Industrial Marketing Management 46 (2015) 193–203

Contents lists available at ScienceDirect

Industrial Marketing Management

Business relationship process management as company dynamic capability improving relationship portfolio[☆]

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ARTICLE INFO

Article history:
Received 1 August 2011
Received in revised form 1 August 2014
Accepted 1 October 2014
Available online 5 March 2015

Keywords:
Relationship process
Relationship management
Relationship portfolio performance
Relationship termination
Dynamic capabilities

ABSTRACT

Recent studies on industrial marketing and business networks suggest that business relationships are changeable phenomena and many of them loose their rent-generating mechanism in time, especially when opportunity costs are taken into consideration. Unfortunately, our knowledge about management tools oriented at handling relationship dynamics is relatively weak. Trying to fill this gap, this study proposes a concept of Business Relationship Process Management (BRPM) and grounds it in dynamic capability view of company's strategy. BRPM comprises actions that help a company to restructure its relationship portfolio and improve relationships with deficient partners. This study contributes also to management knowledge by providing an empirical test for the validity of BRPM on the basis of an online survey conducted with 307 Polish companies that handle relationships in supply area. It supports the hypothesis that BRPM leverages the relationship portfolio performance and it complements other relationship-related strategies, like building personal business ties and relationship flexibility. The environmental uncertainty is discussed and tested as a factor moderating the influence of BRPM on relationship portfolio performance.

1. Introduction

Inter-company relationships became a driver of competitive advantage as business environment continues to grow more competitive (Dyer & Hatch, 2006; Gulati, Nohria, & Zaheer, 2000; Mesquita, Anand, & Brush, 2008). Our knowledge on business relationships has substantially progressed, including such aspects as: relationship development process (Dwyer, Schurr, & Oh, 1987; Ford, 1980), relationship change (Halinen, Salmi, & Havila, 1999; Schurr, Hedaa, & Geersbro, 2008), relationship ending and renewal (Alajoutsijarvi, Moller, & Tahtinen, 2000; Tahtinen & Halinen, 2002). Business relationships of the focal company are embedded in wider relationship structures, therefore there are several possible approaches to understanding relational phenomena (Halinen et al., 1999; Uzzi, 1996). We know much less about the intentionally developed relationship portfolios than the characteristics of organically evolved networks (Möller et al., 2005; Ritter, Wilkinson, & Johnston, 2004), specifically there has been relatively little empirical research on business routines through which the company may successfully manage such portfolios (Szwejczewski, Lemke, & Goffin, 2005). Moreover, prior studies on relationship management capabilities mostly focused on routines to develop and coordinate collaborative relationships (Ritter et al., 2004; Walter et al., 2006), neglecting to a large extent the changeable nature of established partnerships. Managing relationship ending and relationship initiation did not receive much attention, especially when it comes to testing theoretical models with empirical data (Cui, 2013; Havila & Medlin, 2012).

In this study we aim at enriching our understanding of business relationship management on both: conceptual and empirical levels. Firstly, we review literature and develop the managerial concept of Business Relationship Process Management (BRPM) that includes routines oriented at both: improving worsening relationships and reconfiguring relationship portfolio by attracting new promising partners, and ending unprofitable relationships. We ground our conceptualization in the dynamic capabilities approach as a wider theoretical framework (e.g., Teece, Pisano, & Shuen, 1997). Secondly, we present the results of the field study. Our study provides the evidence that BRPM leverages the effectiveness of business relationship portfolio. Thus, the nomological validity of the new proposed concept is supported. The moderation analysis results suggest that the importance of BRPM increases when the company is operating in a more dynamic environment. Last, but not least, we test the influence of personal ties and relationship flexibility to control the effect of other complementary approaches to managing business relationships. At the end of the paper,

☆ This research was financed by the National Science Centre (NCN) in Poland (Grant no.: N N115 004340).

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http://dx.doi.org/10.1016/j.indmarman.2015.02.029
0019-8501/

we discuss the results of our research with regard to other studies in this area and we propose theoretical and managerial implications of the study.

2. Conceptual framework

2.1. Business relationship process management as a driver of performance improvements in company's relationship portfolio

Our knowledge about the dynamic aspects of business relationship management is weak (Palmatier, Houston, Dant, & Grewal, 2013). This knowledge is especially weak in relation to the aspect of initiating new supplier relationships, or worsening collaborative relationships (Ozcan & Eisenhardt, 2009; Wognum, Fisscher, & Weenink, 2002). A better understanding of the dynamic aspects of relationships is needed, because in practice the majority of collaborations appear to be unsuccessful (Littler, Leverick, & Bruce, 1995). Even these business relationships that are built with carefully selected partners may deteriorate over time and become nothing more than the "burden" (Ford, Gadde, Hakansson, & Snehota, 2003). This mechanism was illustrated empirically in the context of manufacturing companies when they stuck in close supply relationships restricted in terms of product innovations (Capaldo, 2007; Dittrich & Duysters, 2007).

