Non-linearity of Business Relationship Formation: the case of Antrox-Nel Design.

Marco Pierantonelli
Phd. Student, Management Department - Economics Faculty "G. Fuà", Polytechnic University of Marche. Piazzale Martelli 8 - 60121, Ancona, Italy. Tel. +39 3381432654, Email: m.pierantonelli@univpm.it

Andrea Perna
Assistant Professor, Management Department - Economics Faculty "G. Fuà", Polytechnic University of Marche. Piazzale Martelli 8 - 60121, Ancona, Italy. Tel. +39 0712207185, Email: a.perma@univpm.it

Gianluca Gregori
Professor, Management Department - Economics Faculty "G. Fuà", Polytechnic University of Marche. Piazzale Martelli 8 - 60121, Ancona, Italy. Tel. +39 0712207001, Email: g.gregori@univpm.it
Abstract.

In this study we adopt an industrial network perspective – as developed by IMP scholars– to investigate the process of business relationship development in a b2b setting. Business relationship creation and development constitutes a promising research area within the industrial marketing domain and it is still unexplored. Empirically, we refer to the case of two Italian companies, named Antrox and Nel Design which few years ago started collaborating to develop a new product. Antrox commercializes tailored lighting solutions, whereas Nel Design is specialized in polystyrene carving. Methodologically, we adopt a qualitative research approach based on case study. Our data have been collected between 2013 and 2014 by means of face-to-face interviews, participant observations and secondary sources. The article sheds light on the factors that facilitated, and on those that inhibited, the beginning and further development of the business relationships. We emphasize how the openness of collaboration takes place under complex dynamics of interactions. Moreover, our results clearly identify the non-linearity and non-predictability of the process due to presence of strong interdependences among the involved actors.

Keywords: business relationship beginning, b2b, interdependences, industrial networks.

1. Introduction.

Every company is involved in complex business relationships that evolve over time. Especially in industrial markets, companies have stable, long-term relationships that require substantial commitment between the parties (Ford et al. 1998). The Industrial Marketing and Purchasing Group (IMP Group, www.impgroup.org) consider B2B markets as complex network settings.

Business landscapes are shaped by the interactions that take place between firms: “business relationships are built from interaction processes and are embedded in their counterparts’ context, which takes the shape of a network” (Håkansson and Snehota, 2000: 69). This is the so-called “Industrial Network Approach”, where companies and their relationships are part of a complex network of interconnected relationships (Håkansson and Johansson, 1992). The network shapes relationships and relationships shape the network: in a network, firms are interdependent.

A business relationship is an interactive exchange relationship made of economic and social elements between two organizations. It links activities, resources and actors (Håkansson and Snehota, 1995). A business relationship may affect the way a company performs its activities. Indeed certain technical, commercial or administrative activities between the company and the counterpart may become linked. As stated by Håkansson and Snehota, 1995: 29): “by linking the activities of a company with those of its counterparts, the company’s performance is affected because of the effects either on its own activity structure or on the activity structure of the counterpart”. The formation of a new relationship may also establish resource ties between the two companies, as a way to acquire and access tangible and intangible resources or as a way to confront and combine them. Finally, business relationships involve the formation of bonds between actors, as reciprocal interest and commitment arise. Actor bonds are able to affect the behavior and the identities of the companies involved. There is a constant interplay between actor bonds, activity links and
Business relationships evolve during various stages. In literature, there are several models. Each model considers the evolving of business relationship as a time-bound process, even if the stages are differently defined (Mandjak et al., 2015). Management literature investigated deeply already established relationships, paying less attention to the study of the pre-relationship stage or to the relationship building process. This gap can be explained as the start of a business relationship is sometimes a blurred phase (Holmen and Pedersen, 2001; Aarika-Stenroos, 2008; Edvardsson et al., 2008). Entrepreneurs and business are all different; there is none well-worn route. The process behind any new business relationship is a complex, multidimensional phenomenon (Gartner, 1985). However, the pre-relationship stage is perhaps the most critical phase in a relationship cycle, as it is here that companies evaluate the attributes of potential partners and try to predict future outcomes. In this phase, the risk of never transforming in a relationship is high. As stated by Ford: (1980: 339) “relationships can fail to develop or regress depending upon the actions of either party or of competing buyers or sellers”, but this is also the moment when companies could get advantage of big opportunities, if they are able to see them, or, similarly, to underrate risks if they get an erroneous perception.

