Marriage without the option of divorce: measuring the quality of long term collaborative business relationships.

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Collaboration, Monopoly, Interdisciplinarity, Transaction Cost Economics (TCE)

Introduction

An often unforeseen feature of long term, collaborative business relationships characterized by the investment of highly specific assets is the partners become locked into the arrangement. Exit may become too costly and difficult due to the loss of irretrievable investments and the adverse effect on business continuity (Hirschman, 1970). But, as long as goodwill and benefits flows are maintained, all is well. However, if problems are encountered that undermine trust, commitment will suffer and the inadequacy of contract law to adequately resolve complex relationship problems will be realized. An unhappy marriage results without the option of divorce. The partners can either co-exist in a mutually disadvantageous arrangement or, realizing the lack of an escape choice, learn to adapt and to re-invigorate the partnership.

This paper describes a research project that examined the pure monopolistic business relationships within UK Defence Procurement. From the researchers point of view this environment is particularly interesting because the variability resulting from competition is removed and the links between the partner organisations, including the effect of key behavioural variables, are more visible. It aims to show how a suite of techniques was used to measure and describe an environment that has received scant attention from management researchers. These relationships are characterized by high technology, long durations (up to 40 years), strategically important products and services and the regular expenditure of large sums of public money. They have a tradition of adversarial relationships, late, over-budget projects and low economic returns (Parker & Hartley, 1997). The study aimed to understand the dynamics within these relationships and to determine if it was possible to identify those factors that maintain goodwill and benefit flows and those that might re-invigorate failure situations.

Theoretical Baseline

Many theories of buyer-seller relationships have discussed in general terms the concepts of structural bonds and opportunism, but not adequately applied them to the extreme situation of monopoly buyer and monopoly seller relationships (Humphries & Wilding, 2004). Both Porter (1980) and Cox et al (2000) have examined the use of power by firms to create dominance in markets by limiting competition but these theories were optimised for 'normal' markets. Research by Christopher (1997) on supermarket and retail sectors, by Harland et al (2000) on UK public sector organisations have examined short-term situations where varying degrees of monopolistic power exist. Crocker & Masten's, (1996) review of Transaction Cost Economics (TCE) research indicated that public utility monopoly was simply a question of governance – to franchise or to regulate. All in all there appears to be no concept that provides an integrated concept for this type of business relationship situation (Rindfleisch & Heide, 1997).

Although TCE has been criticised for being mechanistic, rigid and failing to acknowledge the roles of trust, commitment and co-operation in business relationships (Besanko et al, 2000), the 5 dimensions of Williamson's (1975) Organisations Failure Framework: Bounded Rationality, Uncertainty/Complexity, Information Impactedness, Opportunism and Small Numbers seem to provide a credible insight into the potentially adversarial cycle of behavioural interactions within a monopoly environment as shown in Figure 1.

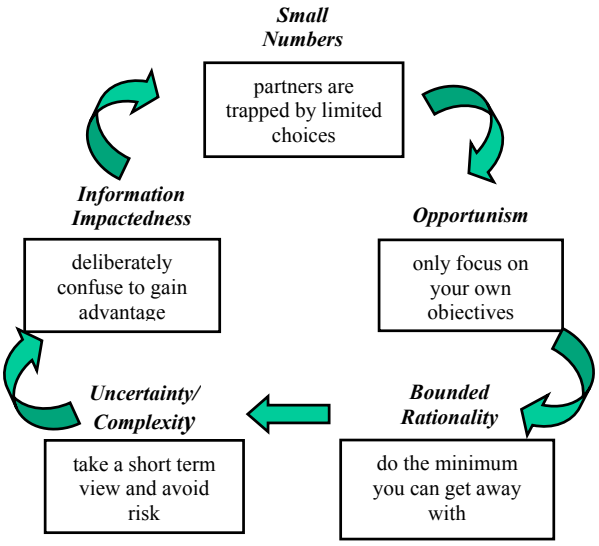

Figure 1. A Monopoly Relationship Environment

It was thus selected as the model with which to expose a gap in the knowledge of relational dynamics found within UK Defence Procurement's long term collaborative business relationships.

