

**The University of Strathclyde
Department of Marketing**

An exploration of the processes and implications of strategic alliances and
supplier partnerships: A theoretical synthesis

Prathap Oburai

IN ACCORDANCE WITH THE REQUIREMENTS FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

2001
GLASGOW

The Copyright of this thesis belongs to the author under the terms of United Kingdom Copyright Acts as qualified by the University of Strathclyde Regulation 3.49. Due acknowledgement must always be made of the use of any material contained in, or derived from, this thesis.

ACKNOWLEDGEMENTS

Foremost, I like to acknowledge the tremendous sacrifice and support of my wife and daughters without whom my progress in the spheres of work and life would not have been possible. My mother and father have willingly given up all they could in many encouraging and understanding ways. Through times of sickness and difficulties, my family remained a source of comfort and love.

Throughout the period of my stay in Scotland, I received inspiration, guidance, support and advice from Professor Michael J. Baker. Professor Baker is an intellectual institution and an irreplaceable source of strength and wisdom. Above all, he is the kindest and most pleasant person I ever met. I am deeply thankful to him.

I would like to extend my special thanks to Professors Susan Hart, Mike Saren and Stephen Young for their kindness and guidance. Professor Mike Saren and Professor Peter Turnbull, the internal and external examiners respectively, have provided feedback through the course of the viva and subsequent to the examination. I am sure that as a result of the incorporation of the same the thesis has become even more profound and readily accessible to readers. My thanks are also due to several other members of staff of the Department. In particular, Mrs. Christine Donald was most helpful.

PhD students in the department have extended to me help and friendship. Roberta was always there to give me confidence and hope. I wish her best of luck in her own efforts.

Finally, I would like to thank the Indian Government and the Association of Commonwealth Universities for sponsoring my studies. The entirety of the doctoral research process was a journey and an exploration of knowledge generation sources and workings thereof. The process has both altered and enriched my philosophical outlook and personal beliefs. For this I am in debt to the European marketing community.

In memory of my brother and sister
Shivaji and Indira

ABSTRACT

The marketing discipline is evolving and so is its agenda with the advent of relationship marketing and other related sub-fields. Till recently, business literature focused largely on competition, and cooperation, its counter part, has received insufficient attention. With a view to redress the situation, this thesis investigates the phenomenon of customer supplier alliances and partnerships and aims to make fundamental theoretical contributions in the sub-field of business-to-business relations and cooperation.

The eclectic and wide-ranging enquiry is a main research tool employed and hence the character of this dissertation is interdisciplinary. An extensive literature review of a number of related disciplines is undertaken in order to understand and capture the essence of relationship strategies and their implications. These ideas and alternative research processes were exposed to critical comment by submitting papers to major conferences to increase feedback and validity of ideas.

In addition, a qualitative exploratory survey was carried out in order to understand the strategic issues concerning alliances and partnerships. The research findings were combined with theoretical ideas to derive a Routines-Relationships-Resources (3Rs) model. This **3Rs model** is made up of three cores that underlie all business strategies including those designed to generate competitive advantage through the route of cooperative alliances and partnerships. The **3Rs model** is elaborated, and a set of interrelated propositions and directions for future research are outlined. These are offered to fuel large scale investigations for (dis)confirmation of the model.

KEY WORDS:

3Rs model
Customer-supplier alliances
Industrial marketing and purchasing
Principle of Cumulativity
Relationship marketing
Scotland
Strategic alliances and partnerships
Theory of strategic alliances

TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION – ORIGINS, IDEAS, AND AIMS OF THE DISSERTATION	1
1.0 AN OVERVIEW.....	1
2.0 RESEARCH OBJECTIVES AND PROCESS.....	4
3.0 ORGANISATION OF THE DISSERTATION.....	6
4.0 SUMMARY.....	8
5.0 REFERENCES	8
CHAPTER TWO: STRATEGIC ALLIANCES AND SUPPLIER PARTNERSHIPS – AN INITIAL OVERVIEW OF THE PHENOMENON, PRACTICE AND PERSPECTIVES.....	10
1.0 INTRODUCTION	10
2.0 ALLIANCES: CAUSES, MOTIVES, AND BENEFITS.....	12
2.1 DRIVERS OF ALLIANCE FORMATION.....	12
2.2 COLLABORATION IS “THE” SOLUTION.....	15
2.3 ALLIANCE OBJECTIVES ARE STRATEGIC.....	15
2.4 TRANSACTION ORIENTATION IS GIVING WAY TO PARTNERSHIP-ORIENTATION	18
2.5 MOTIVES OF ALLIANCES	19
2.6 CUSTOMER-SUPPLIER ALLIANCES.....	21
2.7 FOCUSING ON CORE COMPETENCE	23
2.8 ALLIANCES AND PARTNERSHIPS YIELD EFFICIENCIES AND COST REDUCTIONS	24
2.9 POTENTIAL DRAWBACKS OF ALLIANCES.....	26
3.0 APPROACHES TO SUCCESSFUL ALLIANCES AND PARTNERSHIPS.....	27
3.1 RELATIONAL ORIENTATION IS NOT A PANACEA	27
3.2 INFORMATION EXCHANGE	29
3.3 STRENGTH OF RELATIONSHIP.....	31
3.4 ALLIANCE GUIDELINES AND SUCCESS FACTORS.....	33
4.0 CONCLUSIONS.....	35
5.0 REFERENCES	36

CHAPTER THREE: THE LOGIC OF COOPERATION – ROOTS, EVOLUTION AND ADVANTAGE	46
1.0 INTRODUCTION	46
2.0 HISTORICAL ROOTS AND PATTERNS OF EVOLUTION	47
3.0 THE VARIETY OF SELECTION ENVIRONMENTS AND DETERMINANTS OF OUTCOMES	51
4.0 THE NEXUS OF BIOLOGICAL WEAPONRY AND SOCIAL NETS.....	53
5.0 THE METAMORPHOSIS OF ORGANISATION AND STRATEGY.....	55
6.0 CONCLUSIONS.....	62
7.0 REFERENCES	64
CHAPTER FOUR:.....	67
REVIEW OF THEORIES – CONSIDERATIONS OF COMPETITION AND COOPERATION IN THE CHANGING BUSINESS STRATEGY PARADIGMS: CUMULATIVITY, COMPLEMENTARITY AND CONNECTIVITY	67
1.0 INTRODUCTION	68
2.0 CHANGING BUSINESS STRATEGY PARADIGMS	68
2.1 CONVERGENCE OF STRATEGIES IN THE FACE OF MULTIFACETED CHANGES	69
2.2 DIFFERENTIATION IS THE BASIS OF ALL STRATEGIES	71
3.0 TRANSACTION COST ANALYSIS AND EXPLANATIONS.....	74
3.1 CRITICISMS OF TCE.....	78
4.0 GAME THEORY	79
4.1 AGENCY THEORY.....	81
5.0 MARKET POWER AND INDUSTRY STRUCTURE EXPLANATIONS.....	81
6.0 EVOLUTIONARY THEORIES	83
7.0 RESOURCE BASED EXPLANATIONS	84
7.1 COMPETENCE PERSPECTIVES	85
7.2 SUMMARY	85
8.0 INTERACTION AND NETWORK THEORIES	86
9.0 COMPLEXITY THEORIES.....	87
10.0 RELATIONAL VIEWS	88
11.0 A THEORETICAL COMPARISON	90
12.0 A QUIVER FULL OF ARROWS: THE IDEA OF MULTIPLE EXPLANATIONS SUITED TO CONTEXTS	92
13.0 REFERENCES.....	93

CHAPTER FIVE: RESEARCH METHODOLOGY – THEORY BUILDING CASE RESEARCH IN BUSINESS-TO-BUSINESS AND INDUSTRIAL MARKETS.....	100
1.0 INTRODUCTION	100
2.0 BIRTH OF MODERN SCIENCES AND EMPIRICISM	101
2.1 THE PRINCIPLE OF CUMULATIVITY IN SOCIAL SCIENCES.....	104
3.0 THE NEED FOR THEORY DEVELOPMENT	106
4.0 QUANTITATIVE AND QUALITATIVE DIVIDE.....	109
4.1 ALTERNATIVE AVENUES FOR ENQUIRY IN INDUSTRIAL MARKETS	111
5.0 ORGANISATIONAL SURVEYS: SOME ISSUES.....	112
6.0 CASE RESEARCH: HISTORY AND EVOLUTION.....	117
6.1 PHILOSOPHICAL AND METHODOLOGICAL BASES.....	119
7.0 OBJECTIVES OF THE RESEARCH.....	123
8.0 THEORY BUILDING CASE RESEARCH PLAN AND CONCLUSIONS.....	124
9.0 REFERENCES	124
CHAPTER SIX: RESEARCH FINDINGS – A SUMMARY OF KEY FACTORS IN A SET OF SIX CASE STUDIES OF MAJOR FIRMS.....	131
1.0 INTRODUCTION AND RESEARCH METHODOLOGY.....	132
1.1 ACCESS AND RESEARCH PROCESS	132
1.2 RESEARCH OBJECTIVES	133
1.3 BROAD PROPOSITIONS TO BE EXPLORED	134
1.4 SEMI-STRUCTURED INTERVIEW SCHEDULE	134
1.5 RESEARCH PROCESS	136
2.0 UNIVERSITY PURCHASING: AN INSIGHT INTO THE HIGHER EDUCATION SECTOR	136
2.1 THE CONTEXT.....	137
2.2 STRATEGY: VALUE FOR MONEY	137
2.3 DEVOLVE AND INFLUENCE WITH VALUE-ADDED DIRECT INVOLVEMENT	138
2.4 EXTERNAL BENCHMARKING.....	139
2.5 INTERNAL SATISFACTION SURVEYS	139
2.6 COOPERATION AT THREE LEVELS: NATIONAL, REGIONAL CONSORTIUM AND CLUSTER LEVELS.....	139
2.7 E-BUSINESS STRATEGY	140
2.8 SUMMARY	140
3.0 SCOTTISH OFFICE: GOVERNMENT PURCHASING	141
3.1 THE CONTEXT.....	141
3.2 WINNING THE HEARTS AND MINDS OF INTERNAL CUSTOMERS	141
3.3 PUBLIC SCRUTINY AND TIME PRESSURES	142
3.4 VARIETY AND COMPLEXITY OF PROCUREMENT	142
3.5 ONE KEY RELATIONSHIP	143
3.6 HIGH TURNOVER.....	144
3.7 E-COMMERCE STRATEGY.....	144
3.8 SUMMARY	144

4.0 COMPUTERS AND ELECTRONICS FIRM: I-COMP	145
4.1 OUTSOURCING: A MAJOR OPERATION	145
4.2 PROCUREMENT	145
4.2.1 <i>Purchasing function</i>	146
4.2.2 <i>Hub-based Logistics</i>	146
4.3 E-COMMERCE	146
5.0 NUCLEAR ELECTRICITY MAJOR: NEC	147
5.1 SCOTTISH OPERATIONS	147
5.2 COMMERCIAL AND PROCUREMENT OPERATION	147
5.3 FUTURE PROSPECTS FOR NUCLEAR INSTALLATIONS.....	149
6.0 UTILITIES: IT OPERATION AND OUTSOURCING.....	150
6.1 ISD AND OUTSOURCING.....	150
6.1.1 <i>Service provision</i>	151
6.2 CONTRACTS.....	151
6.3 FUTURE STRATEGY.....	151
7.0 OIL AND GAS INDUSTRY: PROCESS ENGINEERING CONSULTANCY SERVICES.....	152
7.1 PROCESS ENGINEERING SERVICES.....	152
7.2 PROCUREMENT	153
7.3 INDUSTRY INITIATIVES: E-COMMERCE	153
7.4 TRUST, RISK AND PARTNERSHIPS.....	154
7.5 FUTURE	154
8.0 CONCLUSIONS.....	154
CHAPTER SEVEN: ANALYSIS OF RESEARCH FINDINGS AND DISCUSSION.....	156
1.0 INTRODUCTION	156
2.0 UNIVERSITY PURCHASING: AN INSIGHT INTO THE HIGHER EDUCATION SECTOR'S LINKAGES.....	157
3.0 SCOTTISH OFFICE: GOVERNMENT PURCHASING IS ALL ABOUT "FLUX"	159
4.0 COMPUTERS AND ELECTRONICS FIRM - I-COMP: GLOBAL POWER AND NETWORK DOMINANCE.....	161
5.0 NUCLEAR ELECTRICITY MAJOR – NEC: A CORE OF STABILITY BECOMING RESPONSIVE IN THE FACE OF A CHANGING ENVIRONMENT	163
6.0 UTILITIES - IT OPERATION AND OUTSOURCING: CREATING VALUE OUTSIDE FIRM BOUNDARIES.....	164
7.0 OIL AND GAS INDUSTRY - PROCESS ENGINEERING CONSULTANCY SERVICES: CONNECTING GROWTH AND LINKAGES.....	166
8.0 CONCLUSIONS.....	168

CHAPTER EIGHT: CONCLUSIONS, IMPLICATIONS, AND FUTURE RESEARCH	
AGENDA AND AVENUES.....	172
1.0 INTRODUCTION	172
2.0 3RS FRAMEWORK.....	173
2.1 ROUTINES	175
2.2 RELATIONSHIPS	175
2.3 RESOURCES	176
2.4 IMPACT OF STRATEGIC DECISIONS ON 3RS	177
3.0 RETURNS: MEASURES OF RELATIONSHIP/FIRM PERFORMANCE AND	
EFFECTIVENESS.....	180
3.1 MULTIPLICITY OF AND ORDER OF OUTCOMES	181
4.0 AGENDA AND AVENUES: RESEARCH PROPOSITIONS AND APPLICATION OF	
THE 3RS MODEL	182
4.1 PROPOSITION 1: 3RS AS EXPLANANDA OF FIRM PERFORMANCE DIFFERENTIALS	182
4.2 PROPOSITION 2: ROUTINES - CHANGE AND IMPACT	183
4.3 RELATIONSHIPS STAGES AND ATTRIBUTES.....	185
4.4 PROPOSITION 3: RELATIONSHIPS ARE PATHWAYS TO RETURNS	185
5.0 PATH DIAGRAM OF RESEARCH PROPOSITIONS.....	187
6.0 IMPLICATIONS, LIMITATIONS AND CONCLUSIONS	188
6.1 THEORY OF THE FIRM AND BUSINESS RELATIONS.....	188
6.2 LIMITATIONS OF THE RESEARCH PROCESS AND FINDINGS	189
6.3 MANAGERIAL RELEVANCE: IMMEDIATE AND PERMANENT	190
7.0 REFERENCES.....	190

LIST OF FIGURES

FIGURE 2.1: DRIVERS OF ALLIANCE FORMATION	14
FIGURE 2.2: THE LADDER OF INTERFIRM RELATIONS	17
FIGURE 3.1: UNIVERSE OF NORMS, SOURCES OF ORDER AND DISCIPLINES	62
FIGURE 4.1: THEORETICAL PERSPECTIVES	73
FIGURE 4.2: ORGANISATIONAL FAILURES FRAMEWORK	76
FIGURE 4.3: PRISONERS DILEMMA MODEL AND PAYOFFS	80
FIGURE 5.1: MAKING INFERENCES: TWO LEVELS	121
FIGURE 7.1: INSTITUTIONAL LINKS AT METRO CLUSTER, REGIONAL CONSORTIA AND NATIONAL GROUP LEVELS	158
FIGURE 7.2: THREE 'R'S OF BUSINESS STRATEGY	171
FIGURE 8.1: THREE 'R'S OF BUSINESS STRATEGY	174
FIG 8.2: PATH DIAGRAM OF RESEARCH PROPOSITIONS	188

LIST OF TABLES

TABLE 4.1: COMPARING THE INDUSTRY STRUCTURE, RESOURCE-BASED, AND RELATIONAL VIEWS OF COMPETITIVE ADVANTAGE	90
TABLE 4.2: SUMMARY AND MAIN IMPLICATIONS OF EIGHT THEORETICAL PERSPECTIVES	91
TABLE 5.1: CHARACTERISTICS OF QUALITATIVE AND QUANTITATIVE RESEARCH	110
TABLE 5.2: SIX SOURCE OF EVIDENCE: STRENGTHS AND WEAKNESSES	116
TABLE 5.3: THE BATTLE OF THE PHILOSOPHER KINGS	119
TABLE 7.1: A SUMMARY OF CASE EXAMPLES, UNDERLYING FACTORS AND STRATEGY CHARACTERISTICS	169
TABLE 8.1: ILLUSTRATIVE EXAMPLES OF 3RS	178
TABLE 8.2: ILLUSTRATIVE PROCEDURE FOR COMBINING 3RS	179
TABLE 8.3: THE SET OF PROPOSITIONS FOR FUTURE RESEARCH	186

LIST OF APPENDICES

Appendix I: “Perceived benefits and outcomes of customer-supplier alliances and partnerships: An empirical investigation of Scottish manufacturing industry” (co-authored with Michael J. Baker and Stephen Tagg), *Proceedings of the 27th Annual Conference of the European Marketing Academy*, May 1998, Stockholm School of Economics, Sweden.

Appendix II: “Empirical Research into Collaborative Alliances in Industrial Markets: A Case for A Balanced Approach to Theory Building” (co-authored with Michael J. Baker), *Proceedings of the 28th Annual Conference of the European Marketing Academy*, May 1999, Humboldt University Berlin, Germany.

Appendix III: “100 years of Quest for A General Theory of Marketing: The Principle of Cumulativity” (co-authored with Michael J. Baker), *Proceedings of the Academy of Marketing 28th Annual Conference*, July 1999, University of Stirling, Scotland, United Kingdom.

Appendix IV: “Theory Building Case Research in Industrial Markets: The Evolution and Convergence of Methodological and Philosophical Perspectives” (co-authored with Michael J. Baker), *Proceedings of the 15th Annual IMP Conference*, September 1999, University College Dublin, Ireland.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

Chapter One

Introduction – Origins, Ideas, and Aims of the Dissertation

THE
DEPARTMENT OF
MARKETING

Chapter One: Introduction – Origins, Ideas, and Aims of the Dissertation

CHAPTER ONE: INTRODUCTION – ORIGINS, IDEAS, AND AIMS OF THE DISSERTATION	1
1.0 AN OVERVIEW.....	1
2.0 RESEARCH OBJECTIVES AND PROCESS.....	4
3.0 ORGANISATION OF THE DISSERTATION.....	6
4.0 SUMMARY.....	8
5.0 REFERENCES	8

1.0 An overview

Do we need a theory of alliances, if so, does a theory about alliances widen the boundaries of the marketing field? Before we answer the question, we need to consider if the marketing field is one that has any boundaries at all, and if there exists a perceived or real need to push beyond those limits. Early literature in the field of marketing suggests almost no limits to the universal applicability of marketing concepts and their utility (Hunt 1976; Kotler 1972; Kotler & Levy 1969). Subsequent to some seminal writings, such as *Marketing Myopia* and *Marketing Imagination* (Levitt 1960; 1983), marketing orientation and its concepts have spread considerably across firms, markets, and nations. However, all messages need to be reinforced with time, if not refined, modified and totally revamped. Perhaps because of the very success it enjoyed, and incorporation of marketing principles into corporate strategies in many firms, the future role of marketing in business and its value creation potential are being increasingly questioned (Brady & Davis 1993).

The traditional stimulus-response or the marketing mix approach to mass marketing first conceived by McCarthy, has had influence of immense proportions on both the way the marketing function is perceived by practitioners, and also on the principles around which pedagogical methods (Brownlie & Saren 1992) are built. However, from the workings of and the realities in industrial and business-to-business markets,

academics and practitioners have long since realised and theorised that enduring relationships do contribute to sustainable growth and profitability of corporations. In particular, marketing literature (Turnbull, Ford, & Cunningham 1997) in the last two decades has increasingly reflected the need for building bonds with suppliers, consumers and other related constituents. Some of the sub-fields of the marketing function that have recently seen their popularity and acceptance grow are Relationship Marketing, the Network or Interaction Approach and Strategic Alliances and Partnerships. The emergence of these fields indicates a clear and marked stage of paradigmatic evolution, if not the advent of a totally new paradigm. Most writings now emphasise and endorse relationship-building approaches, undoubtedly as the consequence and result of the paradigm shift.