The overall research question of this article focuses on investigating the process by which business relationships take place. How do business relationships begin? What are the conditions that favor, or act as obstacles, to the formation of a new business relationship? Is the business formation process predictable by the parties?

The paper is organized as follows: firstly, the Industrial Network approach about business-to-business markets is presented; secondly, we introduce a brief theoretical summary about business relationship beginning; then we analyze in detail the companies involved in our case study and the interactions that gave birth to their business relationships. We illustrate the findings and propose a discussion on the topic.

2. Business relationships as conceived by the IMP Group

Organizations typically operate in a relational context and their survival and performance often depend upon their interconnectedness with other organizations. According to the Industrial Marketing and Purchasing Group (IMP) research, no company operates without relying on other entities. B2B companies have to leverage the skills and resources of other organizations. As stated by Ford et al.: (2011: 3) “each company in the business world is interdependent with many others”.

Companies do not just compete with others; they interact with their counterparts. No business exists in isolation; they are all connected to others in a network, across the business landscape. Furthermore, no company can completely control its counterparts; each business relationship is embedded in a network and “cannot be wholly managed by just one of the companies involved in it” (Ford et al., 2011: 5). Companies get in touch with each other by means of interactions between actors, activities and resources. Business relationships are not just about the transaction of products; they also concern economic and social elements. Business relationships are perhaps one of the most important attributes a firm has.

The interdependences developed within their most important relationships, define a company’s position in a network of other relationships. As stated by Ford et al.: (2011: 10) “A network position consists of its set of relationships and
the benefits, restrictions, obligations and reputation that it has acquired through its unique interactions with those relationships. Each company’s network position is affected by changes in those around it. The position is not solely the result of a company’s strategy”.

Business relationships evolve during various stages. According to Ford (1980), they typically move into four stages: the pre-relationship stage; the exploratory stage; the developing stage and the stable stage. It is important to underline that not all relationships move into each of these stages in a predetermined manner. Many fail to develop after an initial contact, others are short-lived, and others will last for decades. Nevertheless, the management of a business relationship is not a linear process, where the parties can move consciously towards an ideal state. As stated by Ford et al. (2011: 30): “managing relationships assets is about coping with different circumstances at different times with varying aims, expectations and ways of dealing with each other by both companies, some of which will be constructive and some of which will only damage the relationship”.


This paper focuses on how business relationships are originated and develop over time. Even if categorized differently, all the models underline the importance of the first stage, where the parties start to think about creating a possible business relationship.


The first stage of relationship development is usually characterized by uncertainty and ambiguity. Companies wonder about risks as well as opportunities in engaging with counterparts.

A company establishes business relationships for several different reasons. They may act as devices to increase efficiency by developing activity links between its internal structure and that of the counterpart. Relationships may also facilitate innovation mechanism through the combination of a company’s existing and developing resources and those of the counterpart (Ford et al., 2011). As each company is dependent by the resources of others, relationships are a company’s most important asset because without them it could not gain access to others’ resources. Business relationships do not always produce the same benefits, but they depend much on the involvement of the two parties and the degree to which they are prepared to adapt, learn and invest.

Business relationships may also be a source of problems: they may interfere with established processes and activities; they may disrupt organizational stability and have a negative impact on a company’s routines. Furthermore, relationships are costly; they may require investments, time to develop and time to adapt to the counterpart. For all these reasons, companies should evaluate carefully all technical, social and economic interdependences that may occur between the activities, resources and actors of the companies involved and within the network in which the companies operate (Perna et al., 2013).