Supply Chain Management, Relationship Marketing, TCE

An interdisciplinarity view of Supply Chain Management, Relationship Marketing and TCE literatures was used to identify the key environmental success factors associated with the reciprocal of each dimension. Over the last 30 years business-to-business relationships have migrated from transactional roots to relational practices in the face of increasing globalisation and customer sophistication. In the MoD concentration of the Defence Industries has also influenced the development of closer relationships with fewer partners. Defence Procurement relationships also followed Supply Chain developments from logistics through process improvements towards thigh value, complex supply chains involving increasingly sophisticated linkages between customers and suppliers (Lamming, 1993). Relationship Marketing described developments from managerial marketing via networked structures through to Marriage analogies, Key Account Management and virtual organisations (Sheth & Sharma, 1997). Relational variables included trust, commitment and C^3 behaviour (co-operation, collaboration and co-ordination) (Humphries & Wilding, 2003). Finally, TCE's more technical level of analysis of the underlying relational factors in contractual relationships described a trend to explain contractual relationships in other than market forces terms (Macneil, 1980). Although the human element was largely negative and trust was considered to be 'calculative', useful terms such as asset specificity and idiosyncratic exchanges were offered. In order to bound the 5 dimensions of the theoretical model, reciprocal definitions were defined as shown in Figure 2.

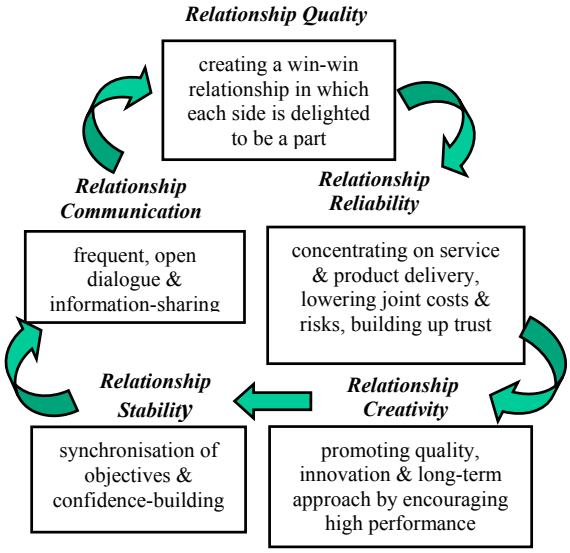

Figure 2. Relationship Success Cycle

Research Project

The objectives of the exploratory research project were: to obtain a large sample, to measure both the Ministry of Defence (MoD) and Industry perceptions, to capture qualitative data to add richness to the findings and, to provide feedback and a sense of involvement to the participants. The approach measured the quality of a self-selected census of 54 relationships representing £575.8m annual spend between major companies and the UK MoD. A questionnaire (see Appendix 1) survey was administered to the team members on each side of each relationship and following production of the results, semi-structure interviews were carried out with the 2 team leaders. Over 700 questionnaires were returned and a similar number of qualitative key points were recorded. Although it was not intended that the research should include any Action component, the consequence of revealing the results of the surveys to the team leaders and seeking their views on the success and failure factors in the relationship often resulted in the initiation of relationship building and improving activities.

Data Analysis & Findings

Data analysis took 2 paths; the first considered the generic data on relationship qualities and the second sought to discover a typology of the relationships themselves.

Relationship Qualities
Contrary to expectations, a normal spectrum of relationship qualities was revealed with 77% of the relationships rated as successful. The overall satisfaction percentage per dimension is shown in Figure 3.

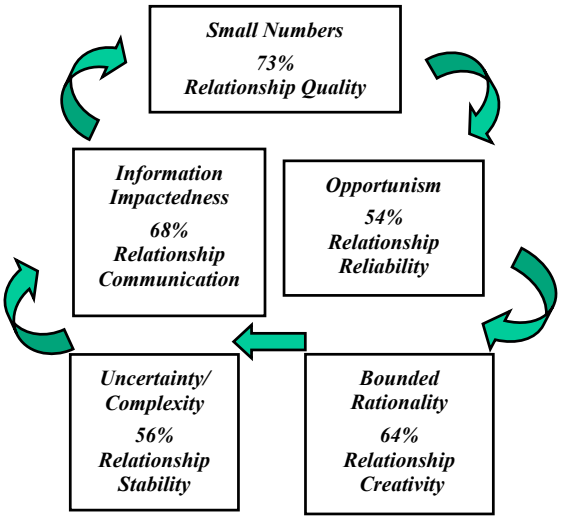

Figure 3. Overall Satisfaction Rates Per Dimension.

Simple comparative graphics were used to describe the perceptions of the questionnaire respondents, first at individual relationship level and then, at the aggregate level – see Figure 4.