Although in recent times we have a reminder from McKenna (1991) through his often quoted and much admired article, “Marketing is everything” in the Harvard Business Review, not all businesses and managers consider that to be entirely true. Obviously marketing is not and cannot be everything if we view marketing as a “function”, but if we accept that marketing is a “philosophy” then marketing is everything (Baker 1995a). In the last decade or so, there have been a number of attempts by various marketing scholars to re-examine fundamentally the role of marketing and its future (Baker 1995b; Knight & Doyle 1998; Webster 1992). The processes of introspection and quest for shaping the future of marketing still continue (Baker 2001).

The legitimacy of marketing and its role, all marketers believe, is fundamental to businesses. However, all fields have to see progress and the marketing field is perhaps one that is seeing encouraging changes to its research agenda, processes that lead to the generation of theories, and even to the existing theories and paradigms. This may be a process that is an unsettling prospect to marketing researchers and academics, but one that companies and corporations have long since experienced in terms of changing technologies, consumer demands, and competitive turbulence among other varied and important discontinuities. For most businesses survival is almost an everyday exercise. As an *applied field*, marketing owes much to businesses in general and its duties and obligations require it to supply solutions and strategies that help businesses to successfully undertake value-creating activities. This implies that the field of marketing, and its processes have to evolve at least to some degree to stay in

tune with the changing times. In this context it is relevant to note that Webster (1992) urges marketers to broaden the *agenda* of the marketing field. In particular he highlights the need for fully exploring inter-firm cooperation and its manifestations including strategic alliances and buyer-seller partnerships. To quote,

Increasingly, firms are paying specific attention to the question of firm scope and shape, as seen in the decision to enter into strategic alliances. In other words, the question of whether to depend on markets, long-term relationships, strategic alliances, or integrated multifunctional hierarchy is seen to require specific management analysis and judgement. The first order of business in the strategic puzzle, then, is to determine the firm's position in the value chain: What will it buy? What will it make? What will it sell? These decisions require careful assessment of the firm's distinctive competencies and a decision to focus on the things the firm does best. As mentioned previously, this is the question raised theoretically in 1937 by Ronald Coase, whose work received the Nobel Prize in Economics in 1991: When should the firm depend on outside suppliers and when should it perform activities and functions internally? Today's analysis permits consideration of a much more flexible set of organization forms--relationships and alliances of various kinds(Webster 1992pp.10-11 references removed)

The twin concepts of exchange and relationships are central to the field of marketing (Houston et al. 1992). We are aware that not all exchanges and transactions require relationships and attention to the same degree. It is equally true that some relations are more effective than others are. The adversarial approach pits one supplier against the other, and focuses largely on price tag, and other easily quantifiable parameters and metrics that lend themselves to easy measurement. This approach, often justified on many grounds and even demonstrated in most plausible terms to be an economically viable one, is notably a version of what could only be termed as absolute short-termism and a fixation with techniques. On the other hand, an indiscriminate approach to building relationships with all possible constituents is a route fraught with overwhelming risks and almost certain failure. The appropriate approach may be to establish and nurture alliances with those suppliers through whom a continuous stream of benefits is generated over a reasonable length of time to the mutual benefit of partners. Baker and Srivastav (1997) argue that alliances and partnerships must lead to strategic advantages, not operational improvements alone. Further, the authors explicitly outline the need for further research into the processes that lead to the creation of strategic relationships between firms.

In undertaking this dissertation on "Strategic Alliances and Partnerships", I derive inspiration from two main sources. One, my MSc in International Marketing

dissertation on the same topic also supervised by Prof. Baker during the period 1996-97, and second, from Webster's (1992) call for more research into the phenomenon of strategic alliances and partnerships. Webster also suggests that the fields of organisational behaviour, economics and strategic management could well be some of the sources that could be tapped into for research purposes. It is my belief that the holistic perspectives that I gained from my MBA degree (1988-90) and my varied managerial work exposure during the period 1990-96 that would help me in the research that is essentially an eclectic endeavour. Eclecticism's dangers are not to be understated but the benefits often outweigh its dangers. Wharton Business School is one that is currently focusing on inter-disciplinary research (Bowman & Kogut 1995). It is seen that inter-disciplinary approaches to various business studies and other fields are now strongly recommended and attempts have been under way for some time. In the context of this dissertation, Webster argues that

The focus of the political economy and organizational behavior models seems to be more appropriate for a strategic view of the marketing function as distinct from the sales or demand stimulation function, for which the microeconomic paradigm is still more fitting. Whereas the microeconomic model centers on consumers and transactions, the political economy and organizational behavior models are more useful in analyzing relationships with industrial customers, suppliers, joint venture partners, resellers, and other stakeholders. It should help us to understand better the changing role of marketing in the corporation. The conceptual foundations of marketing must be enriched, blending economics, political science, and organizational behavior as well as appropriate frameworks from legal analysis, sociology, anthropology, and social psychology to enhance our understanding of the processes of negotiation, coordination, and cooperation that define marketing relationships. Just as we know that most marketing transactions take place in the context of longer term relationships, so we need models that focus on the relationships themselves, not just on the market changes that are the subject of the microeconomic paradigm.

Theory development must be accompanied by aggressive programs of empirical research for understanding strategic marketing relationships more completely. Programs of clinical and survey research should be guided by strong theoretical frameworks from allied social science disciplines. Top priority should be given to analysis of the forces and factors that cause firms to move along the continuum from transactions to long-term relationships to strategic alliances and, perhaps, back again (Webster 1992p.13 underlining added).

2.0 Research objectives and process

While competition will continue to play its part in future, it is expected that it is the resurgence of interest in co-operative strategies and their impact on business that will capture the interest of practitioners and academics. Companies that know why to

partner, with whom and how, might well be the ones that will reign supreme in the future business contests that are already starting to unravel as we move further into the new millennium.

There are only a few empirically validated writings and works in marketing to date that deal with relations that a firm can have with its suppliers. Marketing and business strategy fields have long dealt with the need to integrate forwards with distributors, dealers and end consumers. This preoccupation and focus have been on developing relations with customers or value-delivering activities; but as Lewis (1995) contends, it has been at the expense of ignoring value-creation potential that lay upstream in supplier firms. Naturally creation of value needs to be given its due credit, if not primary importance when one examines a firm's value chain. It is hence imperative that we understand as to what processes and modes of alliance-organisation lead to the creation of value, and how customer-supplier alliances and partnerships multiply the value creation potential leading to performance improvements for partnering firms.

This dissertation attempts to outline some of the **strategic issues** involved in building competitive advantages through the route of co-operative relationships in a business-to-business context between customers and suppliers. While the focus here is very much on the alliances between suppliers and customers, the *processes of building relations and implications* thereof, I believe, have broader applicability to other links that corporations need to have, for example, with their intermediaries, end-users and not uncommonly even with their competing firms.

The main purpose of this dissertation is to take a few cautious steps in moving towards building or at least laying the foundations of a *theory* of strategic alliances. This task is clearly an ambitious one and any research that aims to achieve such an objective will need to be eclectic and should take into account writings that already exist in diverse but related fields. Work already done by various scholars will facilitate and influence the task at hand and accordingly these writings will have to be taken into account before any arguments are put forward.

An extensive literature review covering a wide range of disciplines and fields of endeavour was undertaken in order to examine relevant views and integrate these into a coherent whole. In order to increase feedback, it was decided to expose these ideas and research process to critical comment by submitting competitive and work-in-progress papers to major conferences. The following is a brief description of the four appendices and their respective contents:

Appendix I: A survey of the practice of partnerships in the Scottish industry.

Appendix II: Interdisciplinary research and research into industrial markets.

Appendix III: The Principle of Cumulativity that underlies the growth of knowledge.

Appendix IV: Case research method and evolution

These papers (Appendices I, II, III and IV) summarise the evolution and development of ideas and theories concerning alliances, and represent in part the work undertaken during the period of study.

In addition to the above processes of literature review and eliciting of views from marketing academics, views from practice were taken into account based on a qualitative exploration of the purchasing practices of six key organisations from diverse backgrounds and sectors. The six case studies and their implications for theory building were explored in detail in order to understand the strategic issues concerning alliances and partnerships. The research findings were combined with theoretical ideas to derive a Routines-Relationships-Resources (3Rs) model. This model is the *result* of the *combination* of insights obtained both from the literature reviewed and the case studies, and represents the final output and the fundamental contribution of the thesis.

The next section describes the organisation of the dissertation and chapter contents.

3.0 Organisation of the dissertation

The next three chapters that follow will provide evaluative summaries reviewing literature in the field. Although the nature of sources highlights the eclectic nature of the research, the purpose and focus of these three chapters are to delve into the processes and impact of customer-supplier alliances with a view to gain in-depth

understanding of the phenomenon. Chapter Four reviews a range of theories that together represent eight different strands, and is essentially integrative in character.

The fifth chapter is one on research methodology that outlines plans, methods and tools for the conduct of empirical enquiry.

The final three chapters deal with the results from empirical research, analysis and conclusions. Chapter Six is descriptive in character and contains the six case studies as understood in the fieldwork phase. Chapter Seven aims to analyse the six case studies and attempts to highlight factors that are important determinants of the chosen six firms' alliance and partnership strategies.

The final chapter presents the **3Rs model** that captures the three cores that make up all strategies. The theoretical insights gained from the wide-ranging literature review endeavours were combined with the understanding of practice. This led to the formulation of Routines-Relationships-Resources (3Rs) model to be identified as the **3Rs model**. This **3Rs model** is made up of three cores that underlie all business strategies including those designed to generate competitive advantage through the route of cooperative alliances and partnerships. This model represents an integration of a number of related but distinct set of theories reviewed, and also reflects practice as understood from the fieldwork carried out. The result of the synthesis of theory and practice is parsimonious and memorable due to alliteration of the three main elements. This is a *fundamental contribution and final output* of the thesis.

The **3Rs model** is elaborated in the final chapter. This is done with a view to build testable propositions that might be gainfully employed in making future theoretical contribution(s) in the field of strategic alliances and partnerships. A number of strategies and avenues for future research are suggested. A set of interrelated propositions and specific directions for future research are outlined therein.

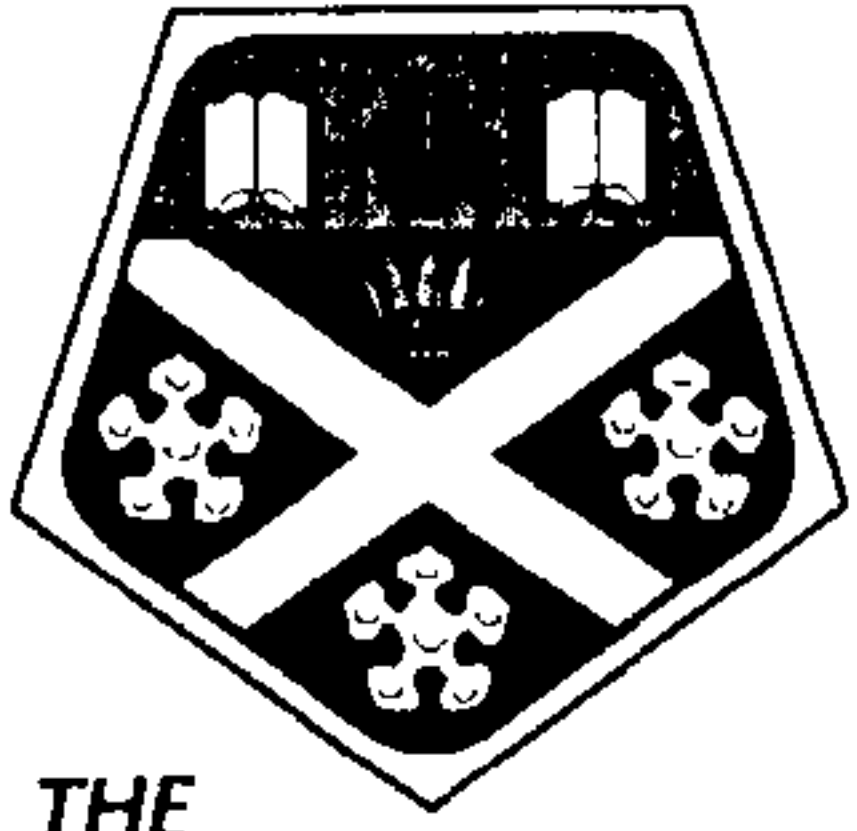
4.0 Summary

This chapter outlined rationale for the proposed research, and main objectives. The research process adopted is also described in brief. Finally, the details of the thesis structure and chapter contents are summarised to present an overview.

5.0 References

- Baker, M. J. (1995a), "Marketing - Philosophy or Function?," in *Companion Encyclopedia of Marketing*, First edition, M. J. Baker, ed., Routledge, London; New York, pp. 3-22.
- Baker, M. J. (1995b), "The Future of Marketing," in *Companion Encyclopedia of Marketing*, First edition, M. J. Baker, ed., Routledge, London; New York, pp. 1003-1018.
- Baker, M. J. (2001), "Commentary: Bridging the divide", *European Journal of Marketing*, vol. 35, 1/2, pp. 24-26.
- Baker, M. J. & Srivastav, A. Supplier Partnering, Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom. 1997.
- Bowman, E. & Kogut, B. M. (1995), *Redesigning the Firm*, Oxford University Press, New York.
- Brady, J. & Davis, I. (1993), "Marketing 's Mid-life Crisis", *McKinsey Quarterly* 2, pp. 17-28.
- Brownlie, D. & Saren, M. (1992), "The Four Ps of the Marketing Concept: Prescriptive, Polemical, Permanent and Problematical", *European Journal of Marketing*, vol. 26, 4, pp. 34-47.
- Hunt, S. D. (1976), "The Nature and Scope of Marketing", *Journal of Marketing* July, pp. 17-28.
- Knight, T. & Doyle, P. 1998, *The Role of Marketing*, KPMG Management Consulting, United Kingdom.

- Kotler, P. (1972), "The Generic Concept of Marketing", *Journal of Marketing*, vol. 36, pp. 46-54.
- Kotler, P. & Levy, S. J. (1969), "Broadening the Concept of Marketing", *Journal of Marketing*, vol. 33, pp. 10-15.
- Levitt, T. (1960), "Marketing Myopia", *Harvard Business Review*, vol. 38, pp. 24-47.
- Levitt, T. (1983), *The Marketing Imagination*, The Free Press, New York.
- Lewis, J. D. (1995), *The Connected Corporation: How Leading Companies Win through Customer-Supplier Alliances*, Free Press, New York.
- McKenna, R. (1991), "Marketing is Everything", *Harvard Business Review*, vol. 69, pp. 65-79.
- Turnbull, P., Ford, D., & Cunningham, M. (1997), "Interactions, relationships and networks in business markets: an evolving perspective", *Journal of Business & Industrial Marketing*, vol. 11, 3/4, pp. 44-62.
- Webster, F. E. (1992), "The Changing Role of Marketing in the Corporation", *Journal of Marketing*, vol. 56, October, pp. 1-17.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

Chapter Two

Strategic Alliances and Supplier Partnerships – An Initial Overview of the Phenomenon, Practice and Perspectives

— THE —
DEPARTMENT OF
MARKETING
—

Chapter Two: Strategic Alliances and Supplier Partnerships – An Initial Overview of the Phenomenon, Practice and Perspectives

The issues to discuss in this chapter include:

1. A broad and initial overview of the phenomenon of strategic alliances and partnerships.
2. A discussion of the approaches to building successful alliances and partnerships.
3. Conclusions.

CHAPTER TWO: STRATEGIC ALLIANCES AND SUPPLIER PARTNERSHIPS – AN INITIAL OVERVIEW OF THE PHENOMENON, PRACTICE AND PERSPECTIVES.....	10
1.0 INTRODUCTION	10
2.0 ALLIANCES: CAUSES, MOTIVES, AND BENEFITS.....	12
2.1 DRIVERS OF ALLIANCE FORMATION.....	12
2.2 COLLABORATION IS “THE” SOLUTION.....	15
2.3 ALLIANCE OBJECTIVES ARE STRATEGIC	15
2.4 TRANSACTION ORIENTATION IS GIVING WAY TO PARTNERSHIP-ORIENTATION.....	18
2.5 MOTIVES OF ALLIANCES	19
2.6 CUSTOMER-SUPPLIER ALLIANCES	21
2.7 FOCUSING ON CORE COMPETENCE	23
2.8 ALLIANCES AND PARTNERSHIPS YIELD EFFICIENCIES AND COST REDUCTIONS	24
2.9 POTENTIAL DRAWBACKS OF ALLIANCES.....	26
3.0 APPROACHES TO SUCCESSFUL ALLIANCES AND PARTNERSHIPS.....	27
3.1 RELATIONAL ORIENTATION IS NOT A PANACEA	27
3.2 INFORMATION EXCHANGE	29
3.3 STRENGTH OF RELATIONSHIP.....	31
3.4 ALLIANCE GUIDELINES AND SUCCESS FACTORS.....	33
4.0 CONCLUSIONS.....	35
5.0 REFERENCES	36

1.0 Introduction

The phenomenon of strategic alliances and partnerships is one that has attracted considerable interest during recent times. To be sure, the usage of cooperative strategies is not a new development. Early oil exploration firms used joint ventures as a means of spreading risks, and so have many trading and merchant firms. However, the increased usage and reliance is unprecedented in both scale and intensity. For the

past two decades or so, marketing academics and experts who recognised the need to study the phenomenon in more detail urged others to consider undertaking in-depth research on alliances (Arndt 1979; Baker 1995; Sharma & Sheth 1997; Sheth & Sharma 1997; Webster 1992). Business literature has so far largely focused on the concept of competition (Porter 1980; 1985) and its effects (Culpan 1993), and it is only recently that the focus is shifting to collaboration and its benefits.

Now, more than any other time calls for an in-depth understanding of the field of cooperation. In a business world that is characterised by change rather than stability, and novelty in place of tradition, pressures and pace of activity increasingly mandate that firms should operate within the boundaries of core competence (Prahalad & Hamel 1990), and at the same time build co-operative relationships with other firms.

This chapter aims to outline some of the strategic issues involved in building competitive advantages through the route of co-operative relationships in a business-to-business context between customers and suppliers. This is carried out with a view to furnish the reader with an overall picture concerning the field of strategic alliances and supplier partnerships. While the focus here is very much on the alliances between suppliers and customers, the processes of building relations and implications thereof have broader applicability to other links that corporations need to have, for example, with their intermediaries, end-users and not uncommonly even with their competing firms.

The concept of customer-supplier alliances is used here as a generic model for relations between companies. For example, both the manufacturer-supplier and the manufacturer-distributor relations may both be classified as dealings between customers and suppliers. For that matter, a simple licensing agreement involving technology transfer (Ford & Saren 1996) could be classified as well using such a generic framework. Admittedly, more complex arrangements, such as a joint venture or a loose arrangement between firms in the same or related industries, such as the ones between General Motors and Toyota and Ford and Mazda are difficult to be boxed into one group or another. Nonetheless, the various strands that constitute the 'link' represent identifiable and discrete units of interactions that could readily be analysed using the customer-supplier alliance framework. In our view, this allows us

to readily apply some of the concepts that exist in the marketing and strategy literature, and facilitates understanding and implementation of the strategic concepts and processes associated with collaborative relationships.

Business success and competitive advantage are products of organising, managing and integrating different businesses meaningfully. Closer relations, when pursued and invested in, lead to the building of alliances and partnerships. Our main argument here is that the highway of alliances and partnerships leads to the generation of lasting strategic gains thereby creating a virtuous network of linked corporations.

