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## Industrial Marketing Management

Caught in the middle: Buying from markets and selling to networks<sup>☆</sup>Morten H. Abrahamsen<sup>a,\*</sup>, Håkan Håkansson<sup>b</sup><sup>a</sup> Department of Marketing, Norwegian Business School, 0442 Oslo, Norway<sup>b</sup> Department of Innovation and Economic Organisation, Norwegian Business School, 0442 Oslo, Norway

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## ABSTRACT

The purpose of this paper is to look at how relationships between buyers and sellers are affected when on the supply side the most important resource is available only through a trading system created from a market perspective, whereas on the customer side the interaction resembles a network where relationships are long-term and complex. The empirical setting of the study is the pelagic industry, where this situation represents a challenge for the Norwegian herring exporters as they try to bridge these two types of interactions. In this industry, the purchasing of the herring is subject to a blind auction by law. At the same time, Norwegian exporters have customers in European seafood markets characterised by long-term relationships and close cooperation between importers, processors, producers and retailers. To analyse this situation, the study applies a qualitative research design including personal interviews with selected respondents in Norway and the three largest Norwegian herring export markets: Germany, Poland and Russia. The authors find that the interaction in these particular supplier–customer relationships is not extended to its full potential. It seems that the market-type transactions create “spillover-effects” to the other relationships, meaning that it is difficult to maintain high-involvement relationships when interaction in connected relationships is limited.

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## 1. Introduction

How are relationships between buyers and sellers affected when on the supply side the most important resource is available only through a system created from a market perspective, whereas on the customer side the interaction resembles a network where relationships are long-term and complex? What happens when the “market” meets the “network”? Since its early theoretical foundations in the 1970s, research in the IMP tradition has analysed the role and impact of business interaction and networks, and contrasted this perspective to more transaction based, or market related views building on micro-economic theory. But rarely have these two types of interactions been studied within a single case. The marketing of Norwegian herring provides such an opportunity. On the supply side a particular auction system gives a “market” situation – the trading of the herring is subject to a blind auction by Norwegian law. This system prohibits the establishment of long-term relationships between sellers (Norwegian fishermen) and buyers (Norwegian exporters) and is created to secure a balance between supply and demand as herring has natural variations

in populations and quotas. At the same time, on the customer-side large European retailers have long-term relationships and close cooperation with various seafood producers where herring is used as basis for extensive product ranges and varieties. This represents a challenge for the Norwegian exporters, as they try to link or bridge these two types of interactions.

In this paper, we briefly present the “market transactions” and “network relationships” as two distinct ways to interact and discuss some of the underlying theoretical assumptions. Then we introduce the case. First, we describe and analyse the supply-side relationships between Norwegian exporters and the herring auction system. We then describe the customer-side relationships and look at interaction between importers of Norwegian herring in Germany, Poland and Russia and their industrial buyers in domestic markets. Finally, we take a detailed look at the focal relationships in this study – how the Norwegian exporters and their European customers interact. To structure our analysis we introduce three broad categories: *Well-developed interaction*, *partially developed interaction* and *limited interaction*. Moving over to a theoretical discussion of the key characteristics of interaction identified by our empirical data, we look at the way in which the relationships between the Norwegian exporters and their customers are affected by this particular industrial structure and how the actors seek to resolve this situation.

This discussion is relevant for companies seeking to manage their customer- and supplier relationships when interaction in connected relationships is restricted, and for policy makers who wants to understand the effects of their intentions to organise market transactions.

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## 2. Market transactions or business relationships: two types of interaction between companies

### 2.1. Market transactions

Market transactions and their characteristics have a long history and are closely connected to the development of market thinking in terms of market features and functions. In economic theory it started with Adam Smith that argued that a free market (with no transaction costs) will provide a natural balance between supply and demand. A century later, neo-classical economists such as Leon Walras and Alfred Marshall arrived at similar conclusions, arguing that price and quantity are determined at an optimal level – an *equilibrium* where there is a perfect match between supply and demand. One precondition for this equilibrium is a perfect competition in the marketplace (i.e. friction free transactions). This equilibrium is created through an antagonistic behaviour in a zero-sum game (Håkansson et al., 2009). Polanyi (1944) described this as a market populated by autonomous actors fighting for the survival of the fittest. This “jungle metaphor” indicates that transactions are the result of the acts of antagonistic actors, zero-sum games, where what one wins always means a loss for the other. The actors thereby need to be free and independent in order to always choose the partner that gives the best conditions. Further, all actors – both buyers and sellers – can be played out against each other as there are no costs associated with the transaction. This also implies that there is no knowledge added by the transaction process. Through this way of conceptualising transactions, they can be assumed to work as a market mechanism, i.e. transactions give room for the market forces.