This is not an easy task and a degree of uncertainty is always left. The question remains: how do business relationships start? What persuades two
potential partners to start a process of interactions with the goal of forming a future business relationship? Mandjak et al. (2015) developed a conceptual framework on this issue. Their Relationship Emerging Flow model contains four stages: in the starting situation the parties do not know each other, but they co-exist in proximity; in the awareness stage, a choice has to be made among potential partners and a party start to interact with the other; in the following stage trigger issues at individual and organizational level may push the relationship to the next step. Individual trigger issues comprise personal reputation, prior relations and referral, whereas organizational trigger issues include network position, attractiveness, goodwill, visibility and the role of initiator. Social and information exchange episodes help the parties in building reciprocal trust and push learning processes both at individual and organizational level. If all the conditions are favorable, the relationship will presumably start. Trust really plays a central role in the relationship building process (Morgan and Hunt, 1994). Mandjak et al. (2015) define whole bonding trust as “a situation in which the perception of a partner’s benevolence and credibility simultaneously refers to a person and an organization”. The interaction process may come into a situation of whole bonding trust through positive perceptions of benevolence and / or credibility, both at personal and organizational level. Differently, Oliver (1990) found six contingencies that explain the reasons why organization choose to enter into relationships with one another. Each determinant is sufficient, but they may act simultaneously. Mandjak et al.’s model focuses on trigger factors, whereas Oliver’s investigates deeply the motivations behind relationships beginning, making hypothesis depending on the type of relationship (i.e. joint ventures, trade associations, federations, etc…). Both models are valid and insightful; they just start from a different perspective. According to Oliver’s framework, necessity refers to the establishment of inter-organizational linkages to satisfy legal or regulatory requirements. Asymmetry refers to the potential to exercise power or control over another organization or its resources. Reciprocity concerns the fact that two parties will engage in a relationship only if both benefit. Efficiency concerns the firm’s drive to improve its cost structure or profitability. Stability is an adaptive response to conditions of environmental uncertainty. Finally, legitimacy is the quest of consensus from internal or external stakeholders, as a response to environmental pressures. Relationships may also remain in the pre-relationship stage and never develop. Edvarsson et al. (2007) classify three categories of factors that could create relationship inertia, difficulties in cooperation processes or negative outcomes. Image is related to the external perception of a firm’s competence and service offering, thus it is based not only on direct interactions with the counterpart, but also on others’ experiences; it may contain both facts and fiction. Risk is related to the perception of the counterpart reliability, thus it is a subjective factor, consequence of a particular assessment. Bonds refers to structural or perceptual ties between the firms, which result in preference and stability in partner selection.

4. Methodology.

The method used for this research is the exploratory case study, which is suitable to “investigate a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003). We will triangulate between different sources of data to increase case validity (Eisenhardt, 1989). The research took more than one year: we collected interviews and emails, participated at meetings and analyzed websites, internal reports and brochures.

Even if case studies may not be fully generalizable, this case is
relevant because it shows a situation in constant evolution. The development path of this business relationship is made of interruptions and resumes, coherently with the IMP view on the topic.


5.1 Companies’ overview.

Antrox is an Italian company specialized in providing tailored lighting solutions. It was founded in 2004; at the moment is split in two equal shares between Luca Giraldi, in charge of management and strategy, and Massimo Rinaldi, in charge of the technical features. The company employees other four people: an engineer, a salesperson, an IT expert and an accountant. The company sells tailored lighting solutions, capable to satisfy any lighting request. Their clients are lighting experts, architects, contractors and companies involved in big projects worldwide (restaurants, hotels, spa, shopping centers…). They sell two categories of lights: cold cathode and led. The former is the technology who made the fortune of the company. It was highly customizable in shapes and colors, but required substantial technical knowledge to use it. Cold cathode is a niche market, with few companies capable of giving a professional service. Led is newer, cheaper technology. It is easier to shape, cheaper to produce and it is gradually being adopted worldwide for most uses. Antrox is internationally appreciated for its capacity to assist the client right from the beginning. They do not just sell lights, but they project and design the desired lighting experience starting from the client’s requirements. They are always available for special requests and they provide dedicated post-sale assistance. Antrox commercializes primarily abroad; in the end of 2014, 80% of the revenues came from sales in foreign countries, 67% from extra UE countries. Every year they sell approximately to 18 different countries. Revenues vary deeply from year to year as a big project can really boost revenues. 2011 was the best performing year of the company, with more than 5M Euro of revenues. During the other years revenues varied from Euro 700.000 to 2,4M Euro. Antrox relies on a wide network of distributors around the globe selling mostly cold cathode lights. The company is now trying to push led sales out of Italy, without renouncing to their premium pre and post-sale service. Big companies offering standardized products dominate the market. For a small company like Antrox, competition in this market is possible only through a differentiating strategy.