This chapter will detail the reasons as to why firms are seeking alliances and also the processes that allow partners to achieve advantages that can accrue from alliance activities. Section 2.0 highlights the changes in the competitive environment that are inducing firms to seek avenues for collaboration and various associated benefits and disadvantages. Section 3.0 outlines the approaches for building successful alliances and partnerships. This section emphasises the need to be selective when forging cooperative relationships with other firms. In the final section, conclusions as well as some positive speculations about the progress of research on alliances are offered.

2.0 Alliances: Causes, motives, and benefits

2.1 Drivers of alliance formation

Rapid changes in technology, shortened product life cycles, and increased competition owing to reduced barriers to international trade (Ohmae 1985) have all contributed to the need to have distinctive capabilities. A firm may be considered to have a competitive advantage when its products and services deliver superior value to customers compared to the offerings of competing firms. Distinctive capabilities or core competencies when successfully applied to a firm's markets become competitive advantages (Kay 1993). If generation of competitive advantages is in itself a formidable task, sustaining them is a tougher proposition by any standards. It is reported that most product and even process innovations are replicated by competition in about a year's time from the date of introduction (Slater 1996). Competitive advantages vary in terms of their degree and ease of replication. The list of

competitive advantages ranges from being ones that are easily reproduced to those that are difficult to replicate. The more embedded an ability is, the harder it is for other firms to imitate. The array of dimensions that firms today compete on is quite large and varied. The original Porter framework lists three broad advantages: cost, differentiation and focus (Porter 1980). In recent years, the qualitative as well as quantitative increases in the number and type of firms competing have rendered some of the traditional advantages such as cost, quality, speed of delivery and service as what one could term as entry fees or sine qua non for competition.

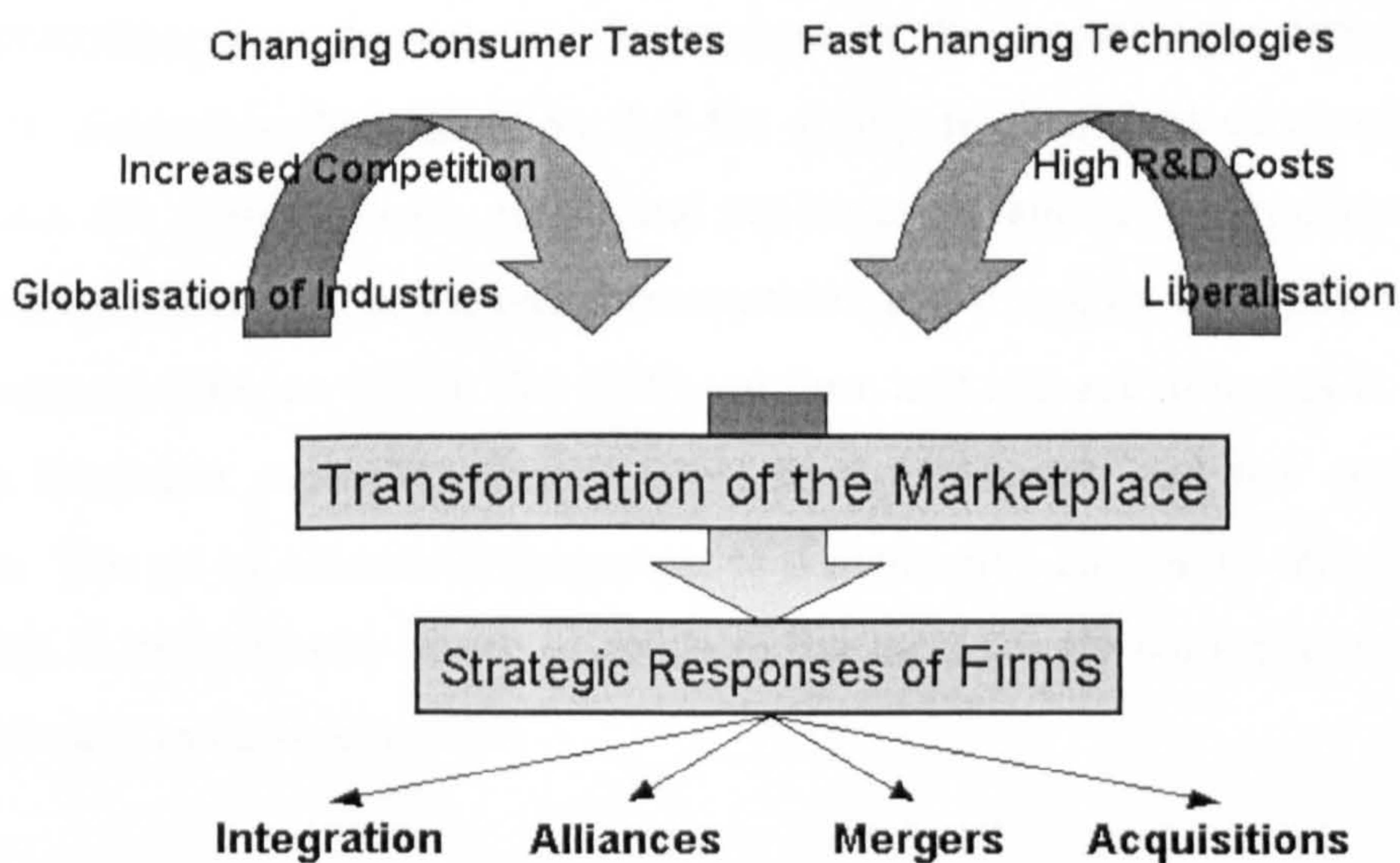
While it is necessary for firms to possess these traditional strengths to compete in the market place, and most firms do have them, successful outcomes depend on whether firms have other competitive advantages that are unique and exclusive. Customers have come to treat the traditional attributes as given and hence firms find it hard to differentiate themselves on those parameters and strive to continually upgrade and leapfrog ahead of competitors. Higher order abilities such as partnering, learning and innovation abilities are more difficult to imitate. The uniqueness and exclusivity of competence lies in its being harder to replicate allowing time for firms to utilise it in their chosen markets, and build on them as a foundation for the next stage of development of competitive advantage. The process of developing and sustaining competitive advantages is best viewed as dynamic and one that is amenable to continuous up-gradation and renewal. Indeed, in future the growth and prosperity of firms is likely to be a function of their ability to build new businesses rather than to sustain old businesses(Hamel & Prahalad 1994).

Technological developments in the communication and transport fields have significantly eroded the way we perceive distances and time (McKenna 1997) and have steadily been chipping away at the forces that bind to us to remain local. The integration of economies, regional agreements, monetary unions and converging consumer tastes and living standards makes firms that are merely reliant on geographically bound ideas, markets, products and facilities redundant. The Asian monetary crisis in 1997 has sent shock waves all across the world highlighting the interwoven nature of business. The introduction of the Euro, a single currency for a number of European countries is another significant development. This is a step that takes the common market forward from the establishment of European Union. Firms

that collaborate with suppliers, customers, and even competitors across and within regions will have established a competitive position that will be hard to rival.

Generating and successfully sustaining competitive advantages all by oneself may not be viable in many instances, if not entirely infeasible. Products and innovations that reach the market later than scheduled may fail to deliver profits and might even result in the incurring of losses if competing products are launched and marketed aggressively. Some high technology industries are known to be prone to excessive rates of obsolescence and volatility, and any efforts aimed at even keeping in step with competition need large resources. Research and development costs have risen sky high, and time to recoup investments is considerably shorter than ever before. The following figure depicts the options that a firm has to respond to the increasingly complicated and competitive business situations that prevail in most industries. As may be evidenced, firms have a wide range of options to choose from, and opting for the appropriate alternative course of action is a very strategic decision.

Figure 2.1: Drivers of Alliance Formation



Source: Oburai and Baker (1999)

2.2 Collaboration is “the” solution

Although the range and forms that inter-firm cooperation can take are numerous and deliver tangible benefits and advantages, managers and practitioners alike appear to have a tendency to resort to mergers and acquisitions as a means for growth and profitability. This is evidenced in the number of mergers and acquisitions that are announced in financial daily newspapers. This happens despite the fact that all available evidence suggests that mergers rarely if ever result in profitable long-term returns. Neither do acquisitions end in complete successes owing to a number of difficulties in finding appropriate partners and at right prices. Indeed, it has been argued that ‘managers often over-integrate because they fail to consider the rich array of quasi-integration strategies such as long-term contracts, joint ventures, strategic alliances, preferred-supplier partnerships, technology licenses, asset ownership and franchising which tend to involve lower capital costs and greater flexibility than vertical integration’ (Stuckey & White 1993).

The risks of total and complete reliance on internal growth and development may be so high as to outweigh any possibilities of gaining reasonable returns (Buzzell 1983). If they fail to bear fruit, some investment-intensive ventures may pose disproportionate and inordinate threat to the very survival of sponsoring firms. Then, it is unsurprising that “collaboration” is being suggested by academics, consultants, and practitioners as the solution for success in the increasingly complex business context. Several authors mention that the ability to form and successfully manage alliances for creating scale, scope and sequence advantages is important in an era marked by globalisation, increased competition and a rapidly changing technological environment (Ohmae 1985). The ability to form and manage alliances is emerging to be an important capability that all firms need to develop and few could afford to ignore. The art of alliance management is a distinctive capability that firms need to develop in order to stay ahead of rivals in the increasingly competitive environment that prevails in most industries.

2.3 Alliance objectives are strategic

The proliferation of alliances and partnerships is now a widespread phenomenon but one that is little understood. Our knowledge of alliance activity is still in a nascent

stage and clear normative guidelines are emerging only now and the process of research is far from over. Companies cooperate in two broad ways (Kay 1993; Stafford 1994). They may either (1) pool resources with a view to attain mutually agreed objectives or (2) exchange resources in order to acquire complementary strengths. The objectives and goals, among others, include access to hitherto unexplored markets and customers, introduction of new or better products, access to technology and know-how, reduction of costs and attendant risks, and productivity or efficiency gains.

Efficiency gains and process improvements, although of great importance by themselves, are of operational level only, while the others such as market development and acquisition of new skills are of strategic importance to corporations (Porter 1996). The real test of an alliance is whether it is of sufficiently strategic importance for all partners involved. The acid test is the market place and the judge and the jury the consumer or end-user. Accordingly, strategic alliances and partnerships should favourably affect and lead to the generation and sustenance of competitive advantages for the partners involved.

The continuum of inter-firm relations ranges from arm's-length dealings as in market transactions to total integration as in a merger. Figure.2 depicts the range of all possible inter-firm relationships as a stepwise progression. As objectives of collaboration turn more strategic from being merely operational, so do the needs for investment, attendant risks, and more importantly the time lag for reaping rewards of association. Strategic alliances are not a quick and an easy fix for inherent weaknesses of firms entering into collaborative efforts.

Figure 2.2: The Ladder of Interfirm Relations

Source: Adapted from Lorange and Roos(1992) and Webster(1992)

Unlike some of the forms of cooperation shown in Figure.2 at the bottom of the ladder, 'strategic alliances lay more emphasis on the future aspects of the association and the results of collaboration have a comparatively longer developmental period. As a result, the risks of association and the exit costs are much higher'(Baker & Srivastav 1997). For the sake of being complete, the figure also illustrates higher forms of collaboration, networks, clusters, and mergers that lead to total integration. Clearly, not all forms of cooperation could be classified as strategic alliances and there exist significant differences between various forms of cooperation which entail entirely different implications for partnering firms. However, writings in the field of management literature although replete with various classifications of interfirm cooperation show a remarkable lack of agreement and uniformity.

The treatments of classification normally employed in the strategic alliance literature tend to be based on the presence or absence of equity investments, and variations in structural forms, say a joint venture or a licensing agreement (Borys & Jemison 1989; Contractor & Lorange 1988; Culpan 1993; Frear & Metcalf 1995; Gerlach 1987; Harrigan 1988; Houston, Gassenheimer, & Maskulka 1992; KPMG Report

1996; Lewis 1990; Rangan & Yoshino 1996; Varadarajan & Cunningham 1998). Although a large body of literature on strategic alliances exists as indicated by the aforementioned citations, we feel that there is still a need to develop rigorous taxonomic models that delineate various forms of collaboration and highlight differences between them.

Indeed, Baker and Srivastav (1997) note

‘Much of the literature relating to relationships and alliances conceives of these as “either/or” alternatives. For our part, we conceive of collaboration between partners existing along a continuum with associations at one end and strategic alliances the other end of the continuum. It is argued that the relationship between two partners is clearly a matter of degree and moves from ‘association’ into more strategic perspectives depending on the success of the intervening operational dimensions. To this extent we think that successful alliances must evolve, and an association between partners should be a necessary precursor to a strategic alliance. This is necessary because strategic alliances involve commitments of a much higher order such as sharing technology, joint product development, substantial resource obligations etc. In our view, it could well be that the reason for the high failure rate of strategic alliances reported in the management literature may well be a consequence of the partners failing to get to know each other through a series of increasingly closer relationships.’

Customer-supplier partnerships are those cooperative efforts that lead to operational gains whereas alliances aim at achieving strategic objectives. At a detailed level, an inter-firm partnership may be defined as an agreement between a buyer and a supplier that involves a commitment on a long-term contractual basis, and includes the sharing of information, risks and rewards of the relationship. Relations marked by partnership offer significant benefits and synergies for the parties involved. As indicated earlier, partnerships could over time evolve to become true alliances or even a merger of co-operating firms. However, both alliances and partnerships require a great deal of investment and hence a firm will have to exercise the tools of collaboration judiciously.

2.4 Transaction orientation is giving way to partnership-orientation

The proliferation of alliances and partnerships is now an accepted fact of business, and current trends indicate further growth in number as well as scope of alliances.

Alliances involving vertical relationships in the value chain, as between manufacturers and suppliers or distributors, are being accorded greater attention as their significance is being more widely recognised. The concept, boundary-less organisation with a network of connections, is becoming increasingly visible in practice contributing to growth in alliances and reliance on partner networks. Customer-supplier relations through alliances and partnerships are seen as an important source for deriving various advantages that lead to the development of competitive advantage.

The traditional supplier-buyer links were largely non-equity ties and these relations were often characterised by arms-length transactional orientation, and even an adversarial spirit. Buyer-Supplier transactions, involving outside specialist suppliers compete with the closeness, reliability, continuity and other advantages that entail in-house production. Although many Japanese firms have been deriving the benefits of closer cooperation with suppliers, it is only recently that companies in North America and in Europe are actively seeking to develop close cooperation with suppliers and build partnership association or networks. It is evident that the trend for the future is clearly more outsourcing and less integration within an organisation, and that the erstwhile discrete and bipolar choices of build or buy are giving way to the formation of alliances involving close relations, and in some cases even equity investments. In recent years, close inter-firm relationships at various stages of the value chain have become popular and a number of studies have been published highlighting the beneficial aspects of forging and maintaining close relationships (Anderson & Narus 1990; Morgan & Hunt 1994). These writings and many other similar works highlight the fact that customer-supplier alliances and partnerships are now increasingly seen as an important route for deriving various advantages.

2.5 Motives of alliances

Organisations can create highest value for customers and other stakeholders by selectively sharing and trading control, costs, capital, access to markets, information, and technology with competitors, customers and suppliers alike (Bleeke & Ernst 1991). The keys to success in alliances are complementary activities, well-matched functional strengths, and solid business rationale rather than self-improvement of

partners. Several authors have written that 'managers prefer to manage what they own' (e.g. Spekman et al. 1996). Cooperation increases interdependence and the need for sharing of control, which may not be to the liking of all firms. Alliances require that one firm takes into consideration the needs and requirements of another firm in plotting its own future. "As the ways to combine resources increase, the ability to command decreases" (Kanter 1989). It may be important to recognise that alliances are a trade-off between requirement for resources and control associated with ownership.

Firms may decide to cooperate to exchange or pool resources for either higher or quicker value creation through joint innovation, to increase the organisational knowledge pool through learning, acquire new competencies or skills, access markets and customers, internationalise operations (Bleeke & Ernst 1991; Ohmae 1985), diffuse technologies (Lorange & Roos 1992), block or preempt competition (Porter 1986; Stafford 1994), derive cost advantages or gain productivity enhancements, share risks and costs (Ohmae 1985; 1989), increase flexibility of operations, destabilise and create new market values (Newman & Chaharbaghi 1996), improve products and services, offer complementary products or services of partners such as system deals (Bronder & Pritzl 1992), shape industries (Porter 1986), influence policy making bodies, or even as a prelude to full cooperation, usually a merger, sale or acquisition (Bleeke & Ernst 1991; Bronder & Pritzl 1992; Kanter 1994).

Bronder and Pritzl (1992) offer one of the most comprehensive classifications of the benefits of collaboration:

- Time advantages can arise from faster responses to changes in the environment. Implementing cooperative R&D programs can substantially reduce development times.
- Know-how advantages: the complexity of product technology increases dramatically while product and other life cycles become shorter. Mutual learning within a strategic alliance can help overcome knowledge deficits due to these technological changes.
- Access to markets as an objective is getting more and more important due to increased global protectionism.
- Cost advantages from external synergy can arise through combining value chain activities.
- System competence: through strategic alliances, companies can achieve system competence in certain markets even though their own core competencies are focused on specialised areas.

Collaborations involving many companies in the same industry or similar industries collectively endeavouring to shape industry competition are not uncommon. Indeed, many authors suggest that firms in the same industry are ideal for forging collaborative partnerships owing to their similarities (Hamel, Doz, & Prahalad 1989). Collaborating with competitors helps companies to counter bigger competitors, define industry standards, share development and marketing costs, expand product range, and influence governments in their favour.

As indicated earlier, firms need to collaborate for a variety of reasons such as needs for resource exchange, sharing investment, reducing risks, gaining market access, pre-empting competitors, and shaping industry competition. Lewis (1995) asserts that relations with other firms extend the scale and scope virtually doubling an organisation's resources. The extended organisation is increasingly seen as a path to future prosperity and a significant means for achieving the same is customer-supplier alliances. The reasons, motives, and benefits cited support the need for alliances and partnerships. An important and growing area of significance, customer-supplier alliances, is discussed next in detail.

2.6 Customer-supplier alliances

Customer-Supplier alliances offer and hold great potential for companies. A typical firm, especially so when large organisations are considered, derives about one-half or more of its turnover from supplies sourced externally (Baker & Srivastav 1997; Lewis 1995). Baker and Srivastav put forward the view that cost reductions and other improvements that may be gained from customer-supplier alliances are more likely to contribute to a firm's profits than the uncertainty that is associated with effecting sales growth. These views further buttress our view of the need for closer and more integrated approach towards collaborators including suppliers.

Traditional customer-supplier alliances involved exchange of goods or services for a price. The focus was mostly on price of items paid for. Arm's-length transactions might work best in perfect market conditions. Perfect market conditions are existence of large number of companies signifying low barriers to entry and exit, absence of differentiated products, inability on the part of any of the firms to influence prices of

goods, and non-existence of economies of scale. Imperfect market conditions coupled with occasional misrepresentation and deception interfere with the efficient working of markets (Rugman 1981; Williamson 1975). The implication is that it may not be entirely prudent to rely solely on either market mechanisms or internalisation strategies to aid the working of an organisation. Gaining economies of scale and scope, and other important competitive advantages all by oneself is a difficult task. Excessive vertical integration may leave a firm in no position to be flexible in its responses to the innovations of competitive firms. Forging alliances with partners could help an organisation in terms of capital and human resources to focus on core areas of operation.

Adversarial relations that once characterised customer-supplier dealings are gradually giving way to partnership and trust. Lewis (1995) suggests that companies have paid attention to customers all along, whereas the other half of the competitive-resource equation, the supplier, has not received the focus that it so richly deserves. Integrating suppliers and leveraging their strengths for mutual benefit are areas that no company can easily ignore.

