (Håkansson & Waluszewski, 2002: 15). The combining of resources in this interplay is characterized as "a coupling and matching process where interaction is the critical element" (Tidd, Bessant, & Pavitt, 1997: 29).

Thus, the processes of coupling and matching are significant in the active combining of resources for effective value generation. The better a new resource fits with the existing resources in a specific resource constellation, the greater its value (Håkansson et al., 2009). Two critical aspects can be identified with regard to this interplay. First, new resources have to function in relation to existing resources since no resource operates in isolation. For example, any new product or service must fit with connected products and services, as well as to the equipment and other facilities to which it relates. Second, every resource is related to two milieus with quite different characteristics since it has to function both in the setting where it is created and in the setting where it is applied — referred to as the technology of production and the technology of use, respectively (Alderson, 1965). The conditions concerning the most appropriate features of a new product or service may differ considerably between the two technologies. The connection between the two technologies is a key since individual products "are only components in a larger usage pattern that may involve many products" (von Hippel, 1988: 103).

The larger usage pattern can be conceptualized in various ways. The first building block of the framework of this study is the industrial network model, which distinguishes between three layers of industry reality (Håkansson & Snehota, 1995). One represents the activities undertaken in the network, another involves the resources used, and the third concerns the actors who control the resources and undertake the activities. In reality these layers are completely intertwined, but from an analytical point of view this separation is useful since the three perspectives provide different views on reality. Interaction among network actors provides the means for resource combining and the connecting of the technologies of production and use. This interaction between two companies can be interpreted as multidimensional courses of action that "change and transform the resources and the activities of those companies and the companies themselves" (Håkansson et al., 2009: 28). The business relationship between the two companies is a key factor for these modifications, through the evolution of relationship substance in terms of activity links, resource ties and actor bonds (Håkansson & Snehota, 1995). This substance accumulates over time through mutual adaptations between the two parties which improve their joint performance (Håkansson et al., 2009).

As stated above, this paper deals with the situation where no relationship has been established between the parties and consequently no adaptations have been made. In the framing of this situation the nature of resource development and the role of interaction in established relationships provide the starting point. A business relationship begins to evolve when two parties perceive the potential benefits of joint arrangements as being greater than those stemming from market-like transactions. Such conditions typically occur when a supplier offers a tailor-made solution to a specific customer. The development of this offering calls for resource combining and adaptations since the new product or service must fit with other resources of the two, as well as connect the technology of production to the technology of use. In the analysis of such processes the 4R-model (four resources model) is recommended as an appropriate research tool (Håkansson & Waluszewski, 2002). With this model, resource development is analyzed as the interplay between physical resources and organizational resources, each type consisting of two categories. First, physical resources include the products exchanged between firms and the facilities used for their transformation and exchange. Second, organizational resources embrace the business units that comprise the skills and capabilities needed for resource development and the business relationships between firms. According to the 4R-model, the development of the features of a specific resource is contingent on its interplay with other resources in the four categories. Through this interplay various types of connections evolve among the resources. These connections are vital to the outcome of the interplay, and are identified as resource interfaces (Gadde & Håkansson, 2008; Håkansson & Waluszewski, 2002). The 4R-model constitutes the second building block of the framework and has been applied in several studies of resource development — for example Baraldi (2003), Gressetvold (2004), Holmen (2001), Wedin (2001), and Vercauteren (2007). The first research issue of this study is to explore the interplay between a new resource and connected resources and the role of the interfaces in interactive research development in new business relationships.

The coupling of the production of a resource with its usage is pointed out as a highly critical issue in any development effort (e.g., Dosi, 1988; Håkansson & Snehota, 1995; Harrison & Waluszewski, 2008; Lundvall, 1985). In these coupling processes, the role of interaction between actors is significant since this connection provides access to the resources of the business partner. Over time these external resources have become increasingly important owing to specialization and outsourcing. For these reasons interaction in business relationships forms the third building block of the framework. Long-term interaction processes, such as a joint resource development project, contain a series of individual interaction episodes. The characteristics and the outcome of a specific episode depend on two interaction contexts: one in time and one in space (Håkansson et al., 2009). The dependence on the time context implies that experiences from previous interaction episodes impact on the outcome of the current episode. The crucial role of previous interaction is shown in several studies (e.g., Baraldi, 2003; David, 1985; Hughes, 1983; Lundgren, 1994). The influence of the time context is particularly significant for resource development since time enhances the learning processes that represent "the spring moving the whole system by its constant application to improving the production processes" (Pasinetti, 1981: 23). In this study there is no experience of previous interaction between the buyer and the supplier to make use of. Despite this fact, the time context may be important since both parties have been involved in interaction with other business partners. The skills, capabilities and other resources of the two firms have been formed through these interaction episodes, and these conditions are likely to impact on the joint development in the current episode. The second research issue of this study is to trace the influence of the time context and identify the extent to which previous interaction with other business partners affects the interactive development in a new business relationship.