Nel Design is an Italian company founded in 2010. It is specialized in polystyrene carving for construction and design purposes. Their products aren’t simple blocks of polystyrene; they are highly resistant but very light in weight. The company can produce objects in any shape at a very small cost. Two associates run the company: Sauro Raschiatore, in charge of management and strategy, and Simone Pelizzi Narcisi, in charge of the technical aspect. The company also employs three cutting machine operators. Revenues every year vary between 200.000 and 250.000 Euro. Nel Design invested highly in technological equipment; it has a wire cutter plus a computer numeric control machine, for precision cuts. The company assists the client also in the design process. Starting from the client’s input, Nel Design prepares a digital prototype and shows it to the client. If it satisfies his requirements, the prototype is sent to the machines for polystyrene cuts. After that, the shapes are coated with a special paint to increase the products’ resistance. The material resulting from this process is called Porotex. The product’s destination are primarily construction (outdoor decorations for buildings) and objects for interior design, but the
potential application are endless. In the last years, the construction market suffered an industry crisis, whereas the interior design market is growing. The company sells exclusively in the Italian market, where it is considered one of the market leaders for the technological level of its productions.

5.2 The origins of the relationship.

Antrox and Nel Design possess distinctive and non-overlapping competences. Both companies knew that, through the combination of their skills and knowledge, they could create innovation. Basically, they started to insert Led lights into a Porotex shell. Their business idea starts from some considerations: Led lights are easy to produce and could be inserted in any shape; there are highly efficient and cheap to produce. Porotex is also a material cheap to produce, easy to mold and extremely light in weight. Furthermore, Nel Design holds the equipment and the technical capabilities to realize any shape, without constraints. They gave the name Antrox Lab to the solution resulting from the collaboration from the two companies. Their concept aims to satisfy any clients’ requirements: if an architect asks for a lamp with an extremely unconventional shape, they can produce it in a short period of time and at small cost. They are able to create innovative, cheap, resistant and unconventional lamps that stimulate the imagination of architects and lighting experts. This innovation is the result of the partnership between the two companies. Anyway, it took years, for the two companies, to establish this business relationship.

5.3 Relationship development: key dimensions and factors

Looking back, the origin of this business relationship may be traced in an accidental event that took place in 2008. At that time Luca Giraldi from Antrox, was offering consulting services at Policolor, a small polystyrene carving company. Sauro Raschiatore, the current Nel Design associates, applied for an account manager position at Policolor. During that circumstance, they knew each other. Sauro got the job and between the two gradually started a relationship of mutual respect. Right from that time Luca and Sauro taught about a possible collaboration between the respective firms, but time was not ripe for the relationship. Daniele Traferro – who held the position of Antrox’s sales manager – refused the cooperation because he was unwilling to invest in a new but ambiguous project; he was completely absorbed in its role of sales manager and he preferred to spend all his efforts trying to maintain and develop his already established relationships.

Furthermore, Antrox’s revenues were increasing with several simultaneous cold cathode orders around the globe. Similarly, Policolor’s management, in spite of Sauro’s advice, preferred not to take the risk of investing in a new, not well-defined project. The seed was sown, but it was not time for the start of a business relationship. Nevertheless, the relationship started at interpersonal level, between Sauro and Luca.

In 2010, Sauro Raschiatore left Policolor, to form Nel Design with a pool of other people. During the years spent at Policolor, he acquired substantial knowledge of the sector and he was now ready to accept new challenges, this time not as employee but as owner.

In 2012, after a couple of years of adjustments, he tried to reconnect with Luca Giraldi. Nel Design was into a project with a contractor to realize furniture turnkey solutions. Sauro asked Antrox to join the project for the lighting part. This time Luca refused the collaboration, as he was skeptical about the contractor’s reliability.

Nevertheless, in September 2014, the business relationship
started. Sauro contacted again Luca, asking to put in practice the idea of inserting led lights into a Porotex shell. Now both companies were facing a different situation. Antrox was suffering the cold cathode decline and the tough competition in the led market. Conversely, Nel Design was suffering the construction sector crisis and they needed to invest more in the interior design market. Furthermore, Daniele Traferro left the company few months before, so now Luca had no one within the company dissenting his business idea.

They soon started creating prototypes in order to transfer a technology (Porotex) from one application (outdoor decorations) to another (lamps). In few months several activities were performed; the technicians of both companies started to cooperate in order to design unconventional shapes in order to raise the interest of architects. They presented their Antrox Lab creations to lighting experts to have their feedback (See an example in Picture A).