Customer-supplier alliances aim to achieve more than that expected from a transactional orientation. While market based dealings with suppliers may work well under perfect market conditions; such dealings may not work as well in real conditions. Alliances should aim to maximise benefits through close co-ordination and sharing of resources including technology. Though market based dealings aim to maximise efficiencies in most cases, absence of sharing of information and close links between customer and supplier is likely to lead to under-performance relative to strategic alliances and partnerships. The sharing of information and other forms of cooperation are the underlying pillars that support the strength and higher value creation potential of alliances. True Buyer-supplier relations are governed by mutual dependence, expectation of continued relations and trust. Collaboration and cooperation with other firms to maximise customer benefits is an appropriate route to corporate success when continued relationship is likely to lead to higher value creation as opposed to market based or internalisation strategies.

Companies that were earlier known for fiercely defending total reliance on internal development are now turning to various forms of collaboration. IBM has successfully made the transition from being a totally integrated firm to a firm that now relies on a number of suppliers and partners. Ford is in the process of rationalising its worldwide operations and its number of suppliers with a view to forge solid links with a smaller number of firms. It is reported that Ford reduced the number of suppliers it has by more than one-half. Lewis (1992;1995) provides a host of examples of companies that are turning to customer-supplier alliances. Some of the most successful Japanese style partnerships are characterised by fewer direct suppliers, customised investments by suppliers and forced competition (Dyer & Ouchi 1993). Fewer direct suppliers allow focus on procurement of systems not individual components leading to cost reduction and quality improvements. Suppliers when given the opportunity and assurance of a stable, and long term relationship are likely to invest more in site-specific (closer to the location of customer), customer-specific equipment and in learning more about the operations and needs of customer. This is a growing phenomenon that needs to be taken note of by all companies. Increasingly firms are moving toward establishing solid relations but with a shrinking number of companies. A firm that does not substantially add value faces the danger of being left out in the cold.

2.7 Focusing on core competence

Sourcing supplies from other firms could benefit a company in many ways. Considering that resources for any firm are limited, it is necessary to collaborate with other firms. Modern business calls for focus on core areas wherein competitive advantages could be developed (Prahalad & Hamel 1990). A firm needs to invest its resources in its area of core operations. Non-core areas could easily be outsourced or alliances with other firms could produce desired results. Even within core areas of operation, there could exist avenues for cooperation when going alone may either take too long, or when internal resources are simply inadequate. To be first in the market place with new or improved products and services is an important advantage that firms cannot easily ignore. Focusing on core areas and collaborating with others who specialise in complementary fields allow a firm to simultaneously reap the benefits of economies of scale, and differentiated or extended product range. Alliances and partnerships could free scarce resources for core functions to be performed within the

organisation rendering better focus on core areas. It is important to realise that others who have already built up expertise in that area could perform some functions better. Duplication of others' areas of expertise and reinventing the wheel are not likely to significantly contribute to a firm's growth and profitability. Although it is a paradoxical outcome in most situations, interdependence could well contribute to independence (Lewis 1995). Going alone or relying on internal or organic growth is just one of the options. The range of options on the continuum, formed by total self-reliance on one end and reliance on external sources on the other end, is quite varied. A firm needs to consider all options and select the best option that could help it develop and sustain long term competencies in its core areas of operations.

2.8 Alliances and partnerships yield efficiencies and cost reductions

Strategic sourcing through alliances and partnerships is the process of creating value-adding supply relationships to provide a competitive advantage (Spekman, Kamauff, & Salmond 1994). Apart from contributing to cost control, sourcing also improves overall performance in quality, dependability, flexibility and innovation. Strategic outsourcing provides four main benefits. According to Quinn and Hilmer (1994), these benefits are

First, firms maximise returns on internal resources by concentrating investments and energies on what the enterprise does best. Second, well developed core competencies provide formidable barriers against present and future competitors that seek to expand into the company's areas of interest, thus facilitating and protecting the strategic advantages of market share. Third, perhaps the greatest leverage of all is the full utilisation of external suppliers' investments, innovations, and specialised professional capabilities that would be prohibitively expensive or even impossible to duplicate internally. Fourth, in rapidly changing marketplaces and technological situations, joint strategies decrease risks, shorten cycle times, lower investments, and create better responsiveness to customer needs.

Organisations outsourcing activities in which they cannot develop strategic advantages can:

- Achieve an improvement in the performance of those service areas;
- Reduce overheads;
- Improve focus upon the development of core abilities;
- Leverage those competencies; and

- Achieve a more compact, less hierarchical organisation (Quinn & Hilmer 1994).

Narus and Anderson (1996) argue that cooperative arrangements, strategic alliances and partnerships leverage resources and share capabilities to improve the quality of service throughout their supply chains. As focus shifts from products to service, suppliers need to strengthen and increase their service levels substantially, or face the prospect of being left out due to the shrinking number of suppliers on the lists of manufacturers. Anderson, Hakansson, and Johansson (1994) suggest that firms that see themselves as 'embedded in webs of capabilities can augment their own capabilities with those of other members and broaden their offerings'. A comprehensive list of benefits offered by Frankel, Whipple and Frayer (1996) suggests that the following benefits accrue to alliances in general:

- Reduced cost through specialisation;
- Improved synergistic performance;
- Increased information to support joint planning;
- Enhanced customer service;
- Reduced risk and uncertainty;
- Shared creativity; and
- Competitive advantage.

Williamson (1985) contends that transaction costs are inefficiencies directly attributable to commerce between firms, and costs of creating contracts and monitoring of trading partners activities. Williamson maintained that minimisation or lowering of transaction costs is very important in the formation stages of a relationship. Alliances should focus not just on cost reductions but on developing true competitive advantages in terms of innovation leading to new products or higher value creation, customer satisfaction and in developing competitive advantages in the market place (Porter 1996). However, it is likely that operational gains such as, cost reductions, improvements in quality and the like may help a partnership grow to include focus on other more strategic parameters (Baker & Srivastav 1997).

Customer's costs consist of four main elements: invoice costs, acquisition costs, possession costs and usage costs. Alliances and partnerships due to the nature of long-term arrangements optimise the total cost of doing business. One major friction point is inventory costs. While it is suggested that suppliers are being forced to carry the

burden of inventory costs, the same may be due to the genuine pressures that customers face or because they are simply not able to forecast proper quantities and varieties thereof (Bowersox 1991). Fisher et al (1994) suggest that customers and suppliers gain by filling non-reactive capacity as much as possible in advance, and use the reactive capacity to incorporate most recent information such as market trends and the like. This method may help in controlling and eliminating costs of carrying inventories, stock-out costs and mark-downs or damaged goods.

The above technique of sharing of information is consistent with Gentry's (1996) suggestion that increased information sharing may substitute for inventories leading to reduction in possession costs. This finding is in contrast to the finding of Noordewier, John and Nevin (1990) that only acquisition costs not possession costs could be lowered through long term relations.

Kalwani and Narayandas (1995) found that suppliers benefit through establishing long term relationships with customers. They suggest that suppliers in partnerships face price pressures and hence decreased gross margin levels. Customers who engage in partnerships are generally very demanding in expecting short-term price concessions and long term orientation simultaneously. The study, however, suggests that partnerships and long term alliances help suppliers to considerably reduce their selling and other administrative expenses resulting in increased profits and return on investments (ROIs). Customer loyalty and continuity of relationship could benefit supplier firms through increased long-term profits, and improved efficiencies due to better understanding of customer needs. Overall, the view that partnerships result in reduced inventories does find some support in the literature. This is especially so when information exchange is regular. Apart from the inventory reduction, improvements actually gained by firms involved in partnership sourcing have been examined in a number of studies (Baker & Srivastav 1997; Kalwani & Narayandas 1995).

2.9 Potential drawbacks of alliances

Some potential drawbacks are the difficulties and risks involved in co-ordinating different firms, unequal gains, culture clashes, role ambiguities, possibilities of a

partner allying with competitors, and chances of facing anti-trust charges (Culpan 1993 pp.27-28). Porter (1986) identifies three broad categories of costs associated with coalitions: coordination, erosion of competitive position and creation of adverse bargaining position. Jain (1987) mentions potential imbalance in benefits, imbalance in commitment and motivation, difficulties in arriving at agreement, communication problems, possible conflict between partners, and retaliation from government and competition as significant likely drawbacks. Undue reliance or dependence on others is a drawback too.

The drawbacks and disadvantages are important ones to note. Firms that enter into alliances should take into account these issues and ensure that safeguards are available. Selective approach to relations cannot be exaggerated. Only when benefits outweigh risks should alliances be entered into. The next section details processes that are likely to ensure the success of alliances. This is done with a view to derive guidelines which when implemented could enhance chances of success.

3.0 Approaches to successful alliances and partnerships

3.1 Relational orientation is not a panacea

The field of marketing is witnessing a paradigm shift through embracement of the concept of inter-organisational cooperation and relationships (Morgan & Hunt 1994; Webster 1992). The role of marketing in the corporation is evolving from the traditional focus of selecting target markets and developing a marketing mix (Osland & Yaprak 1995). According to Osland and Yaprak, some of the new roles include deciding when and how to partner with other firms to enhance distinctive competencies, and achieve higher market share, long term profitability and a better defined set of core competencies.

The concept of relational orientation as put forward by various writers is essential for the success of alliances. However, adoption of such an orientation may not be appropriate to all customer-supplier relations. Wray, Palmer and Bejou (1994) assert

that increasing of relational orientation may only be appropriate when purchases involve a high level of risk and relationship acts as a manager of risk exposure. They further suggest that relationship building may also be necessary “where a stream of benefits is produced and consumed over a period of time or where they can reduce transaction costs associated with repeated purchase routines”.

Noordewier, John and Nevin (1990) found empirical support for their premise that purchasing performance of firms could be enhanced by increasing the relational content of the exchange structure when uncertainty is high. The study suggests that not all transactions and sourcing need to have relational elements. They concluded that increasing relational content when uncertainty is low has no effect on performance. Kumar (1996) conducted an empirical survey to measure the impact of trust and found that customer-supplier relations characterised by trust are mutually beneficial in terms of sales, profits, higher dedicated investments and adaptability to changing market conditions. The author however suggests that there are limits to the application of trust strategy, and that employing trust based relationships works best with those partners who are willing to play the trust game. It is likely that indiscriminate use of alliances may expose firms to exploitation by opportunistic partners.

Krapfel, Salmond and Spekman (1991) put forward the view that not all transactions require approaches characterised by high relationalism. They suggest that relations could be classified into four categories according to the levels of two parameters: relationship value and interest commonality. This classification treats partners and rivals as high value relationships but with different levels of commonalties with partners having high commonality and rivals having low interest commonalties. Similarly, friends and acquaintances are low value relationships but with different levels of commonalties with friends having high commonality and acquaintances having low interest commonalties. The authors contend that different classes of relationships require different levels of resources, stability, and governance structure, and consequently hold varying profit potential. Further, the authors suggest that each relation may potentially evolve into one of the other three forms over time due either to changes in environment or by design of partners. However, firms intending to maximise profits may also influence the process of evolution of other firms to some

extent. In some situations acquaintances or rivals may hold more profit potential and need to be treated accordingly. Firms have to balance their resources with commonalties of interest and values they derive from a relationship in order to maximise profits by having a portfolio of relationships rather than a single approach such as either all market-orientation (transactional orientation) or relational orientation.

3.2 Information exchange

The driving forces behind an alliance should be the top management of partners. The top executives should not only be convinced of the business rationale and commercial logic of an alliance, but they should also establish good personal relations to ensure that the alliance succeeds and overcomes any teething problems, conflicts and disagreements between operating managers and employees from different firms. While an alliance manager normally oversees day-to-day functioning of the alliances and is responsible for resolving issues and problems, the importance of top management's role should not be underestimated. The role of political blessing and stakeholder involvement is crucial for the success of an alliance (Lorange & Roos 1992). In fact, many authors have attributed the success of alliances to the chemistry or good interpersonal relations and regular exchange of information between partnering firms' top executives (Kanter 1994; Ohmae 1985; 1989).

There are various accounts of failed alliances that focused excessively on commercial issues at the expense of interpersonal issues. There appears to be a strong consensus in the literature that absence of interpersonal relations may negatively affect even alliances that have strong commercial logic (Spekman, Isabella, MacAvoy Tomas C., & Forbes 1996). It is also essential that alliance vision be understood throughout cooperating organisations so they participate and contribute to the success. This could be achieved through establishing contacts at multiple levels. Good interpersonal relations and information exchange at not only top levels but also at multiple levels are a key to the success of an alliance.

Dyer (1996) notes that Chrysler had managed to increase its market share and profits dramatically through its partnerships with suppliers. The reduced number of suppliers

get more work from the company than before and participate in design stages of a vehicle right up to delivery of parts. Chrysler managed to cut costs, increase quality, reduce defect rates, develop innovative products, reduce development times, and increase efficiency of its production lines. Most suppliers have made dedicated investments and report increased satisfaction and make suggestions for saving costs or for improving products. Chrysler has adopted more oral agreements than ever before. Interpersonal relationships between executives of Chrysler and supplier personnel have substantially contributed to the process of building partnerships.

Trust is considered an essential ingredient for success (Ford 1980). Trust develops with more communication and cooperation (Anderson & Narus 1990; Ohmae 1985). Elaborate contracts and associated effort in drawing them and costs in enforcing are part of transaction costs related to exchange of goods (Williamson 1975; Williamson 1985). Trust could obviate or reduce the need for contracts and considerable related expenses. Further, trusting and cooperative behaviour leads to satisfaction in organisational relationships (Osland & Yaprak 1993). Marketing theories suggest that satisfaction leads to loyalty, and commitment to alliance and its purpose. Trust is more likely to develop when one partner takes the initiative and exercises trusting behaviour (Gulati, Khanna, & Nohria 1994; Osland & Yaprak 1993). Gulati et al. (1994) argue that unilateral commitment by one partner may act as a catalyst and enhance the possibility that other partners cooperate in making a venture successful. They argue that if companies form an alliance but do not cooperate with each other, then the result could be loss for all parties. This argument is in line with Bleeke and Ernst's (1991) findings that unsuccessful alliances result in failure for all partners. It is important for partners of an alliance to take effective, sometimes unilateral actions to ensure that an alliance stays on course, and also to signal their commitment to other partners. According to Morgan and Hunt (1994) relationship commitment and trust develop when firms attend to relationships by

- Providing resources, opportunities, and benefits that are superior to the offerings of alternative partners;
- Maintaining high standards of corporate values and allying oneself with exchange partners having similar values;
- Communicating valuable information, including expectations, market intelligence, and evaluations of the partner's performance; and

- Avoiding malevolently taking advantage of their exchange partners.

Information exchange is considered an important determinant of customer-supplier partnerships (Gadde & Hakansson 1994; Hakansson 1982). Metcalf, Frear and Krishnan (1992) found that exchange of information and interpersonal contacts produce a cooperative atmosphere between partners, which in turn influences adaptation. Interpersonal exchange generates attitudes of mutual trust and produces an atmosphere of cooperation which influences investments that generate higher sales, cost reductions, or new innovations. Their findings are not entirely new and serve to reinforce the earlier studies (Turnbull & Cunningham 1981; Turnbull & Valla 1986) that highlighted the need for co-ordinated set of communications at multiple levels, and formalised systems such as committees for regular meetings to exchange information, and frequency of contact. It is clear that this important attribute of information exchange contributes to the development of strong relationships and accordingly firms need to build channels for communication with partners.

3.3 Strength of relationship

Webster and Wind (1972) suggests that source loyalty may reduce costs associated with frequent changing of suppliers. The authors recognise that buying decisions might result in organisational satisfaction and possible source loyalty to vendors. Barclay (1992) posits that this could make acceptance of new vendors more difficult. Vendors once selected may expect to continue for a reasonable length of time and generally enjoy benefits of continuity. Expectations of long term cooperation and mutual trust enhance possibilities of favourable decision in industrial purchasing (Laios & Xideas 1994). Possible disadvantages might be higher expectations and dependence.

Heide and John (1988) found that firms which were dependent on other companies due to their dedicated assets could reduce imbalance in dependence by establishing closer bonds with end-users, thereby locking in other companies such as suppliers and manufacturers. Heide and John also suggest that partner opportunism is reduced when organisational boundaries are interpenetrated. On the other hand, a firm's relation specific investments signal dependence and a tendency to maintain a relationship

(Anderson & Narus 1990). Ganesan (1994) suggests that long-term orientation of a relationship is a function of mutual dependence and trust. In turn relation-specific investments, uncertainty, reputation of partners, and satisfaction with outcomes influence mutual dependence and trust. Long-term orientation requires building of technological capabilities through sharing and investments in developing strengths. Monczka, Callanhan and Nichols (1995) found empirical support for their premise that 'overall satisfaction with a relationship and exchange of information were affected by cooperative behaviours, lower transaction costs, greater dependence, better quality, greater economic satisfaction, longer business relationship, more specific investments and joint programs'. Relative dependence could be used to influence partners to act in a mutually beneficial fashion. Relation-specific investments help bond a relation but may be construed as a cause of over-dependence. Reciprocation of specific investments by partners to an alliance redresses potential situations of imbalance in contributions and mutual interest. In any case, partnerships entail interdependence and need trust for successful functioning.

Satisfaction with partnership is treated as a focal construct in various studies. Anderson and Narus (1990) contend that satisfaction is 'not only a close proxy for perceived effectiveness, but also may be more predictive of future actions by partner firm managers'. This view is consistent with the views expressed elsewhere in marketing theory that satisfaction leads to repeat transactions and long-term relationship. Wray, Palmer and Bejou (1994) view relationship quality as a two-dimensional construct: consisting of satisfaction and trust. Their research found that the expertise of the seller contributes to satisfaction of the customer and the duration of a relation leads to the generation of trust. Shamdasani and Sheth (1995) contend that examining member satisfaction and continuity decisions should receive focal attention as dissatisfaction with alliance relationship is cited in literature as one of the major reasons for the failure of alliances. The authors suggest that dissatisfaction is a product of both financial outcomes and relational outcomes. 'While satisfaction reflects existing feelings about alliances based on evaluation of outcomes and experiences received in the past, continuity decisions reflect expectations of future cooperation' (Shamdasani & Sheth 1995). Gentry (1996) identified that successful buyer-supplier relationships have four partnership dimensions: long term commitments, open communications and information sharing, joint problem solving

and continuous improvements, and shared risks and rewards. Constructs such as, economies of scale, cost reduction potential, and innovation ability indicate the need for continuity in a partnership arrangement. Satisfaction with relation, and continuity decisions are strongly related to quality improvements and cost reductions that may be gained through alliances and partnerships.

3.4 Alliance guidelines and success factors

Partnerships entail 'mutual recognition and understanding that the success of one firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer market place' (Anderson & Narus 1990). The main rationale of an alliance should be the market impact through the competitive advantage that it generates. Short-term cost reductions may lead to the generation of long term competencies, but not always necessarily so. Hence, it is important to keep in mind that alliances and partnerships generally yield their benefits after a long duration, and need to be nurtured through careful investments in the forms of both physical and social capital, particularly so in the initial years. Indeed, we feel that it may well be totally inappropriate to use generally used accounting and other financial measures to evaluate the performance of alliances. More strategic and often intangible measures could often prove to be suitable indicators. Bowersox (1991) suggests the following five guidelines that help to make alliances and partnerships work:

- View the arrangements as the implementation of a strategic plan. Encourage the participants involved to consider their roles in terms of a value-added process.
- Seek an arrangement that achieves scale-economy benefits while spreading risks.
- Recognising that benefits can be gained only through a long-term relationship in which the parties are interdependent, make sure that the information necessary to function well is shared between them.
- Build trust between the organisations by setting unambiguous goals, establishing clear roles, laying down firm rules, and measuring performance rigorously.
- Start the venture on a realistic course by acknowledging that eventually alliance may have to be terminated

A study by Bleeke and Ernst (1991) revealed the following in relation to alliances:

- Alliances are effective for related businesses or expanding into new geographic markets.

- Alliances between strong and weak companies rarely work.
- Hallmark of successful alliances is their ability to evolve beyond initial expectations and objectives.
- Alliances with even split of financial ownership are more likely to succeed than other dominant ventures.
- Three-fourths of the alliances that terminated ended with an acquisition by one of the parents.