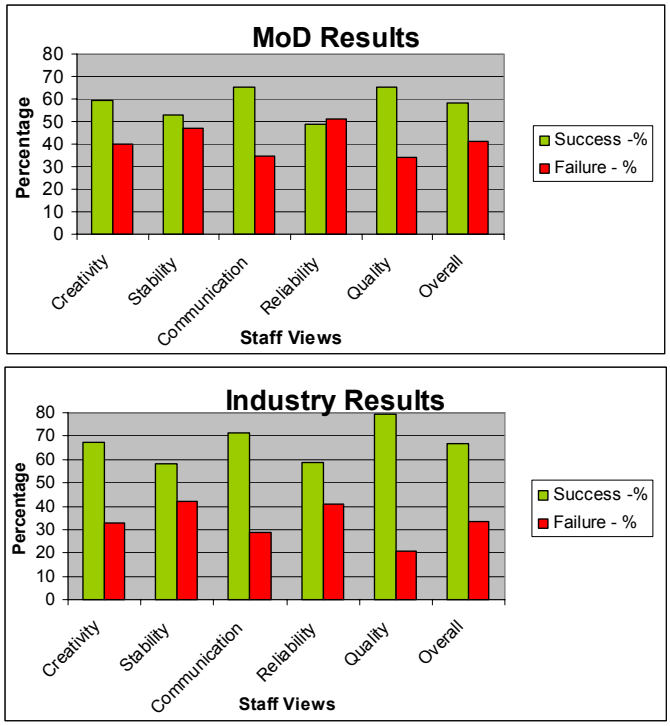

Figure 4. Comparative Graphics Showing Dimension Satisfaction by Respondent Grouping (MS Excel).

By classifying the qualitative data by dimension it was possible to see within the relationships that many features described in the literatures such as relationship-building co-operative behaviour, open communications and a desire to reduce the burden of governance through more equitable, long-term contracts were present. Specific 'lock-in' factors such as short term approaches to work force stability and product/process development, the use of inadequate performance measures, opportunistically providing poor goods and services and, using proprietary information as a weapon, were also exposed.

Relationships Typology

Cluster Analysis using Ward's Method (Hair et al, 1984) was used to determine whether it was possible to partition the relationships into statistically similar groupings. This technique used Squared Euclidean Distance (SPSS V11.0) to create a table of relative similarities or differences between all objects (for this research relationship dimension scores) and then used this information to combine the objects into groups. The results were not totally surprising in that 3 primary clusters – Poor (10 relationships), Moderate (22 relationships) and Good (10 relationships) were identified. See bubble diagram in Figure 5.

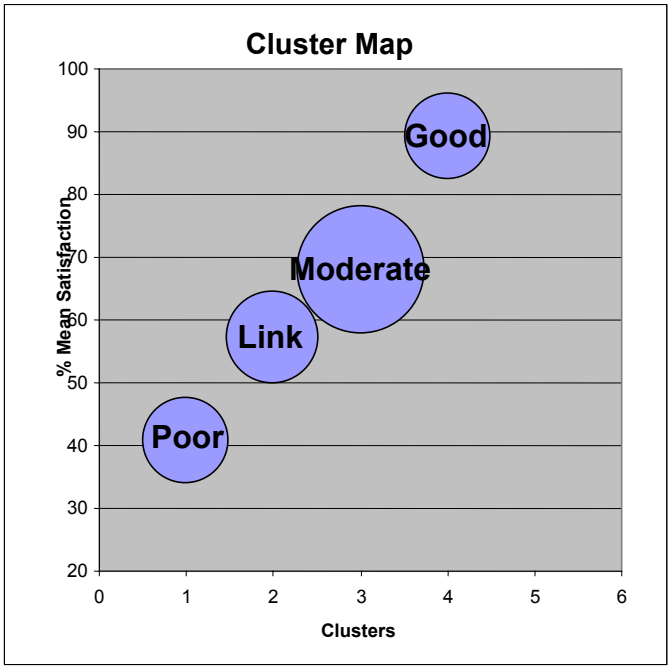

Figure 5. Clusters by Mean Satisfaction % and Size
('Bubble' size equates to the number of relationships contained in the cluster).