They found a new coat supplier to increase the product resistance. They participated at fairs and trade shows. Both companies started sending e-mails and brochures to their contacts, presenting their innovation. In addition, the website was re-designed. Finally, in January 2015, they had their first sale to FalaCittàdella Luce, a furniture and lighting contractor.

During the first half of 2015, the employees of the two companies reduced cultural and social distances. Working together on product design, adapting to the client’s requests and mutually overcoming technical problems, new knowledge emerged from the combination of different pools of resources and trust arose both at personal and organizational level. After almost a year of meetings and conjoint experiences, a high degree of confidence between the members of both companies was established and relational attractiveness is now set not only at interpersonal level, but also between the two organizations.

Nevertheless, Antrox Lab lamps’ sales are below expectations as architects have a skeptical attitude towards Porotex, still considering it as a fragile and low value material for lamps. Antrox and Nel Design do not want to put aside their partnership, as they still believe in the great potentialities of their product. On the contrary, they are thinking to extend their collaboration to other market segments.

6. Discussion.
In our case, the start of the business relationship has not been a linear process. The path towards the start of this collaboration has been irregular and full of interruptions. It took six years to put in practice the original business idea of inserting led lights into a Porotex shell. Applying Mandjak et al. (2015) model to our case study we find that both individual and organizational trigger issues played an important role in the relationship formation. For what concerns individual trigger issues, the fact that there was a prior relation between Luca and Sauro is crucial. This is also coherent with Dibben and Harris (2001: 13): “the importance of personal relationships goes beyond the mere maintenance of transactions; they may be the bedrock upon which economic transactions are founded”. Indeed, there won’t be any business relationship between Antrox and Nel Design, without a prior relation between Sauro and Luca. This is in contrast with the approaches that consider business relationship as starting from organizations looking for economically viable partners.

As in our case, business relationships developed from pre-existing social relationships (Håkansson and Snehota, 1995) have a propensity for enduring development and regeneration, whereas business relationships established just for need for economic exchange tend to interrupt more easily. This is to be confirmed in the long term, as the partnership is only one year old, but the fact that, despite poor market results, the companies want to renew the object of their collaboration proves the assumption. In our case, we found also organizational trigger issues; they were fundamental especially to convince the other associates of the two companies. Indeed, the high technological capabilities of Nel Design strongly attracted Antrox. At the same time, the optimal network position occupied by Antrox, in terms of worldwide connections with distributors, was stimulating factor for Nel Design to start the relationship.

During these six years of relationship incubation, some episodes facilitated and others inhibited the business relationship formation. The fact that the companies had overlapping competences fits within the asymmetry antecedent of Oliver’s model (1990); the high technological level of both companies is coherent with the reciprocity antecedent, whereas the fact that both companies were suffering from a revenue slowdown in the respective markets is coherent with the stability antecedent.

For what concerns the factors that inhibited the start of the business relationship, the risk inhibitor of Edvardsson’s et al. model (2007) applies to our case as in 2008, when Policolor associates refused to hazard investments in the project. In the same occasion, the bonds inhibitor took place, when Daniele Traferro choose to dedicate all the company’s resources for the maintenance of already established relationships. Finally, in 2012, the image inhibitor prevented Luca to start the relationship, as he had a negative perception of the partners involved in the contracting project.

This case study shows how the development of a new business is nonlinear and onerous. Indeed the companies had to adapt, through intense interactions, to the counterpart’s resources as each one was using different software packages and different ways to approach the product’s design. As the employees of the two companies began the process of interaction, individual and organizational trust arose, as inter-personal trust positively affects inter-organizational trust (Ashnai et al. 2015). The parties could not predict when the time was ripe for the start of the relationship, as each company constantly experiences several technical, social and economic interdependences within its network. Only through intensive interaction between the actors, it has been possible to overcome reciprocal obstacles to the relationship formation.

The collaboration between Antrox and Nel Design was born to produce lighting systems in
Porotex. However, given the poor market results, it will probably evolve in other directions, trying to compete in other market segments. As described by Ciabuschi et al. (2012: 228): “how a new venture will develop is difficult to foresee given the collective nature of new business formation”. Furthermore, each company is embedded in time and space in a network of other relationships; it is hard to plan the development of a business relationship without considering social, technological and economical interconnection taking place through the network.

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