True alliances go beyond achieving the benefits of efficiencies and cost reductions possible in dealings through arm's-length relations with multiple suppliers. Traditional relations characterised by price and reliability do not maximise opportunities to innovate and thereby create higher value through collaboration. The historical relations were largely adversarial and involved exchange of goods for money with as little interaction as necessary. As opposed to the arm's-length transactional orientation, alliances are built on relational orientation with a view to maximise mutual benefits.

Customer-Supplier alliances in their true sense are not an easy and quick way to selling products or for reducing costs. To forge a powerful partnership, firms need to invest in each other. Most important is the need to *invest in building solid relationships* in which both parties respect and trust each other's needs (Brennan & Turnbull 1999). Margins, confidential technologies, cost data and need for independence are all ingredients that help in generating competitive advantage in the market place. Sometimes customer and supplier may be required to make company-specific investments. The amortisation and sharing of costs have to be done in an equal and just fashion to build a win-win situation. Opportunistic behaviour by one or all partners involved such as using knowledge of supplier's cost data to manipulate or to knock down prices to gain unilateral gains are not likely to lead to commitment of partners that is essential for the success of alliance. The sources of cost reductions are numerous and joint cost reduction exercises and strengthening interfaces are some of them. Having said that, it has to be emphasised that too much focus on cost reduction alone can harm relationships. The aims of alliances should include higher value creation, end-consumer satisfaction, and creation of competitive advantage. A direct consequence of looking ahead of cost reduction leads to the area of *innovation*. Parties to an alliance need to focus on maximising their innovation abilities and leveraging them to increase customer satisfaction. Innovation comes not only from within but

also from interaction with other firms. To this extent, focused competition and multiple sourcing alternatives help firms to move ahead rather than to continue to depend on existing products, and stagnate inevitably in the end. Dealings with various customers and suppliers help advance the process of learning from important external sources that may facilitate knowledge accumulation.

The concepts and ideas discussed so far could lead to the success of an alliance when thoughtfully executed and customised to specific needs. In particular, our aim was to offer some balanced views as to the benefits and drawbacks of alliances, and managers to take into account these factors when forging alliances. A selective orientation is necessary, as relational orientation is not a panacea for all problems. Every alliance is unique in its own right. There are no formulae for success, but the guidelines and the approaches offered in this chapter can, when tailored to the needs of an alliance, significantly enhance chances of success.

4.0 Conclusions

Alliances and partnerships have existed for a long time but our understanding is still in its infancy. A detailed understanding is necessary to ensure that a firm gets what it hopes to achieve from a collaborative effort. It is estimated that over one-half of all alliances are unsuccessful. Non-materialisation of desired objectives could mean squandered resources for companies. For certain firms, a loss of significant magnitude could have devastating consequences threatening its existence. An all or nothing attitude when investing in collaborations may prove dangerous. The high rate of failure emphasises the need for developing thorough understanding of the mechanisms for structuring, implementing and managing alliances.

Alliances allow a company to focus on its core activities where it can develop and sustain competitive advantages or core competencies. Scarce resources could be deployed for focused attention on priority areas. Focused collaborations hold great potential to deliver sustainable competitive advantages to firms (Anderson & Narus 1991; Baker & Faulkner 1991; Dyer, Cho, & Chu 1998; Kapoor & Gupta 1997). Diffused and diverse efforts are a sure recipe for failure given the present competitive

business environment. Collaboration and interdependence could contribute to the independence of a firm by allowing it to leverage others' areas of expertise for its own benefit. Customer-supplier alliances need to be built with a long-term outlook, and with a view to build solid relations based on trust and team spirit. Building networks and creating extended organisation that adds value internally and externally are essential prerequisites for future success in business (Hakansson & Sharma 1996).

Recent and earlier contributions by marketing academics (Baker, Buttery, & Richter-Buttery 1998; Blois 1997; Dabholkar & Neeley 1998; Easton & Araujo 1994; Hunt 1997; Morgan & Hunt 1999; Oburai & Baker 1999; Pandya & Dholakia 1992; Sheth & Parvatiyar 1992; Turnbull, Ford, & Cunningham 1997) are redefining and extending the study of interfirm alliances and partnerships (Spekman, Isabella, MacAvoy Tomas C., & Forbes 1996; Spekman et al. 1998; Spekman, Isabella, & MacAvoy Tomas C. 2000). This is a new development in an area traditionally seen to be associated with the disciplines of strategic management (Child & Faulkner 1998; Dussauge & Garrette 1999) or purchasing and outsourcing (Lonsdale & Cox 1998; Oates 1998) among other management and allied social science fields. Marketing academics and experts are starting to contribute to the field in general and in particular through contribution to theoretical guidelines, which yield normative prescriptions. The model building approaches in marketing are proving to be of aid in understanding business relationships (Wilson 1995), and hold great potential for the study of alliances in the future.

In the view of the author and as highlighted in Chapter One, strategic orientation and theory building efforts are required to complement ongoing efforts. With this mind, the next chapter focuses on understanding the phenomenon of cooperation and evolution.

5.0 References

- Anderson, J. C., Hakansson, H., & Johansson, J. (1994), "Dyadic business relationships within a business network context", *Journal of Marketing*, vol. 58, pp. 1-15.
- Anderson, J. C. & Narus, J. A. (1990), "A model of distributor firms and manufacturing firm working partnerships", *Journal of Marketing*, vol. 54, January, pp. 42-58.
- Anderson, J. C. & Narus, J. A. (1991), "Partnering as a Focused Market Strategy", *California Management Review*, vol. 33, 3, pp. 95-113.
- Arndt, J. (1979), "Toward a concept of Domesticated Markets", *Journal of Marketing*, vol. 43, pp. 69-75.
- Baker, M. J. (1995), "The Future of Marketing," in *Companion Encyclopedia of Marketing*, First edition, M. J. Baker, ed., Routledge, London; New York, pp. 1003-1018.
- Baker, M. J., Buttery, E. A., & Richter-Buttery, E. M. (1998), "Relationship Marketing in Three Dimensions", *Journal of Interactive Marketing*, vol. 12, 4, pp. 47-62.
- Baker, M. J. & Srivastav, A. Supplier Partnering, Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom. 1997.
Ref Type: Unpublished Work
- Baker, W. E. & Faulkner, R. R. (1991), "Strategies for Managing Suppliers of Professional Services", *California Management Review*, vol. 33, pp. 33-45.
- Barclay, D. W. (1992), "Organisational buying outcomes and their effects on subsequent decisions", *European Journal of Marketing*, vol. 26, 4, pp. 48-64.
- Bleeke, J. & Ernst, D. (1991), "The way to win in cross-border alliances", *Harvard Business Review* November-December, pp. 127-135.
- Blois, K. (1997), "Are business-to-business relationships inherently unstable?", *Journal of Marketing Management*, vol. 13, pp. 367-382.

- Borys, B. & Jemison, D. D. (1989), "Hybrid arrangements as strategic alliances: Theoretical issues in organisational combinations", *Academy of Management Review*, vol. 14, 2, pp. 234-249.
- Bowersox, D. J. (1991), "The strategic benefits of logistics alliances", *Harvard Business Review* July-August, pp. 36-45.
- Brennan, R. & Turnbull, P. W. (1999), "Adaptive Behaviour in Buyer-Seller Relationships", *Industrial Marketing Management*, vol. 28, pp. 481-495.
- Bronder, C. & Pritzl, R. (1992), "Developing strategic alliances: A conceptual framework for successful cooperation," *European Management Journal*, vol. 10, 4, pp. 412-421.
- Buzzell, R. D. (1983), "Is vertical integration profitable?", *Harvard Business Review* pp. 92-102.
- Child, J. & Faulkner, D. (1998), *Strategies of Cooperation: Managing Alliances, Networks, and Joint Ventures*, Oxford University Press, Oxford, UK.
- Contractor, F. & Lorange, P. (1988), *Cooperative strategies in international Business*, Lexington Books, Lexington.
- Culpan, R. (1993), *Multinational Strategic Alliances*, International Business Press, Binghamton, New York.
- Dabholkar, P. A. & Neeley, S. M. (1998), "Managing interdependency: A taxonomy for business-to-business relationships", *Journal of Business & Industrial Marketing*, vol. 13, 6, pp. 439-460.
- Dussauge, P. & Garrette, B. (1999), *Cooperative Strategy: Competing Successfully through Strategic Alliances*, John Wiley and Sons Ltd, Chichester, England.
- Dyer, J. H. (1996), "How Chrysler created an American Keiretsu", *Harvard Business Review* July-August, pp. 42-56.

- Dyer, J. H., Cho, D. S., & Chu, W. (1998), "Strategic Supplier Segmentation: The Next "Best Practice" in Supply Chain Management", *California Management Review*, vol. 40, 2, pp. 57-77.
- Dyer, J. H. & Ouchi, W. G. (1993), "Japanese-style partnerships: Giving companies a competitive edge", *Sloan Management Review*, vol. 35, 1, pp. 51-64.
- Easton, G. & Araujo, L. (1994), "Market exchange, social structures and time", *European Journal of Marketing*, vol. 28, 3, pp. 72-84.
- Fisher, M. L., Hammond, J. H., Obermeyer, W. R., & Raman, A. (1994), "Making supply meet demand in an uncertain world", *Harvard Business Review* May-June, pp. 83-93.
- Ford, D. (1980), "The development of buyer-seller relationships in industrial markets", *European Journal of Marketing*, vol. 14, 5/6, pp. 339-353.
- Ford, D. & Saren, M. (1996), *Technology Strategy for Business*, International Thompson Business Press, London.
- Frankel, R., Whipple, J. S., & Frayer, D. J. (1996), "Formal versus informal contracts : Achieving alliance success", *International Journal of Physical Distribution & Logistics Management*, vol. 26, 3, pp. 47-63.
- Frear, C. R. & Metcalf, L. E. (1995), "Strategic Alliances and Technology Networks", *Industrial Marketing Management*, vol. 25, pp. 379-390.
- Gadde, L.-E. & Hakansson, H. (1994), "The Changing Role of Purchasing: reconsidering three strategic issues", *European Journal of Purchasing and Supply Management*, vol. 1, 1, pp. 27-35.
- Ganesan, S. (1994), "Determinants of long-term orientation in buyer-seller relationships", *Journal of Marketing*, vol. 58, April, pp. 1-19.
- Gentry, J. J. (1996), "Carrier involvement in buyer-supplier strategic partnerships", *International Journal of Physical Distribution & Logistics Management*, vol. 26, 3, pp. 14-25.

- Gerlach, M. (1987), "Business Alliances and the Strategy of the Japanese Firm", *California Management Review*, vol. 30, pp. 126-142.
- Gulati, R., Khanna, T., & Nohria, N. (1994), "Unilateral commitments and the importance of process in alliances", *Sloan Management Review*, vol. 35, 3, pp. 61-70.
- Hakansson, H. (1982), *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, John Wiley & Sons, New York.
- Hakansson, H. & Sharma, D. D. (1996), "Strategic Alliances in a Network Perspective," in *Networks in Marketing*, D. Iacobucci, ed., Sage Publications, London, pp. 108-124.
- Hamel, G., Doz, Y. L., & Prahalad, C. K. (1989), "Collaborate with your competitors and win", *Harvard Business Review* January-February, pp. 133-139.
- Hamel, G. & Prahalad, C. K. (1994), "Competing for the future, 1994", *Harvard Business Review* July-August, pp. 122-128.
- Harrigan, K. R. (1988), "Joint ventures and competitive strategy", *Strategic Management Journal*, vol. 9, pp. 141-158.
- Heide, J. B. & John, G. (1988), "The role of dependence balancing in safeguarding transaction specific assets in conventional channels", *Journal of Marketing*, vol. 52, January, pp. 320-358.
- Houston, F. S., Gassenheimer, J. B., & Maskulka, J. M. (1992), *Marketing Exchange Transactions and Relationships*, Quorum Books, Westport, Connecticut.
- Hunt, S. D. (1997), "Competing through relationships: grounding relationship marketing in resource-advantage theory", *Journal of Marketing Management*, vol. 13, 5 (Special issue), pp. 431-446.
- Jain S.C (1987), "Perspectives on international strategic alliances," in *Advances in International Marketing*, Jain S.C, ed., JAI Press, New York.

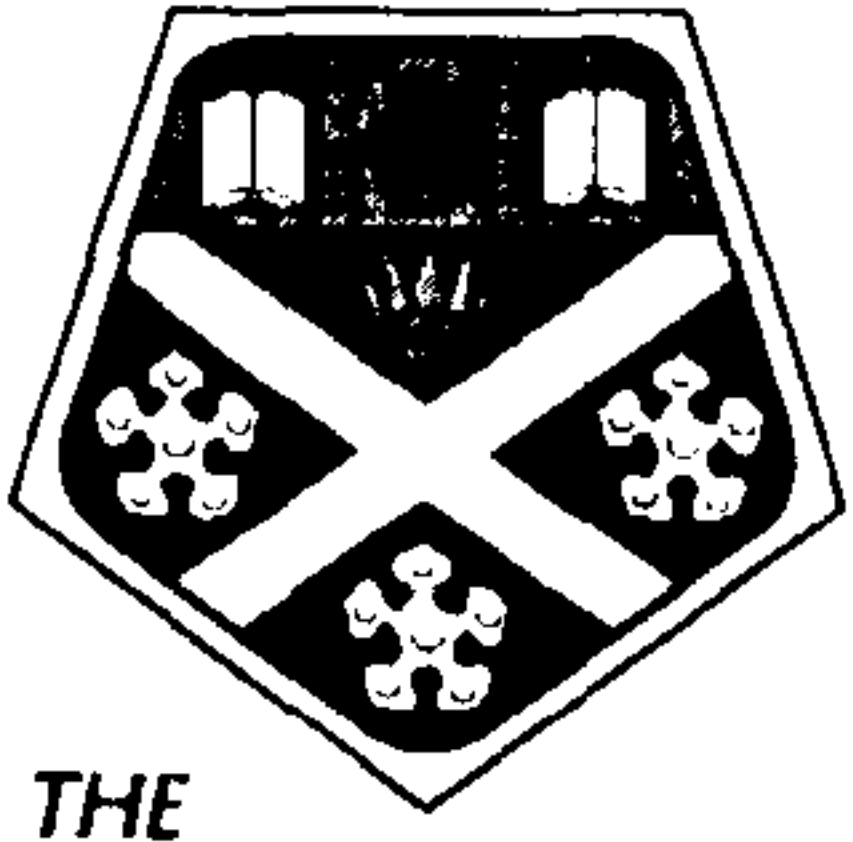
- Kalwani, M. U. & Narayandas, N. (1995), "Long term manufacturer-supplier relationships: Do they pay off for supplier firms", *Journal of Marketing*, vol. 59, January, pp. 1-16.
- Kanter, R. M. (1989), "The new managerial work", *Harvard Business Review* November-December, pp. 85-92.
- Kanter, R. M. (1994), "Collaborative advantage", *Harvard Business Review* July-August, pp. 96-108.
- Kapoor, V. & Gupta, A. (1997), "Aggressive Sourcing: A Free-Market Approach", *Sloan Management Review*, vol. 39, 2, pp. 21-31.
- Kay, J. A. (1993), *Foundations of Corporate Success: How Business Strategies Add Value*, Oxford University Press, Oxford.
- KPMG Report (1996), *Alliances and Networks: the Next Generation*, KPMG, Amsterdam.
- Krapfel, R. J. E., Salmond, D. J., & Spekman, R. (1991), "A strategic approach to managing buyer-seller relationships", *European Journal of Marketing*, vol. 25, 9, pp. 22-37.
- Kumar, N. (1996), "The power of trust in manufacturer-retailer relationships", *Harvard Business Review* November-December, pp. 92-106.
- Laios, L. & Xideas, E. (1994), "An empirical investigation of institutional and industrial purchasing structure", *European Journal of Marketing*, vol. 28, 4, pp. 20-38.
- Lewis, J. D. (1990), *Partnerships for Profit*, Free Press, New York.
- Lewis, J. D. (1995), *The Connected Corporation: How Leading Companies Win through Customer-Supplier Alliances*, Free Press, New York.
- Lonsdale, C. & Cox, A. (1998), *Outsourcing: A business guide to risk management tools and techniques*, Earlsgate Press, Bath, UK.

- Lorange, P. & Roos, J. (1992), *Strategic Alliances: Formation, Evolution and Implementation*, Blackwell, Cambridge, MA.
- McKenna, R. (1997), *Real time: Preparing for the Age of the Never Satisfied Customer*, Harvard Business School Press, Boston, Massachusetts.
- Metcalf, L. E., Frear, C. R., & Krishnan, R. (1992), "Buyer-seller relationships: An application of the IMP interaction model", *European Journal of Marketing*, vol. 26, 2, pp. 27-46.
- Monczka, R. M., Callahan, T. J., & Nichols, E. L. J. (1995), "Predictors of relationships among buying and supplying firms", *International Journal of Physical Distribution & Logistics Management*, vol. 25, 10, pp. 45-59.
- Morgan, R. M. & Hunt, S. D. (1994), "The commitment - trust theory of relationship marketing", *Journal of Marketing*, vol. 58, July, pp. 20-38.
- Morgan, R. M. & Hunt, S. D. (1999), "Relationship-based competitive advantage: The role of relationship marketing in marketing strategy", *Journal of Business Research*, vol. 46, 3 (Special Issue), pp. 281-290.
- Narus, J. A. & Anderson, J. C. (1996), "Rethinking distribution", *Harvard Business Review* July-August, pp. 112-120.
- Newman, V. & Chaharbaghi, K. (1996), "Strategic alliances in fast-moving markets", *Long Range Planning*, vol. 29, 6, pp. 850-856.
- Noordewier, T. G., John, G., & John, N. R. (1990), "Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships", *Journal of Marketing*, vol. 54, October, pp. 80-93.
- Oates, D. (1998), *Outsourcing and the Virtual Organization: The Incredible Shrinking Company*, Century Business, Random House, London.
- Oburai, P. & Baker, M. J. (1999), "Strategic alliances and supplier partnerships," in *The IEBM Encyclopedia of Marketing*, Second edition, M. J. Baker, ed., International Thomson Business Press, London.

- Ohmae, K. (1985), *The Triad Power: The Coming Shape of Competition*, Free Press, New York.
- Ohmae, K. (1989), "The global logic of strategic alliances", *Harvard Business Review* March-April, pp. 143-154.
- Osland, G. E. & Yaprak, A. (1993), "A process model on the formation of multinational strategic alliances," in *Multinational Strategic Alliances*, R. Culpan, ed., International Business Press, New York.
- Osland, G. E. & Yaprak, A. (1995), "Learning through strategic alliances: Processes and factors that enhance marketing effectiveness", *European Journal of Marketing*, vol. 29, 3, pp. 52-66.
- Pandya, A. & Dholakia, N. (1992), "An institutional theory of exchange in marketing", *European Journal of Marketing*, vol. 12, pp. 19-41.
- Porter, M. E. (1980), *Competitive Strategy*, Free Press, New York.
- Porter, M. E. (1985), *Competitive Advantage*, Free Press, New York.
- Porter, M. E. (1986), *Competition in Global Industries*, Harvard Business Schools Press, Boston.
- Porter, M. E. (1996), "What is strategy?", *Harvard Business Review* November-December, pp. 61-78.
- Prahalad, C. K. & Hamel, G. (1990), "The Core Competence of the Organisation", *Harvard Business Review* May-June.
- Quinn, J. B. & Hilmer, F. G. (1994), "Strategic outsourcing", *Sloan Management Review*, vol. 35, 4, pp. 43-55.
- Rangan, S. U. & Yoshino, M. Y. (1996), "Forging Alliances: A Guide to Top Management", *Columbia Journal of World Business*, vol. XXXI, 3.
- Rugman, A. (1981), *Inside Multinationals*, Croon Helm, London.