However, an additional Link cluster containing 12 relationships between the Moderate and Poor groupings was also identified. When the qualitative data was sorted (MS Access) on the relationship clusters it was possible to characterise each quite clearly. Poor relationships reported inadequate investment in supply chain practices and processes and adversarial behaviours. Feelings of 'imprisonment' and 'impotence' exacerbated by long term lack of co-operation had resulted in entrenched opposition to any form of innovation. The Link Cluster suggested roots in the adversarial attitudes found in the Poor Cluster but although the will to co-operate was growing, the ability to translate this into reliable, customer services had yet to develop. In the Moderate Cluster expressions of positive pragmatism and trust appeared to predominate with a sense of 'being in the same boat' and striving to overcome normal operating problems. In the Good Cluster the parties openly acknowledge their small numbers situation but opportunistic behaviours were negated by joint concentration on optimal service delivery and achieving mutual benefits for the longer term.

Conclusion

The literature suggests that the little known about the business relationship dynamics within monopolies presupposes negative outcomes. However, this substantial research project has shown that this is not the case with a mean success rate of 64% for the 5 dimensions, and a variety of positive and negative behavioral characteristics revealed. The research methodology clearly underlines the benefits of taking both strategic and triangulated approaches to measuring the quality of business-to-business relationships and has enabled those issues resulting specifically from their long-term nature to be identified. Managers must accept that they have limited availability of options for action which will cause frustration and generate negative behaviours. But, by seeking joint, innovative ways of dealing with them, by

synchronising objectives, pursuing joint approaches to service and product delivery, lowering costs and risks and promoting measures to support the growth of trust it is possible to mitigate or overcome the problems inherent in long-term, collaborative, business relationships. The results also offer academics a potentially interesting agenda for future research to gain extended perspectives of this interesting area of study and if they wish, to become industrial marriage guidance counselors!

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Appendix 1 – Questionnaire Dimensions and Questions

1. Bounded Rationality - *Creativity*: promoting quality, innovation and long-term approach by encouraging high performance.

a. The relationship encourages the achievement of high performance by both parties ie. reliable equipment, on-time delivery, good forecasts.
b. The relationship encourages us to be innovative in the way we do business.
c. Performance measurement is used to raise standards.
d. Disputes & problems are resolved: 'quickly'.
e. Disputes & problems are resolved: 'fairly'.
f. The other party is reliable and consistent in dealing with us.
g. The other party is dedicated to making our business a success.
h. When an unexpected problem arises, both parties would rather work out a solution than hold each other to the original contract terms.

2. Uncertainty/Complexity - *Stability*: synchronisation of objectives and confidence building.

a. The other party displays a sound, strategic understanding of our business.

b. The objectives of both parties are clearly stated.
c. The objectives of both parties are fully compatible.
d. Both parties co-operate wholeheartedly.
e. The relationship provides a dynamic business environment within which both parties can seek increasing rewards.
f. I have complete confidence in the intentions of the other party.

3. Information Impactedness - *Communication*: shared data environment, openness, common performance measures, frequent interaction.
a. Where the other party has proprietary information that could improve the performance of the joint business, it is freely available.
b. We would welcome a shared data environment where planning, technical and pricing information are made freely available.
c. We understand the information requirements of all participants in the support chain from sub-contractors to end-user.
d. Exchange of information in this relationship takes place frequently and informally – not just according to specified agreement.
e. Objective performance measurement is an important part of this relationship.
f. We are aware of the performance requirements for all participants in the support chain from sub-contractors to end-user.
g. We provide the other party with regular information including long-range forecasts to enable him to do his business better.

4 Opportunism - *Reliability*: concentrating on service and product delivery, lowering joint costs and risks, building up trust.
a. The quality of the contract outputs ie. spares/repairs/services, is entirely satisfactory.
b. The quality of service delivery ie. delivery times, billing, payment, is entirely satisfactory.
c. The relationship is characterised by a continually improving quality ethos.
d. Problems are solved in a joint, open, constructive manner.
e. Such is the goodwill in the relationship, the other party would willingly put himself out to adapt to our changing requirements.
f. We trust the other party to act in our best interests.
g. The responsibility for making sure the relationship works is shared jointly.
h. The other party provides us with useful cost reduction and quality improvement ideas.
i. The other party is always totally open and honest with us.
j. The other party always does what he says he will do.

5. Small Numbers - *Quality*: creating a win-win relationship in which each side is delighted to be a part.
a. The gains from this relationship are equally shared between both parties.
b. We do not feel imprisoned within the current relationship.
c. We are willing to invest more ie. money, time, information, effort, in the current relationship.
d. We are happy that our future is bound to the success of our relationship partner.
e. We feel totally committed to this relationship.
f. The other party is genuinely concerned that our business succeeds.
g. Both sides are working to improve this relationship.

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