An important exception from these very clean transactions was made when Coase (1937) initiated a discussion suggesting that market transactions could be costly given certain market imperfections (market failures). This picture was further developed by transaction cost researchers (Williamson, 1975, 1981) and Heide (1994). In transaction cost theory, a company will choose transaction forms dependent on how costly they are. The main issue is to identify which governance mechanism in customer–supplier relationships that will minimise the transactions costs. At one end of the continuum there is a total integration or “hierarchy”, where ownership gives a certain prerogative and control. At the other end there is a free market where transactions are governed by the market forces (Webster, 1992). Each form of governance mechanism has its own costs and the important issue is to choose a system that gives the lowest costs in each case.

### 2.2. Business relationships

Extensive IMP-research has suggested that the transaction cost theory should be taken one step further towards an analysis that includes interaction as being a part of a process over time where there exist learning and adaptations (Håkansson, 1982). This gives reasons to see business actors as interdependent actors in a wider network of interconnected relationships (Håkansson & Snehota, 1989, 1995). This perspective challenges the idea of autonomous companies with complete knowledge interacting through market transactions. In contrast, the network approach sees both the seller and the customer as being actors needing broad and extensive interaction in order to use their resources

and perform their activities. Consequently, the actors need interaction processes which include learning and adaptations. These relationships will always function both as restrictions (difficult and costly to change) and possibilities (to find new solutions). The possibilities for a single actor to develop its relationships depend both on its own abilities as well as on how the relationship is embedded into the wider network structure. The resource development takes place both within and between companies. One important consequence is that efficiency is dependent on external relationships; it is not just an internal matter. Moreover, relationships are in themselves a resource that can be combined with a number of other resources including other business relationships. As such, substantial interaction will create other effects compared to the earlier described market transactions, and therefore needs to be handled by the companies in a quite another way (Håkansson et al., 2009).

### 2.3. The research question

As a brief summary, we may argue that we have two theoretical points of view concerning how markets are organised: the market transactions is the result of or the necessary conditions for a situation that can be characterised as a “perfect market” where autonomous actors are trying to optimize each single transaction. Business relationships on the other hand is the way companies interact when they want to transfer knowledge (learn) and adapt activities and resources over time. In any industry, we can expect to find both these types of interaction types due to how different actors interpret the situation. Some actors will favour arms-length relationships and avoid dependency on their counterparts, whereas other actors may seek to establish long-term relationships with a limited set of partners. But, what if the actors are forced to interact in a particular way? This is the feature of the Norwegian pelagic industry. Here, the actors are required to use one of these interaction types in one direction, while they are free to do what they want in another direction. However, interaction in this other direction is conditioned by the expectations of other actors. Subsequently, these actors are somewhat caught “in the crossfire” between two types of interaction systems and have to handle situations which are both transaction-based on the one hand, and network-based on the other hand.

We may illustrate this situation as in Fig. 1. On the supply side there is an auction system designed in a way that it should create market transactions, and on the demand side, the Norwegian companies have customers (importers) who in turn have customers (industrial buyers) demanding close business relationships. Our research question consequently focus on how the Norwegian exporters handle this situation: How will the interaction to their main customers develop given the features of interaction in connected relationships? (See Fig. 1.)

## 3. Methodology

This is a case study (Eisenhardt, 1989; Yin, 2003) of a particular industry where we look at some relationships in more depth. The research design is qualitative and explorative (Robson, 2002), as we gradually have gained more knowledge about the industry and the actors involved. We have also used secondary sources. We have selected this

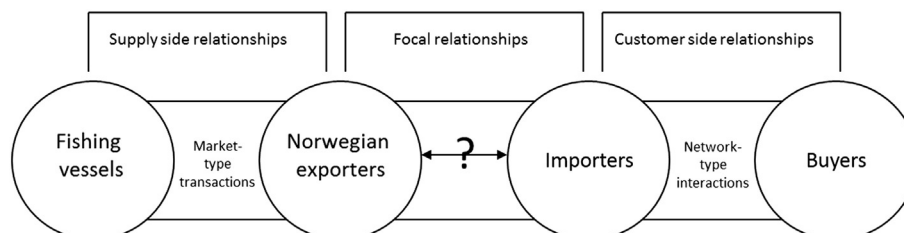


Fig. 1. Interaction types between companies in the study.

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