- Shamdasani, P. N. & Sheth, J. N. (1995), "An experimental approach to investigating satisfaction and continuity in marketing alliances", *European Journal of Marketing*, vol. 29, 4, pp. 6-23.
- Sharma, A. & Sheth, J. N. (1997), "Relationship Marketing: An Agenda for Enquiry", *Industrial Marketing Management*, vol. 26, pp. 87-89.
- Sheth, J. N. & Parvatiyar, A. (1992), "Towards a theory of business alliance formation", *Scandinavian International Business Review*, vol. 1, 3, pp. 71-87.
- Sheth, J. N. & Sharma, A. (1997), "Supplier Relationships: Emerging Issues and Challenges", *Industrial Marketing Management*, vol. 26, pp. 91-100.
- Slater, S. F. (1996), "The Challenge of Sustaining Competitive Advantage", *Industrial Marketing Management*, vol. 25, pp. 79-86.
- Spekman, R. E., Forbes, T. I., Isabella, L. A., & MacAvoy Tomas C. (1998), "Alliance Management: A view from the past and a look to the future", *Journal of Management Studies*, vol. 35, 6, pp. 747-772.
- Spekman, R. E., Isabella, L. A., & MacAvoy Tomas C. (2000), *Alliance Competence: Maximizing the Value of Your Partnerships*, John Wiley, New York.
- Spekman, R., Isabella, L. A., MacAvoy Tomas C., & Forbes, T. I. (1996), "Creating alliances which endure", *Long Range Planning*, vol. 29, 3, pp. 346-357.
- Spekman, R., Kamauff, J. W., & Salmond, D. J. (1994), "At last purchasing is becoming strategic", *Long Range Planning*, vol. 27, 2, pp. 76-84.
- Stafford, E. R. (1994), "Using co-operative strategies to make alliances work", *Long Range Planning*, vol. 27, 3, pp. 64-74.
- Stuckey, J. A. & White, D. (1993), "When and when not to vertically integrate", *Sloan Management Review*, vol. 34, 3, pp. 71-83.
- Turnbull, P., Ford, D., & Cunningham, M. (1997), "Interactions, relationships and networks in business markets: an evolving perspective", *Journal of Business & Industrial Marketing*, vol. 11, 3/4, pp. 44-62.

- Turnbull, P. W. & Cunningham, M. T. (1981), *International marketing and purchasing a survey among marketing and purchasing executives in five European countries*, Macmillan, London.
- Turnbull, P. W. & Valla, J.-P. (1986), *Strategies for international industrial marketing : the management of customer relationships in European industrial markets*, Croom Helm, London.
- Varadarajan, R. P. & Cunningham, M. H. (1998), "Strategic Alliances: A Synthesis of Conceptual Foundation", *Journal of the Academy of Marketing Science*, vol. 23, 4, pp. 282-296.
- Webster, F. E. (1992), "The Changing Role of Marketing in the Corporation", *Journal of Marketing*, vol. 56, October, pp. 1-17.
- Webster, F. E. & Wind, Y. (1972), "A general model for understanding organisational buying behaviour", *Journal of Marketing*, vol. 36, April, pp. 12-19.
- Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*, Free Press, New York.
- Williamson, O. E. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, Free Press, New York.
- Wilson, D. T. (1995), "An Integrated Model of Buyer-Seller Relationships", *Journal of the Academy of Marketing Science*, vol. 23, 4, pp. 335-345.
- Wray, B., Palmer, A., & Bejou, D. (1994), "Using neural network analysis to evaluate buyer-seller relationships", *European Journal of Marketing*, vol. 28, 10, pp. 32-48.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

Chapter Three

The Logic of Cooperation – Roots, Evolution and Advantage

THE
DEPARTMENT OF
MARKETING

Chapter Three: The Logic of Cooperation – Roots, Evolution and Advantage

The issues to discuss in this chapter include:

1. An examination of the phenomenon of cooperation and its evolution over time.
2. Advantages of cooperative strategies in the workplace and in economic organisation.
3. Conclusions and linkages to previous and following chapters.

CHAPTER THREE: THE LOGIC OF COOPERATION – ROOTS, EVOLUTION AND ADVANTAGE	46
1.0 INTRODUCTION	46
2.0 HISTORICAL ROOTS AND PATTERNS OF EVOLUTION	47
3.0 THE VARIETY OF SELECTION ENVIRONMENTS AND DETERMINANTS OF OUTCOMES	51
4.0 THE NEXUS OF BIOLOGICAL WEAPONRY AND SOCIAL NETS	53
5.0 THE METAMORPHOSIS OF ORGANISATION AND STRATEGY	55
6.0 CONCLUSIONS	61
7.0 REFERENCES	63

1.0 Introduction

The aim of this chapter is to identify the emergence of cooperation in early societies and its evolution. Close relationships, deep understanding, informal norms in place of legal contracts, specific commitments, longer time perspectives and open communication are all hypothesised to be correlated to, if not direct determinants of organisational success. This marks a definite shift from tradition, and signifies on the part of academic scholars and practitioners an acceptance of the principles and bases of the interaction and relationships paradigm and a degree of consensus as regards its effectiveness. *Cooperation* is the solution to environmental turbulence, and the once all-pervasive and omnipotent theories of perfect competition and other elegant though

what were often unrealistic assumptions appear to be diminishing in their significance. Hierarchies are almost out; networks are definitely in. We take a broader perspective in evaluating historical developments and theoretical works on coordination mechanisms, and suggest that the power for relationships and other administrative forms may be contextual; and that a full evaluation should help in arriving at a proper perspective.

Alliances, partnerships and networks among others are responses to the changed environment. As said in the earlier chapter, although the *phenomenon of cooperation* is not new, its increasingly ubiquitous appearance needs to be understood in its entirety. This chapter adopts both historical and cross-disciplinary perspectives to examine the same.

2.0 Historical roots and patterns of evolution

Hierarchy has historically been a natural way of organisation. International order and domestic stability that were precursors of the Industrial Revolution and modern prosperity owe much to the formulation of the hierarchical mechanism of the state. The ills of despotism and totalitarianism have had setbacks. The intrusion of state into activities and spheres best reserved for private entrepreneurship and/or voluntary initiative gets eventually undone as seen in privatisation efforts by governments across the globe. However, the benefits of hierarchical coordination need not be fully discounted in our quest for alternative forms of orchestration. No justification of external turbulence and unpredictability of technological movements should let us forget either the context that led to the acceptance of Hobbesian (1928) and Lockean principles and subsequent stability or the universality of fundamental ideas that underlie the philosophy that supported the movement.

It is a sign of the times. Authority¹ of all forms is slowly but surely packing its bags and is preparing to take leave quietly by the rear door. Clearly, this is not to

¹ Authority has several meanings, and it is only in recent times that it has become a word that is not liked much and perhaps resented in some circles. A quote from Simon would serve to clarify its use in the management literature and the word's pedantic use. 'Organisations operating in a highly centralised way would again exceed the limits of procedural rationality and lack many of the advantages that are attainable from the use of a hierarchic authority (March & Simon 1958)... In an organisational context a person exercises authority when he provides some of the premises for the decisions (and hence the

everyone's interest or comfort. Organisations, we use this word advisedly for this includes institutions of higher order like that of national governments and international agencies as well as lower order local authorities, voluntary and commercial bodies, and other groups of any significant size and impact, are getting flatter². We have argued elsewhere that change was inevitable (Oburai & Baker 1999a) and that this was affecting business firms' organisation and strategies (Oburai & Baker 1999b). A great deal of caution needs to be exercised when we talk about change. If change is a gradual and predictable one, then it should pose few problems for most of us. Only discontinuous change should pose any elaborate problems owing to its inherent nature of unpredictability and hence lack of preparation on the part of firms. Longer timeframes and historical studies uncover elements of both continuity and discontinuity. Discontinuities (Drucker 1968) are often the focus of business literature, but short time spans exaggerate some effects while masking others: it is just as easy to miss and not discern the elements of continuity which are for all to see when a longer timeframe is chosen. Our point is this: that there can be something like being too watchful. Yes, it is possible that we can be too careful when too much attention is paid indiscriminately to all alarms for some of them may simply turn out to be false ones. Yet another caveat may be in order. This has to do with the level of change and responses to these changes. Academics and consultants alike regularly write about change. Managers and executives hear this routinely as well as about possible remedies. However, it is important to distinguish between changes of a general type that affect all or most firms and those that impact at a more specific level. 'General conditions require general solutions; special conditions require special solutions.... The global organizational responses required to cope with general conditions are significantly different from the unique organizational responses required to cope with special conditions (p.8)' (Sentell 1994). This dictum is a restatement of what Simon and many others have said before (Simon 1988).

behaviour) of one or more other persons and enforces the use of those premises. Since a single decision may be influenced by a large number of factual premises and criteria of choice, the fact that some fraction of these premises and criteria of choice are specified by superiors does not imply complete centralisation. In fact the main advantage to be gained from hierarchic authority is identical with that gained from using prices as communicators: matters of fact can be determined at the particular loci in an organisation that are best equipped by skill and information to determine them, and they can then be communicated to "collecting points" where all the facts relevant to a specific issue can be put together and a decision is reached.... Thus business organisations, like market economies, are vast, distribute computers whose final choice processes are substantially decentralised' (p.48-49)(1988).

Repetition however does not lessen the validity of the statement, nor does it ensure that the message is understood universally.

This decline of the stature of institutions, we contend, is an unambiguous trend apart from a slight exaggeration. On the one hand it signals a welcome decentralisation and empowerment. On the other hand the devolution of responsibility mandates on the majority the need for rapid development of skills that were once thought to have been in exclusive provinces meant only for a few. The overt role of religion has been on the decline for several centuries, although it has been the one bond that appears to transcend national borders in uniting human communities and in the making of civilisations (Fukuyama 2000 p.236). Democratic systems have taken the place of monarchies. States are being asked 'to steer and not to row'. Patriarchy has received a great deal of opposition, and family units that have single individuals are on the rise and already account for one-quarter to one-half of all households in many developed countries (p.114).

How in a sea of turbulence marked by competition and great social change can we spread the message of cooperative ethics? History tells us that cooperation and competition are linked inextricably and are intricately intertwined. If any metaphor serves to capture this spirit, it is that of a coin. Cooperation and competition are two sides of the same coin. They coexist and are mutually reinforcing. This however does not resolve the issue of our main focus. Metaphors only imply some similarities, and do not attempt to establish precise relations. Is there an innate propensity among us that makes us *inherently cooperative or intrinsically competitive*? A look at historical thought and subsequent thinking could provide us with some clues that might lead us to answer this question.

Humankind has traversed over several millennia. Our ancestors' brains tripled in size over a time period of 3.5 million years period leading to the emergence of *Homo sapiens* about 300,000 years ago (Devlin 2000 p.172).

² Business process reengineering and other changes appear to be pushing down authority through organisational levels. This means authority is not really out but down ((Fukuyama 2000).

'The cost of such a brain is enormous – the brain makes up less than 2 percent of our body's mass, yet uses about 20 percent of its energy – so its survival advantage must have been enormous as well.... The human brain is nine times larger than is normal for a mammal of our body size.... Its actual size varies between 1000 and 2000 cubic centimetres, with the vast majority between 1400 and 1500 cubic centimetres. Within this range there is no obvious correlation between size and intelligence (p.18).'

'The rapid transformation of *Homo sapiens* from endangered species to a population of six billion a mere 75,000 to 200,000 years later (a blink of an eye in evolutionary terms)' (p.242) is due directly to the higher cognitive capacity derived from adapting the brain or more precisely from "exaptation" of an organ whose functions were entirely different from those it was made to perform. 'Our ancestors' spectacular brain growth was driven by the need for a richer view of the world, a greater repertoire of responses particular patterns of stimuli, and a more effective means of communication' (p.185). This is one of the greatest survival tricks that evolution and adaptation have ever conjured up.

'One evolutionary path that many creatures have followed is to increase the number of types that they recognize and respond to. Such species 'progress' by successive generations by responding better to various types than did their ancestors, and by differentiating *new* types (as the environment changes), which their ancestors did not differentiate.

Much of the time, such evolutionary 'advances' comprise the acquisition (by a new generation) of new automatic stimulus-response links. These require no conscious effort or even cognitive activity of any kind. Humans, however, often do make a conscious effort to increase our body of types. This can be at the level of a particular individual, such as a trainee doctor, or it can be at the species level, as in medical research. Much of medical research amounts to increasing the number of types of body conditions that can be recognised, and expanding the collection of types of treatments that can be effectively applied. This may involve refining existing types by splitting them into subtypes. Or we may discover that what we once thought to be separate types are really subtypes of the same type – a new common thread is observed. We refer to this enlargement of the collection of known types as 'progress in medical research.'

If you stop and think about it, it becomes clear that distinguishing types is the very essence of life, or at least of staying alive. Type recognition is so important in many animals, large parts of one particular organ have evolved to handle types – to recognise types and to generate responses of the appropriate types. That organ is the brain.... Bigger brains have a greater repertoire of types, both types that they can recognise and response types that they can generate. In the most simple brains, *all* the stimulus-type-response-type links appear 'hard-wired.' More complex brains, including human ones, also have *some* hard-wired responses...dedicated to ensure basic survival.... But in addition to their hard-wired stimulus-response mechanisms, complex brains can also acquire new links through experience...(p.188-189) (underlining added).'

The survival benefits afforded by the energy intensive brain must have outweighed the costs. While the evolution of the brain is a matter of internal development, the same also helped in building groups. Group activity was facilitated through increased

and better communication (p.167). But then throughout the long period of seven million years since apes started to live on plains and savannas and during the almost equally long time during which mental faculties and language abilities were primitive, our apelike ancestors survived principally because of group activity. This is seeking safety in numbers! Understanding the environment and communicating with other group members were two processes that were greatly assisted when abstract and reflective thinking, and language skills appeared between 75,000 and 200,000 years ago. Both are in our view abilities that allow an entity to relate more effectively to the external environment. This we contend is as important as survival itself. The ability to link certainly helps survival, but any survival as end in itself and without other larger purposes cannot lead to an incredibly purposeful life. While the ability to survive and pass on genes is a necessary means of perpetuating oneself, what is unclear is the reason for this whole activity. Higher purposes such as the fulfilling innate human curiosity to explore the world, to relate oneself to others, and to gain recognition and esteem are in our view some of the most important drivers of living.

Man has not merely understood, but is now in a position to modify nature. Most of the environment we live in is a man-made and an artificial one. Advances have come about through largely collective efforts. The ability to inspire and get others to work together with a view to achieving common goals is as relevant to our era as it was with the *Homo erectus* species. Selection pressures on simple organisations are enormous. Many species including ants, bees, elephants and virtually most others have a great deal of division of labour, some degree of hierarchy and organisation. In the absence of hierarchy or some other form of cooperative orchestration, these selection pressures can turn out to be overwhelming and hence often fatal. The question of mortality and change are examined in the following sections.

3.0 The variety of selection environments and determinants of outcomes

The ability to understand, interpret and synthesise information about both the immediate and remote environment is crucial to the survival of any entity. That this activity of understanding the environment is an important activity is very well

recognised in the management literature. Several perspectives of the process and methods are reviewed in Brownlie (1999). Given the complexity that characterises many environments, selectivity and perception appear to be two main factors influencing the success or otherwise of the process. Clearly, the overall basis is the need to align individual or group entities to the environment.

In a brilliant and thought provoking analysis of corporate evolution, Neil M. Kay argues that 'many analyses of competitive processes in economics depend on notions of firm failure and death as integral parts of the selection process' (1997 p.78-82). However, there is plenty of evidence that large firms rarely die. Their continuity of existence is sometimes ensured through acquisition or merger. Identity and ownership might change yet contractual relations might continue to be honoured, as might be the continuance of many other activities, resources and relationships. Considering that some degree of change and evolution are common to all firms independent or acquired, it appears quite reasonable for us to accept Kay's arguments.

'As Scherer and Ross indicate, the basic unit on which selection processes are presumed to operate in economics is the firm. However, as Gould (1993 p.148) points out: 'a *struggle for existence* must therefore arise, leading by *natural selection to the survival of the fittest* (italics in original). In natural selection the corollary of selecting the fit is the weeding out of the unfit and actual failures (Gould 1977 p.11). But if natural selection operates on large as well as small, where is the evidence? As we have seen the industrial landscape is not littered with carcasses of failed giants. Yet without failure there can be no natural selection, and if there is no natural selection the Darwinian analogy breaks down.

In order to deal with these problems, it is important to distinguish different levels of analysis. The selection processes impacting on firms may be quite different from those impacting on their constituent products. One difficulty with analysis of selection processes in economics is that it has tended to fuse together questions relating to the survival of product-markets with the survival of firms. This is not surprising since... the neoclassical agenda and its theory of firm is a theory of product-markets. But, while the gales of Schumpeterian creative destruction almost inevitably have a devastating effect on individual products over time, the same does not necessarily hold as far as the firm itself is concerned.... At the same time, the level of operation of Schumpeterian competition is wider than individual product markets, what such competition creates and destroys is not just product-markets, nor necessarily firms, but capabilities.... The obsolescence of some capabilities is not in itself life threatening for the firm as long as it has other capabilities it can draw on to maintain its commercial viability.... What is commercial life for the new product-market (and its innovator) can mean death for the established products (and specialised firms producing it). But if the forces of creative destruction can be locked up within the boundaries of the firm, then these sources of corporate mortality are removed. The death of one technology is matched (indeed caused) by the growth of another, and the viability of the firm is undisturbed. The internalisation of creative destruction is the corporate equivalent of the elixir of life'.

Technological change is either competence destroying or enhancing from any given firm's perspective (Tushman & Anderson 1986). Neil Kay contends that

'[T]he typical representation of selection processes in economics as involving *hard selection*. As with natural selection, by hard selection we mean cases in which elimination of individuals is an intended and integral part of selection processes.... By way of contrast, the evidence of studies of survival rates in large firms suggests that selection processes operating at the level of the firm itself in such cases is typically characterized by *soft selection*. By soft selection processes, we mean cases in which elimination of individuals is abnormal or even pathological. Individuals are only removed from this environment in exceptional or unusual cases, the standard expectation is that they continue to survive indefinitely. The selection processes operating at the level of the firm in the typical large firm case would appear to display soft selection attributes.... While hard selection environments tend to have finite life cycles, soft selection environments tend to have infinite horizons; the race may be ended, but the club continues.

This is not the only distinction between environments that can be made. For example, it is possible to identify cases where the elimination of individuals or systems from the environment in which they participate is neither necessary (hard selection) nor a pathological (soft selection) feature of the environment in which they operate, but can instead be traced to performance related issues. These are termed contingent selection environments here, and they can include cases where individuals are members are teams and corporations, and possibly where firms are members of cartels. The important considerations here are the circumstances in which individuals or systems may be eliminated under the alternative regimes. In general, for the individual or system to continue under hard selection usually requires a winning performance, in contingent selection environments some degree or measure of performance (possibly relative to others) is generally required, while soft selection environments only require some form of minimal performance' (p.82-84).

4.0 The nexus of biological weaponry and social nets

There exist countless ways and myriad mechanisms to coordinate individuals and higher-level entities such as firms. Markets, hierarchies, bargaining, voting, statistical aggregates are some that Simon cites (1988 p.38). Hierarchies use common estimates, criteria and goals across departments and throughout departments, and this 'standardisation may be more effective than prediction'.

'The assertion that uncertainty leads to the substitution of hierarchy for markets seems in a way paradoxical, since uncertainty would seem to call for the greatest degree of flexibility, and flexibility would appear to be more attainable with decentralised decision making of markets than with the centralised decision making of hierarchies. But this is a superficial analysis. All depends on the sources of the uncertainty. If what is uncertain is a multitude of facts about conditions in individual markets, then decentralised pricing will appear attractive; if the uncertainty is global, infusing major events that will affect many parts of the organisation in the same direction, then it may be advantageous to centralise the making of assumptions about the future and to instruct the decentralised units to use these assumptions in their decisions.

