Industrial Marketing Management 45 (2015) 207–217

Contents lists available at ScienceDirect

Industrial Marketing Management

The roles of money and business deals in network structures

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ARTICLE INFO

Article history:
Received 30 October 2013
Received in revised form 14 September 2014
Accepted 18 September 2014
Available online 29 January 2015

Keywords:
Money
Business relationships
Money distribution
Profit
Interaction
Network
Business deals

ABSTRACT

In this article we attempt at interpreting and conceptualizing the roles of monetary processes and business deals in relation to IMP methodology and theory. This suggests that we have to separate the way that money is handled. We point to the need to analyze the specific situations within which money is involved as "deals". Each deal has its own history as it is a construction of two interacting firms that are influenced both by the joint social–material value creation processes and the specific features of monetary flows and appropriations of gains and losses that result from these interactions. The money distributive dimension should not be seen as a parallel activity layer of such business interactions – such as we may interpret accounting – but should be seen as a different, related network. We use a single case study to extract interpretations of different deals and deal-structures and use these to discuss the particularities of deals, their various roles and functions, and finally also how we may proceed to better study and theorize the roles of money in relation to IMP network theory.

1. Introduction

Industrial network theory is based on the separation of three interrelated layers: activities, resources and actors. Much research has been done on these three layers, how they function and how they are related. For example, innovation issues have been related to the use and interaction of different technical resources. However, one specific resource has not been as central as one might have expected. This is the monetary resource and the specific activities performed by different actors in order to handle this resource. Of course this aspect has in general been dealt with as a typical outcome of the interactions (e.g. Håkansson, 1989), but it has never been investigated as a specific resource with its own unique characteristics.

The objective of this paper is to make a first attempt at interpreting and conceptualizing the monetary processes in IMP methodology and theory. This includes an identification of special issues related to the fact that money is a particular kind of resource that might have several different roles in the development of the industrial network. The industrial network research tradition has, over the last four decades, contributed to our understanding of how economic values are created through complex social and material interactions while the fundamental roles and characteristics of money, financing, appropriation of monetary gains, etc. have not received that much attention.

We believe that what is needed now is a study of the roles of money as a resource of its own kind, such as its roles in the constitution of economic organizing and inter-organizational collaboration, its role as the material content of financial flows, payments and revenues, and its role as a core target in battles over the allocation and distribution of monetary gains and losses from interacted value-creating business activities. In what ways is money different from other kinds of resources and how should we conceptually see money – in this fundamental and real sense – as interacted with the other social, material and creational interactions of the business networks we have studied?

We believe that – with the deliberate focus on the material and the social realities of the economy that has been core to the empirically, often almost anthropologically oriented IMP research tradition – it has been both necessary and productive to defend and protect the analytical approaches applied from being flooded by conventional economic theories where conceptions of money – and the roles of money in various contexts – are core, pre-defined and powerful. To investigate how things actually work, it is sometimes necessary to insist that different analytical conceptions must be developed, applied and shielded from whatever are the dominant views of others, in order to explore and make sense of realities in particular dimensions and new ways.

However, the lack of inclusion of monetary issues in most industrial network studies also indicates that it has not been easy to contribute productively to money-related theorizing by simply using the same conceptual models that we use to analyze social–material interactions in economic and business settings. Something appears to be significantly different with money – as a resource, as an activity-layer and as a relational layer between actors – that has made it difficult to grasp it, to investigate it and to theorize it in similar ways.

We argue that the time is ripe to embark on the challenge of focusing more directly on money in relation to industrial network analysis and theorizing, in order to explore with more focus on how the interacted

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http://dx.doi.org/10.1016/j.indmarman.2015.01.009
0019-8501/

economy actually works. By explicitly bringing money as a particular kind of resource into industrial network theory, we hope to be able to stimulate research that looks more deeply into a number of issues – such as the problems of appropriation of collectively created economic values and/or the problems of distribution of such values in interacted networks. All these topics are of vital concern to business practitioners operating in steadily more networked landscapes that are raising a number of highly demanding challenges to managers, policy makers and regulators. Being experts on the understanding of these networked economies also necessitates a deep concern with their economic and political implications for welfare and distribution and for society as a whole.

We will embark on this analytical voyage inductively by starting in one single, illustrative case study to extract a few fundamental ways that social–material networks and money appear to be related, assuming, from the basis of numerous industrial network studies, that this relationship is not a simple, straightforward one (Axelsson & Håkansson, 1979; Håkansson, 1989, Håkansson, Ford, Gadde, Snehota & Waluszewski, 2009). The selected case regards a Norwegian software company, Opera Software Co. In this case we found that the company appropriated most of its financial revenue streams and profits from one type of actor while its main contribution to user-oriented value was in relation to another type of actor from whom it appropriated almost no financial revenues at all. This simple, and we believe quite typical observation, indicates that the relational structures of the financial revenue flows are not necessarily mirroring the major social–material value creation processes and network patterns. In other words, one critical characteristic, and therefore also one major reason for this research, is that *the money distributive dimension is not mirroring the social–material structure that delivers user-value or other economized outputs to the involved actors*. It is a different, but related structure.