Our conceptualization of Business Relationship Process Management (BRPM) is grounded in the *dynamic capability approach* (DC) to company's strategy (Teece et al., 1997; Zollo & Winter, 2002), where company constantly transforms by reshaping resource configuration enabling its competitive advantage. Such configurations may combine resources and capabilities possessed by the focal company and its relationship partners. DC suggests developing organizational routines enabling the company to cope with emerging environmental threats and opportunities. We treat BRPM as a dynamic organizational capability that allows the company to cope with instabilities in business relationships. Following Das and Teng (2000), we treat such relationship instabilities as major changes or dissolutions in business relationships that are unplanned from the perspective of the focal company. Thus, we define BRPM as *a set of organizational routines implemented and learned at the company which help the company to manage the changing/process nature of its business relationships.* In our understanding, BRPM is oriented at both: existing company's relationships through the development of deficient relationships and ending relationships that are unprofitable (so-called *internal BRPM*), and initiating relationship with new partners from the outside of the existing portfolio (so-called *external BRPM*). We assume that companies with the capabilities to manage relationship process will be better prepared to sustain the relationship-related competitive advantage. Pro-innovative contracts in supply area do not tend to be everlasting and new partners are frequently desirable for new projects, such as new product development (Wognum et al., 2002). Therefore, we propose BRPM as a management tool complementing company's actions oriented at building alliances and collaborating with external partners, conceptualized before as *network-related capabilities* (Walter, Auer, & Ritter, 2006; Mitrega, Forkmann, Ramos, & Henneberg, 2012). The literature proposes various financial and non-financial measures of business relationship performance, including innovativeness and relationship value (Baxter, 2009; Palmatier, Dant, & Grewal, 2007; Ritter & Gemünden, 2004; Walter, Ritter, & Gemünden, 2001). In this study, following DC approach, we focus rather on sustainable advantages than short-term effects and we focus on the whole portfolio of supply relationships than given supply partnership and activities dedicated to it. Consequently, our key dependent construct is Continuous Portfolio Performance Improvement which refers to "*the trajectory of the suppliers' track record in terms of meeting customer (*e.g., *manufacturer) expectations on a range of performance metrics*" (Joshi, 2009, p. 135). We assume that this construct reflects sustainable competitive advantage in the context of the supplier relationship portfolio, and thus this construct is well adjusted to DC approach to company strategy design (Teece, 2007).

Wagner and Johnson (2004) introduced the "strategic portfolio perspective" towards managing risks and trade-offs embedded in business relationships from the perspective of the focal company. Their case studies of multinational companies indicate that supplier relationship portfolio should be dynamically shaped, including careful monitoring and partners' resource integration to acquire competitive advantage. Following this research track, Wagner (2006) and Wagner and Krause (2009) demonstrated that the company may effectively deal with diminishing gains from its current relationship portfolio by Supplier Development Routines. These routines comprise monitoring existing partners and providing them with stimulating feedback (indirect development), as well as providing them with training, advice and own employee transfer (direct development). Supplier development activities help a buying company in improving its product quality and delivery performance, and improving the suppliers' business capabilities, e.g., product design know-how, which are crucial for collaborative projects (Wagner, 2006; Wagner & Krause, 2009). Nagati and Rebolledo (2013) demonstrated recently that such programs implemented by the buying company increase suppliers' operational performance. Noticeably, from the perspective of a buying company, indirect supplier development appeared to be empirically beneficial and the influence of direct supplier development activities on buying company performance was found not significant (Wagner, 2006). Thus, we believe that partner development is accomplished mostly by partner monitoring and we treat such supplier development as an important aspect of handling relationship process. Specifically, we assume that it prevents the relationship from detour by stimulating systematic relationship progress. Thus, we hypothesize:

H1. Supplier Development Routines are positively related to continuous performance improvements of a company's supplier portfolio.

We assume that successful relationship process management should comprise two components: improving problematic relationships with current partners and building relationship with new partners. Additionally, as partnering is a resource demanding process (Dyer & Hatch, 2006; Dyer & Singh, 1998), these two elements should be complemented by the ability to terminate alliances that are not profitable anymore and restrict company's resources that could be, at least partially, re-invested in new partnerships (e.g. by relocating employees dedicated to prior alliance to a new partner). Ritter and Geersbro (2011) and Havila and Medlin (2012), conceptualized company relationship termination competence as a tool to deal with relationship ambiguity and a specific case of business closure. Mitrega et al. (2012), complemented prior studies in this area by illustrating that organizational capabilities related to the termination of old and the initiation of new business relationships may be treated as an important factor leveraging company performance.

The hypothesized positive effects of "ending old unwanted" and "initiating new" relationships on supplier portfolio are in line with the recent call for developing more flexible approaches towards supply chains while business environment is getting more turbulent (Chiang, Kocabasoglu-Hillmer, & Suresh, 2012; Swafford, Ghosh, & Murthy, 2008). Through conscious re-structuring its supplier portfolio the focal company increases the likelihood of continuous improvement of its supplier base, e. g. by having relationships with most attractive suppliers at a given period of time. Several prior studies illustrated that today companies should not get stuck only in existing supply networks and acquire new promising supply partners which usually bring "fresh blood" into existing supplier portfolio, e.g. new ideas and skills, more willing attitude and openness (Capaldo, 2007; Dittrich & Duysters, 2007). Developing "initiating" and "ending" capabilities with regard to the supplier base reflects the dynamic approach to company's competitive advantage or dynamic capabilities view (Teece et al., 1997),