Clearly this brief discussion does not exhaust the topic of social mechanisms for expanding the limits of rationality. Enough has been said, however, to show that, in a world of bounded rationality there are several ways to magnify the computing abilities of individual human beings and enhance the possibilities of their collective survival and prosperity. With the combined use of markets and administrative hierarchies, the human species has enormously increased its capabilities for specialisation and division of work. It would be too much to attribute the vast growth and spread of

human populations to such mechanisms alone – modern medicine and modern technology have had something to do with it too – but the dominance of our species over the globe today is the witness to the augmentation of human reason made possible by these social artefacts’ (underlining added)(1988 p.51-52).

‘The simplest scheme of evolution is one that depends on two processes: a generator and a test. The task of the generator is to produce variety, new forms that have not existed previously, whereas the task of the test is cull out the newly generated forms so that only those fitted to the environment will survive. In modern biological Darwinism genetic mutation is the generator, natural selection the test’ (p.52) (Simon 1988). However, most firms readily imitate successful firms and hence incorporate ideas and procedures that have had some element of success. In this sense economic evolution in contrast to biological evolution is Lamarkian’ (p.57) (Simon 1988).

Here we bring to fusion the biological and business worlds (perhaps a caveat is in order here; that biological metaphors and analogies are necessary but are limited in their portrayal of reality). Markets and exchanges are some of the most fundamental devices that man has employed all through the hunter-gatherer and subsistence era to the modern. There is no designer (p.52) (Simon 1988). It is a spontaneous product of interaction of individuals, and is not a deliberate design. Indeed the market is a marvel for most, especially economists and its effectiveness is self-evident in many spheres.

‘Market processes commend themselves primarily because they avoid placing on a central planning mechanism a burden of calculation that such a mechanism, however well buttressed by the largest computers, could not sustain. They conserve information and calculation by making it possible to assign decisions to the actors who are most likely to possess the information (most of it local in origin) that is relevant to those decisions’ (p.41). Hayek (1945) argued that

‘The knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate “given” resources – if “given” is taken to mean given to a single mind which deliberately solves the problem set by these “data.” It is rather a problem of how to secure the best use of resources known to any of the members of the society, for ends whose relative importance only these individuals know. Or, to put in briefly, it is problem of the utilisation of knowledge not given to anyone in its totality (p.519-520)... We must look at the price system as such a mechanism for communicating information if we want to understand its real function.... The most significant fact

about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on, and passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement' (p.526-527).

Simon concluded that 'both the conscious rationality of economic decision makers and the unplanned but adaptive evolutionary processes have moulded economic institutions.... On a large scale markets and hierarchic organisations are social schemes that facilitate coordinated behaviour, at the same time conserving the critical resources of human ability to handle complexity and great masses of information (1988 p.60-61)'.

5.0 The metamorphosis of organisation and strategy

'Modern world is built on two centuries of industrialisation'. The key development that drove most of the growth was the introduction of the limited liability concept. 'Shares were first issued in the 16th century, by Europe's new joint-stock companies, led by the Muscovy Company, set up in London in 1553 to trade with Russia'. This paved the way for the future. 'The concept of limited liability, whereby the shareholders are not liable, in the last resort, for the debts of their company, can be traced back to the Romans. But it was rarely used, most often being granted as a special favour to friends by those in power. Then in 1811 New York State brought in a general limited liability law for manufacturing companies'. The concept powered the growth of capital-intensive projects and factories and was soon imitated by the other states. 'In 1854, Britain, the world's leading economic power, did so too' (Economist 2000 p.111).

Adam Smith was a leading proponent of free trade, markets and institutions. He knew that repeated application of the division of labour³ principle and specialisation are

³ This phrase has a variety of meanings and has found a constantly widening application in relation to economic, physical and biological phenomena. 'The general truth that underlies this development is expressed in the title of his third chapter – 'that the Division of Labour is limited by the extent of the market'' (quoted in p.9-10Unwin 1963).

keys to efficiency and productivity. Smith built on his earlier idea that the ‘well spring of benevolence is self-love, combined with man’s capacity of sympathy with his fellows. Self-love and sympathy, mediated by the customs and institutions of civilised society, guide man to behave virtuously towards man.... In his new work, Mr Smith develops this theme. Again he emphasises self-love but with a new twist. Now it is the needs of commerce that mediate. The unintended result is...as before a more decent and prosperous society, as if shaped by an “invisible hand”. ‘The idea is hardly new. The ability of a well-ordered polity to harness selfishness to the greater good, without coercion and overt design, has been described by others – notably by Bernard Mandeville in “Fable of the Bees”’(Economist 2000 p.118). Marshall and Smith also knew that ‘ the difference between the most dissimilar characters, between a philosopher and a common street porter for example, seems to arise not so much from nature as from habit, custom, and education’ (Smith 1976 p.28-29). He sought to counter the demoralising effects of the repetitive work through universal education, at public expense (Economist 2000 p.118).

More than a century later, Henry Ford, used⁴ the principle of division of labour in inventing mass production of cars. Moving assembly line and usage of interchangeable parts were other Fordist innovations. Resultant low cost cars had an explosive impact in creating large automobile markets across the world (Economist 2000 p.106).

Taylor’s work (1911) had the intention of improving productivity. As can be seen, Taylor really was building on the work of Smith and Ford. The cost of standardising work was to ignore the human potential as a source of innovation and creativity. This process also ended up reinforcing hierarchy and top management. The situation was exacerbated by the fact that most of the workforce at that time was unskilled. This is not to deny the huge benefits of scientific management, or to underrate the impact of the group of scholars led by Harvard scholar, Elton Mayo.

⁴ This is a great oversight indeed that most modern writers or advocates of free markets only rarely mention the fact that Adam Smith’s views were very balanced in that he knew that free markets would accentuate social and other differences and he sought provisions for attenuating these effects. Institutions and governments are only some instances of such counter mechanisms.

Barnard 'attempted to synthesise of the management theories of the two camps – the mechanistic rationality stressed by the “scientific management” and the human factors highlighted by the human relations theory – at the organisational level.... Barnard emphasised the importance of “behavioural knowledge” in the management processes, which is different from scientific knowledge.... The essence of the “problem of organising” according to Barnard, is to transform actors who strategically pursue mutually conflicting goals into a rational cooperative system.... The Barnardian attempt to sythesise the scientific and humanistic views of management laid the foundation of organisation theory. Inspired by Barnard’s insights on the importance of the role of executive managers in the organization, Herbert Simon saw the essential function of executives as that of decision making. Strongly influenced by the development of the computer and cognitive science, Simon investigated the nature of human problem solving and decision making and developed a view of organisation as an “information processing machine” (Nonaka & Takeuchi 1995 p.36-38).

‘The invisible hand of Adam Smith and the marvel of market to which Hayek referred have spontaneous origins.... What interested Barnard, however, was not spontaneous cooperation but induced cooperation. He simply asserted that in his experience formal organisation was more important and undervalued, where formal organisation was defined as “that kind of cooperation among men that is conscious, deliberate and purposeful” (p.4)’ (Williamson 1996a p.30-31).

‘Both Hayek and Barnard hold that the central problem of economic organisation is adaptation. But whereas Hayek locates this adaptive capacity in the market, it was the adaptive capacity of internal organisation on which Barnard focused attention. If the “marvel of the market” (Hayek) is matched by the “marvel of internal organisation” (Barnard), then wherein does one outperform the other? The authority relation (fiat) has adaptive advantages over autonomy for transactions of a bilaterally (or multilaterally) dependent kind’(Williamson 1996a p.102-103).

Transaction cost economics and analysis are concerned with economic organisation. This is a micro-analytical branch of New Institutional Economics, which is devoted to understanding institutions. Institutions are ‘the humanly devised constraints that structure political, economic and social interaction. They consist of both informal

constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, law and property rights)' (North 1991 p.97). Williamson's (1975) work is 'principally concerned with the institutions of governance (markets, hybrids, hierarchies, bureaus (1981;1983;1985;1993;1996a;1996b))' (1996a p.5). He proposed 'a logic of organisation in which the discriminating alignment of transactions with governance structures is the source of refutable implications' (1996a p.3). Williamson sketches his core arguments: 'Intuition tells us that simple governance structures should mediate simple transactions and complex governance structures should be reserved for complex transactions. Using complex structures for simple transactions incurs unneeded costs, and using a simple structure to govern a complex transaction involves strain...although hierarchies have the appearance of being more complex governance structures than markets are, that can be disputed.... If the "natural" way to manage transactions is through (authority), then the presumption that "in the beginning there were markets" must be reversed. Authority is something with which we have direct experience of (in managing households and more generally) and think that we understand. By comparison markets are where subtleties reside' (1996a p.12-13).

'In a society like ours organisations are, with one exception, the smaller raisins embedded in the larger cake of the market structure. The exception is the central government, which is a very large raisin indeed. In socialist countries the government is commonly conceived to be *the* central organiser, without which rational, coordinated behaviour is impossible. We have already seen the fallacy of this view. In democracies the central government's role is mixed, but it is thought to be more a rule giver and umpire – a definer of the game – than a central planner' (Simon 1988 p.48).

Classical economists thought of firms as independent 'atomistic businesses that bang against each other like billiard balls' (Badaracco 1991 p.4). Citadels, forts, spheres of control and islands of discretion are other words that Badaracco cites to describe how managers and academics used to think of firms.

Alliances break down mental barriers and bring down walls. Indeed in today's changed environment, brick and mortar firms are giving way to virtual ones. 'Alliances are organisational arrangements and operating policies through which

separate organisations share administrative authority, form social links, and accept joint ownership, and in which looser, more open-ended contractual arrangements replace highly specific, arm's length contracts.... Scholars have devised many ways to describe and conceptualise the phenomena that I have called "blurred boundaries." Two organisational theorists have written that firms resemble primitive forms of life composed of "globular masses of protoplasm through which flow the fluids of their watery environment and from which they cannot be easily distinguished." Two financial economists have written that "it makes little or no sense to distinguish those things which are 'inside' the firm (or any other organisation) from things which are 'outside' of it. There is, in a very real sense, only a multitude of complex relationships (i.e., contracts) between firms and the legal fiction (the firm) and the owners of labour, material, and capital inputs and consumers of output." Sociologist Robert Eccles coined the term "quasifirm." An economist has described the relationships between companies and their environment by comparing them to coagulating lumps in a pail of buttermilk' (Badaracco 1991 p.4-5; references removed).

There was a time when great cities and nations were 'built on the supremacy of sand over water. In the old days it had been thought safer to transport goods across the desert than over seas' (Rushdie 1992 p.102-103). Maritime power underlay the fortunes of the British Empire⁵. 'Manpower and waterpower gave way to steam and machines' and eventually to energy from fossils including oil (Economist 2000 p.19 and p.99). Malthus was right and wrong (Baker 1976 p.8 and p.150). Resources are finite, but not in their manifold ways of uses. 'He was clearly right to note that the earth's resources are finite, though he vastly underestimated man's ingenuity in utilising them more efficiently, and at making new inventions (Economist 2000 p.13)'. Progress was made possible by moving from animate to inanimate sources of energy and media of movement. So it was mechanical sources that fuelled the early development. We came a full circle in recruiting sand to power our digital and information computation devices. The second aspect of the current dual revolution is the Biotech and related applications. Advantage to man! Nature's limitations are our victories and it appears that the very idea is not to continue to overcome the limitation

⁵ The Golden Era that Queen Elizabeth I ushered in and subsequent developments had one good start. This was Sir Francis Drake's victory over that of the vastly superior and numerous Spanish Armada (McDonald 1992 p.25).

imposed by the environment but to modify the environment and to reduce our reliance so much that environment becomes a factor that plays no role and hence is reduced to a variable that has little explanatory power and significance. To emphasise, limits are but temporary and human spirit defies boundaries and shackles either material or otherwise. This is precisely what *fuels our quest for alternative forms of organisation* of work and relations. Alliances and relationships are purported to have the best properties of markets as well as hierarchies. Hybrids, as Williamson calls them, are then a powerful combination. The following diagram from Day and Wendler (1998) depicts this thesis in a pictorial form.

Exhibit 1

Forms of organization

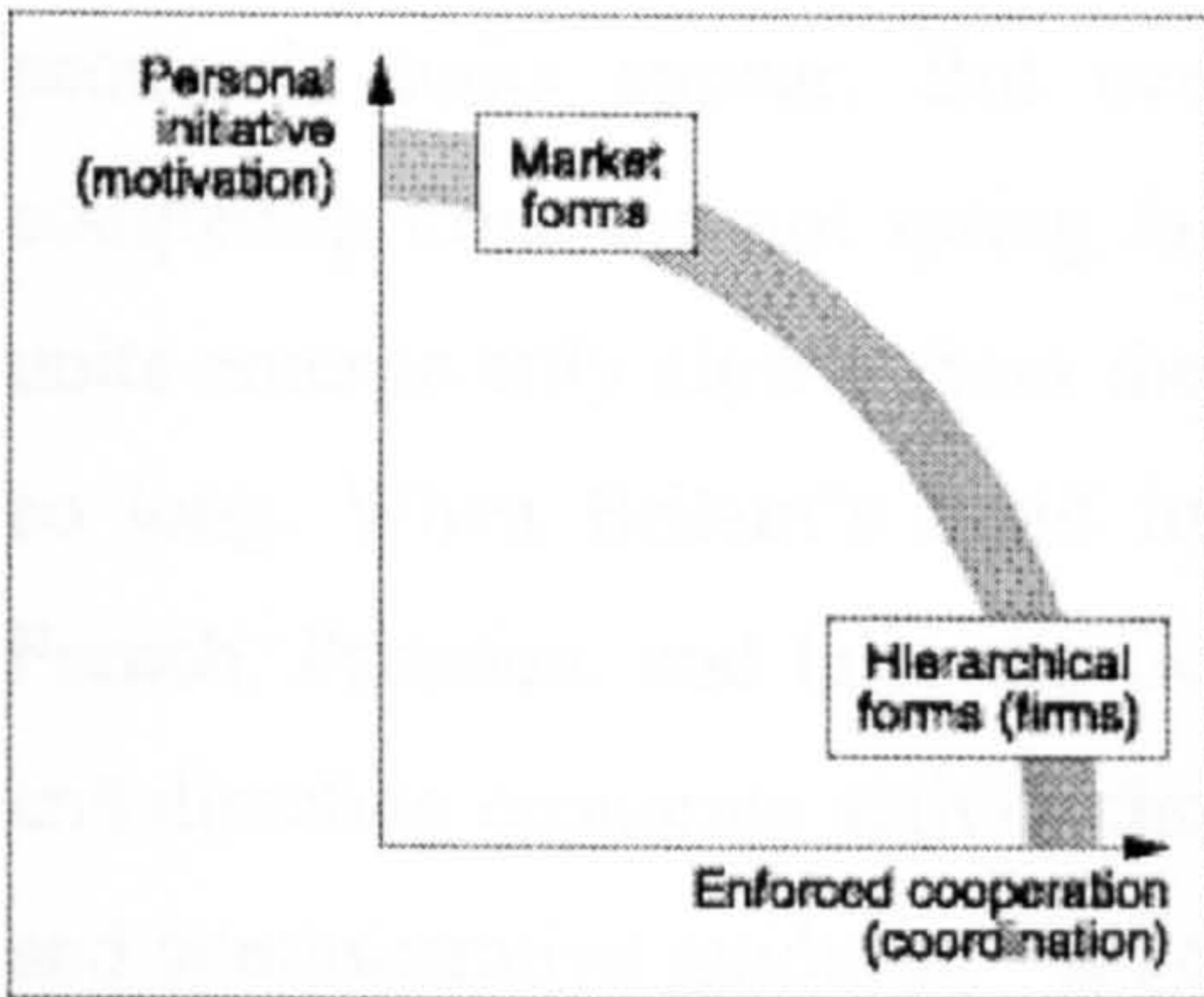


Exhibit 2

The impact of disaggregation

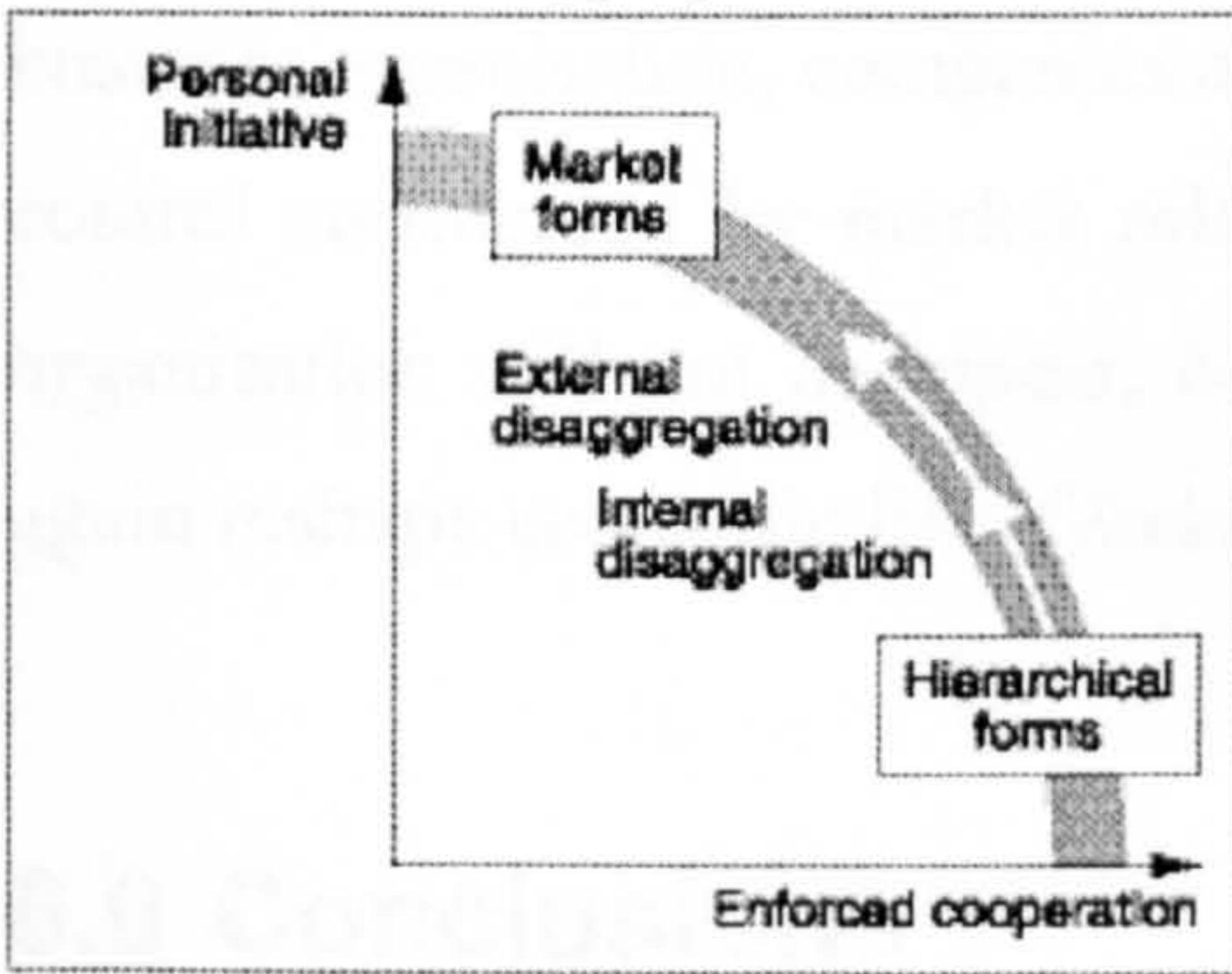
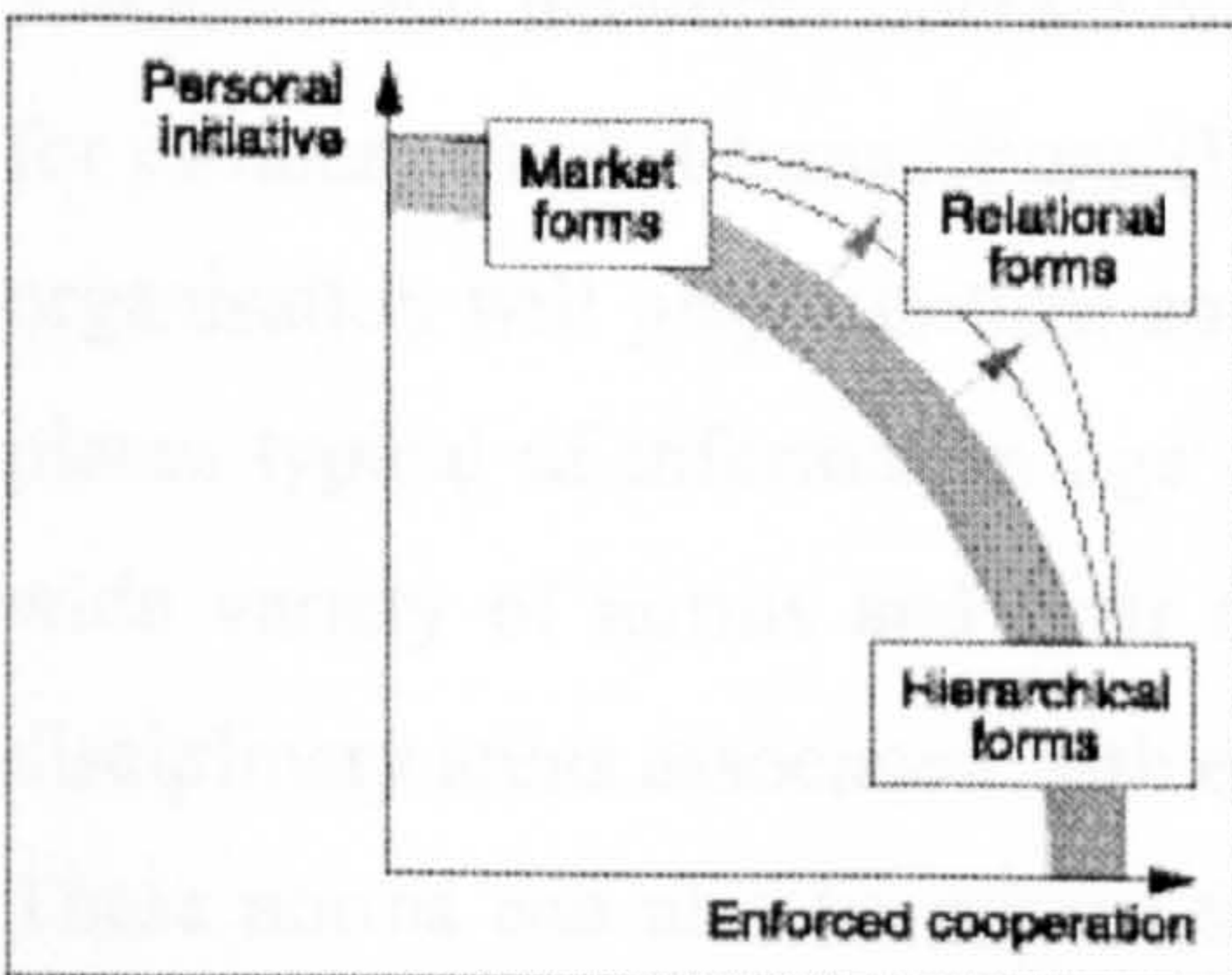