2. Theoretical context

The particular roles of money in business networks that we are interested in will be seen in relation to the interactive approach to business studies within industrial marketing and purchasing theory (IMP). This approach can broadly be seen as rooted in a critique of some of the fundamental assumptions in economic theory, a critique that goes a lot further than, for instance, the critiques given by the Asymmetric Information School (Akerlof, 1970; Spence, 1973; Stigler, 1961), the Transaction Cost School (Williamsson, 1981, 1985) or the Search Theory School (McCall, 1970; Mortensen, 1986; Stigler, 1962) that represent different modifications of the rationality, independency and full information assumptions in market economic theory. Contrary to these, IMP holds a fundamentally relational view of the economy which is rooted in a different understanding of knowledge and value creation in society. It argues that we may not have knowledge of a phenomenon unless we have been or are somehow related to it (Håkansson et al., 2009). The immediate analytical consequence of this perspective on knowledge is that relationships and interactions are necessary requirements for all meaningful economic activities, and that we always depend on others and their knowledge to transform knowledge into economic value. As such, its understanding of knowledge has close affinity with the Constrained Rationality School (March, 1994; March & Simon, 1958; Simon, 1957, 1991). The understanding of knowledge as fundamentally relational is essential to the understanding of economic value and of how it is created through interactional processes that co-evolve the expansion and distribution of knowledge and economic value. The IMP economic approach departs from this basic acknowledgment of the fundamental role of interaction processes for both knowledge and economic creation to be possible. Without interaction there can be no actual economic resources, no real economic activity, no meaningful economic actors, and accordingly no economic value creation. No business can be an island (Håkansson & Snehota, 1995), and the IMP tradition has accordingly been deeply concerned with the study of the business networks that are the outcomes of extended interactions over time. These are the core “acting and being acted upon” subject-objects in its theory of the economy.

One early and repetitively important result in IMP research is that business relationships to a large extent are informally related (Håkansson, 1982; Håkansson & Johanson, 1987; Håkansson & Snehota, 1995). The companies live together and handle many issues without formal agreements. A point of departure for raising a question about the roles of money in such economic structure can be to focus on processes where economic transactions between actors are being established, up-dated or revised. When two parties have aspirations to improve their value creation activities and constructively engage with one another, they need to establish some initial agreement (often informal) regarding what the two parties will contribute to the value creation activities, and how the economic results shall be distributed between them. However, as soon as they exchange money in this interaction they need a legally binding contract supported by the state legal system – it can be an agreement for buying some products or some services. In this case there is money specified in the agreement. We suggest using the term “deal” to name this kind of money-agreement that is a result but also an influencing factor for economic interactions between economic actors. These deals are part of the total process and they can probably have quite different roles in different interaction processes. Given the uncertainties, these deals are both problematic to formulate and difficult to handle, which can be seen in terms of the use of informal regulating mechanisms in most relationships (Håkansson, 1982, 1989; Håkansson & Snehota, 1995).

The problems of formulating deals can be seen in the controversies over identifying a right “price” in many seller-buying interactions (Anderson, 2004; Gadde, Håkansson, & Harrison, 2002). Deals, accordingly, play a role in an interactional theory of the economy but they are not necessarily the foundation of relationships. They provide for an ordered interface between the engaged economic actors in certain specific dimensions, but are not the basis on which the actors exploit one another's resources, knowledge and activities in joint or otherwise interdependent value creation efforts. They are only one aspect of the way the involved actors share the collective results of these efforts. Hence, to negotiate and re-negotiate deals with others is one among other important economic activities in any business. Similarly, there are other important activities related to deals, such as: to seek to improve the structure of the deal, to move others to contribute more and to reduce their claims for the collective gains created, to combine the deal with other deals with somebody else and to use that combination to influence other actors. The deals are what establish the basis for monetary transactions. Hence, deals represent a specific type of “unit” in networked economic activities that also is related to a larger necessary infrastructure for monetary transactions, accounting and other monetary aspects of economic life. They facilitate the ordering in some dimensions but they can also be negative factors for the more general value creating process they are part of. This has been one part in the substantial work that has been done within the area of accounting in networks (Baraldi & Strömsten, 2009; Håkansson, Kraus, & Lind, 2010; Håkansson & Lind, 2004, 2007; Lind & Strömsten, 2006). Accounting is about the monetary value dimension of economic resources, activities and actors and is core to whatever has to do with measurements, calculations, evaluations and representations of economic value in monetary terms, including of course the notion of profitability based on shared, acknowledged accounting standards. Accounting, in its essence, is the making of value mirror images of any given economic activity and can therefore always be seen as a particular dimension of social–material economic activities and thereby also as a particular kind of activity layer of any given business network.

The fact that the relationship between value creation and appropriation is fundamentally rooted in deals implies that there is no obvious or necessary relationship between them – in any given