Exhibit 3

Innovative relational forms



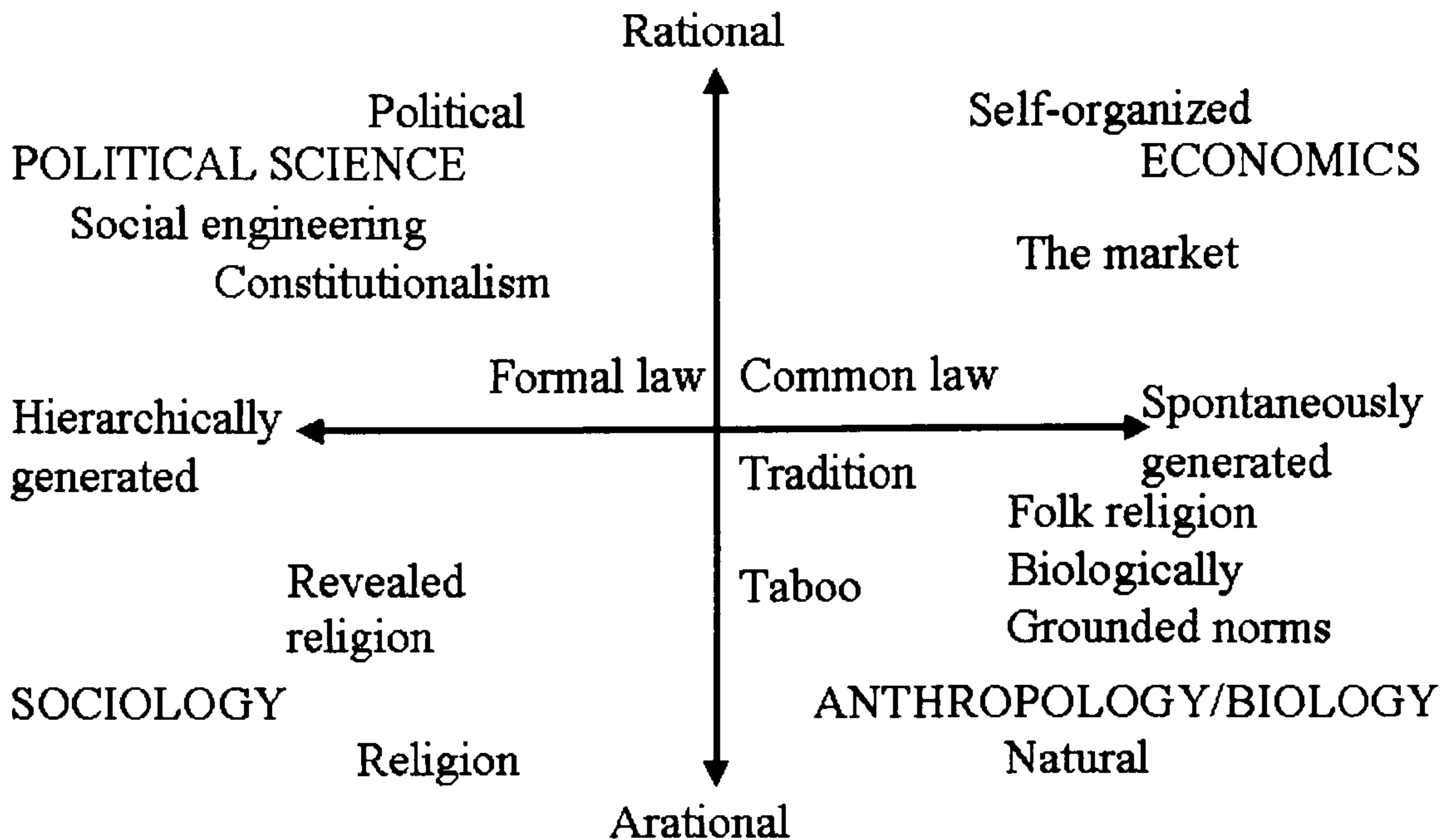
According to one scholar, alliance ‘possibilities and questions raise a final, broad, historical issue: perhaps firms that blur their boundaries are not creating a wholly new corporate form but rather creating old patterns of doing business on a global scale. The history of commerce, until the Industrial Revolution, is essentially a chronicle of indefinite and permeable boundaries around business activities. “Business” was enmeshed in relationships with families, because households were basic economic units; with villages and manors, the organising units of agriculture; with guilds, which regulated the relations of master, journeymen, and apprentices; and with towns and their customs, which shaped and regulated the behaviour of guilds and workers. Only in Great Britain, about 200 years ago, did a self-regulating market of separate economic units appear. But even there, the market capitalism of independent competing firms did not spring full-blown into existence. Rather, separate economic units emerge only slowly from the social and political webs that enveloped them for so long. When Britain’s rapid industrialisation and growing might frightened the French, Prussian, and later the German governments, they responded by promoting and directing economic activity through subsidies, state ownership, cartels, protection, and administrative guidance – all of which obscured the boundaries among firms and between states and firms.... Against the broad sweep of the history of commerce and business organisation, companies as citadels – clearly defined zones of ownership and control surrounded by market relations – are the anomaly. This form of economic organisation will not disappear, but it is changing dramatically, in ways that could again reshape economic life’ (Badaracco 1991 p.154).

6.0 Conclusions

Alliances and networks operate on shared norms and values beyond those necessary for ordinary market transactions (Fukuyama 2000 p.199). ‘Informal norms and self-organisation will play a critical and perhaps an increasing role in the high-tech work places typical of information age’ (p.212). The following diagram depicts in brief a wide variety of norms and their nature of generation. This picture also details the disciplinary areas associated with each of the four quadrants of norms and institutions. These norms can also be related to what North (1991) and Williamson (1980;1985)

call macro and micro governance systems. There are attempts at cross-disciplinary studies and modification of the philosophical assumptions that guide individual area studies. However, the diagram does capture a major part of the story.

Figure 3.1: Universe of norms, sources of order and disciplines



Source: Fukuyama (2000)

Economic exchange and work organisation assume certain micro and macro environments. Formal organisations also have informal components. Mechanistic forms require little more than your pair of hands, while other more organic firms and work require much more. Continuous adaptation and generation of innovation are needed in the post-industrial era. Formulation versus implementation, thought versus labour⁶, nature versus nurture, inner versus outer environment, society versus economy, spontaneity versus hierarchy, formal laws versus informal bonds, self versus group, individual versus institution and competition versus cooperation are all unneeded and limiting dichotomies. In a world where flux and fluidity are ever present, fixity and rigidity are sure recipes for disaster. If work has to be truly

⁶ Although we list several fundamental dichotomies, we do not rule out that one or more common elements might connect most or all of these. Cartesian dualism that is, for example, evident in most works is built on the assumed and often incorrect divide of body and mind. As it is outside the scope of current work, it is not addressed any further.

spiritually uplifting, there can be really no difference between work and play. Fukuyama argues that social capital – ability to work in groups – is among the most vital resources that may be required for reconstruction of social order and progress for the future.

Organisational success may be over-determined in that many competing explanations exist. It is well known that traditional accounting and financial measures and conventions offer only a crude picture of the state of affairs of a firm. Added to this is the variety of activities and organisations that firms adopt. This makes the task even more difficult for an almost frozen and codified set of rules. However anachronistic they may be, they do make some aggregate measures of comparison possible across firms if not industries. In an uncertain world, one has to be constantly on the look out for changes in a varieties of aspects: customers, competition, markets, products, technologies, time and the like (Nonaka & Takeuchi 1995 p.5). This list can indeed be very long. As it is the focus of the dissertation we would like to add another: complementors⁷ or suppliers (Brandenburger & Nalebuff 1996 p.19).

As said above, the increased usage of cooperative strategies may be understood to be the outcome of the quest for alternative forms of organisations that are aligned to the changes in the environment. More importantly, both cooperation and competition were argued to be intricately inter-linked. Managers innovate on a variety of fronts, and if anything innovation may be one surer route to success than the rest of strategies put together. This is an issue that will be taken up in the next chapter in which strategies of firms are evaluated in order to determine both the content and directions of strategic thinking across a range of disciplines.

7.0 References

Badaracco, J. L. (1991), *The Knowledge Link: How firms compete through strategic alliances*, Boston, MA, Harvard Business School Press.

⁷ Unlike Brandenburger and Nalebuff, we use complementors and suppliers in a synonymous sense. We see almost no difference between firms who supply complementary products and suppliers that justifies separate treatment of these two concepts. Indeed, this separation may obscure similarities.

- Baker, M. J. (1976), *Marketing: Theory and Practice*, First edition, Macmillan, London.
- Brandenburger, A. M. & Nalebuff, B. J. (1996), *Co-opetition: 1. A revolutionary mindset that combines competition and cooperation; 2. The game theory strategy that's changing the game of business*, Currency Doubleday, London, New York.
- Brownlie, D. (1999), "Environmental Scanning," in *The Marketing Book*, Fourth edition, M. J. Baker, ed., Butterworth Heinemann, Oxford, pp. 81-108.
- Day, J. D. & Wandler, J. C. (1998), "The new economics of organisation", *McKinsey Quarterly* 1, pp. 4-18.
- Devlin, K. (2000), *The Maths Gene: Why Everyone Has It, But Most People Don't Use It*, Weidenfeld & Nicolson, The Orion Publishing Group Ltd., London.
- Drucker, P. F. (1968), *The Age of Discontinuity: Guidelines to our Changing Society*, Harper & Row Publishers, New York and Evanston.
- Economist (2000), Millennium Special Edition edition.
- Fukuyama, F. (2000), *The Great Disruption: Human nature and the reconstitution of social order*, Profile Books, London.
- Gould, S. J. (1977), *Ever Since Darwin: Reflections in Natural History*, London.
- Gould, S. J. (1993), *Eight Little Piggies: Reflections in Natural History*, Norton, New York.
- Hayek, F. v. (1945), "The Use of Knowledge in Society", *The American Economic Review*, vol. 35, September, pp. 519-530.
- Hobbes, T. (1928), *Leviathan, or the Matter, Fortune, and Power of Commonwealth Ecclesiastical and Civil*, Basil Blackwell, Oxford.
- Kay, N. M. (1997), *Pattern in Corporate Evolution*, Oxford University Press, New York.

- March, J. G. & Simon, H. A. (1958), *Organizations*, Wiley, New York.
- McDonald, M. H. B. (1992), "Strategic Marketing Planning: A State-of-the-Art Review," in *Perspective on Marketing Management*, M. J. Baker, ed., John Wiley & Sons, Chichester New York, pp. 25-59.
- Nonaka, I. & Takeuchi, H. (1995), *The Knowledge Creating Company: How Japanese Companies Create the Dynamics of Innovation*, Oxford University Press, New York, Oxford.
- North, D. (1991), "Institutions", *Journal of Economic Perspectives*, vol. 5, Winter, pp. 97-112.
- Oburai, P. & Baker, M. J. 1999a "100 Years of Quest for A General Theory of Marketing: The Principle of Cumulativity", UK Academy of Marketing, Stirling, United Kingdom.
- Oburai, P. & Baker, M. J. 1999b "Empirical Research into Collaborative Alliances in Industrial Markets: A Case for a Balanced Approach to Theory Building", 28th EMAC Conference, Berlin.
- Rushdie, S. (1992), *The Satanic Verses*, The Consortium Inc., Dover, Delaware.
- Scherer, F. M. & Ross, D. (1990), *Industrial Market Structure and Economic Performance*, Third edition, Houghton Mifflin, Boston.
- Schumpeter, J. A. (1954), *Capitalism, Socialism and Democracy*, Fourth edition, Unwin, London.
- Sentell, G. D. (1994), *Fast, Focused & Flexible: Bold New Imperatives for the High Performance Organization*, Pressmark International, Knoxville, TN, USA.
- Simon, H. A. (1988), *The Sciences of the Artificial*, The MIT Press, Cambridge, MA.
- Smith, A. (1976), *An Inquiry into the Nature and Causes of the Wealth of Nations - 2 volumes originally published in 1776*, Methuen, London.
- Taylor, F. W. (1911), *The Principles of Scientific Management*, Harper and Brothers, New York.

- Tushman, M. L. & Anderson, P. (1986), "Technological discontinuities and organizational environments", *Administrative Science Quarterly*, vol. 31, pp. 439-465.
- Unwin, G. (1963), *Industrial Organization in the Sixteenth and Seventeenth Centuries*, Frank Cass & Company Ltd., London.
- Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*, Free Press, New York.
- Williamson, O. E. (1981), "The Economics of Organization: The Transaction Cost Approach", *American Journal of Sociology*, vol. 87, 3, pp. 548-577.
- Williamson, O. E. (1983), "Credible Commitments: Using Hostages to Support Exchange", *American Economic Review*, vol. 73, pp. 519-540.
- Williamson, O. E. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, Free Press, New York.
- Williamson, O. E. (1993), "Introduction," in *The Nature of Firm: Origins, Evolution, and Development*, O. E. Williamson & S. G. Winter, eds., Oxford University Press, New York Oxford, pp. 3-17.
- Williamson, O. E. (1996b), "Economic organization: The case for candour", *Academy of Management Review*, vol. 21, 1, pp. 48-57.
- Williamson, O. E. (1996a), *The Mechanisms of Governance*, The Free Press, New York.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

Chapter Four

Review of Theories – Considerations of Competition and Cooperation in the Changing Business Strategy Paradigms: Cumulativity, Complementarity and Connectivity

THE
DEPARTMENT OF
MARKETING

Chapter Four:

Review of Theories – Considerations of Competition and Cooperation in the Changing Business Strategy Paradigms: Cumulativity, Complementarity and Connectivity

The issues to discuss in this chapter include:

1. Changing paradigms of strategy and their three main characteristics: Cumulativity, Complementarity and Connectivity
2. The idea of multiple explanations: A quiver full of arrows

CHAPTER FOUR:	67
REVIEW OF THEORIES – CONSIDERATIONS OF COMPETITION AND COOPERATION IN THE CHANGING BUSINESS STRATEGY PARADIGMS: CUMULATIVITY, COMPLEMENTARITY AND CONNECTIVITY	67
1.0 INTRODUCTION	68
2.0 CHANGING BUSINESS STRATEGY PARADIGMS	68
2.1 CONVERGENCE OF STRATEGIES IN THE FACE OF MULTIFACETED CHANGES	69
2.2 DIFFERENTIATION IS THE BASIS OF ALL STRATEGIES	71
3.0 TRANSACTION COST ANALYSIS AND EXPLANATIONS	74
3.1 CRITICISMS OF TCE.....	78
4.0 GAME THEORY	79
4.1 AGENCY THEORY.....	81
5.0 MARKET POWER AND INDUSTRY STRUCTURE EXPLANATIONS	81
6.0 EVOLUTIONARY THEORIES	83
7.0 RESOURCE BASED EXPLANATIONS	84
7.1 COMPETENCE PERSPECTIVES	85
7.2 SUMMARY	85
8.0 INTERACTION AND NETWORK THEORIES	86
9.0 COMPLEXITY THEORIES	87
10.0 RELATIONAL VIEWS	88
11.0 A THEORETICAL COMPARISON	90
12.0 A QUIVER FULL OF ARROWS: THE IDEA OF MULTIPLE EXPLANATIONS SUITED TO CONTEXTS	92
13.0 REFERENCES	93

1.0 Introduction

A wide-ranging and thorough investigation of eight major strands of theories is undertaken to explore their foundations and implications for the current era in which strategic alliances and partnerships are increasingly adopted. It is argued that traditional notions of competitive advantage are in need to be supplemented with views from relational and resource based theories. Sources of competitive advantage may well lie outside firm boundaries, and strategies for generating and sustaining them will have to take into account new concepts for implementing cooperative initiatives.

2.0 Changing business strategy paradigms

Industrial revolution and associated techniques led to the creation of factories and manufactories. What was organised as household and local exchanges and production processes became separated. Economies of scale and aggregation of activities were evidently in need of coordination. Crafts and guilds and cooperatives were some early answers. Housing both labour and capital beneath one roof, so to speak, brings in land as the third important factor. Spatial aggregation of work and people gave rise respectively to consolidated workplaces and cities. While work division and investments in machinery both drove up productivities greatly, here is where the hand of entrepreneur-manager becomes visible. Organisation or management skills emerged as the fourth and arguably as an overarching factor. Explaining the success or lack of it is an important aspect of management writing, and constantly new ways of organisation are explored with a view to influence the same.

The phenomenon of shorter product life cycles has been empirically validated in many marketing studies. Baker (2000) argues that innovation is the fundamental source of competitive advantage. This serves to place more emphasis on innovation. Computer and Internet are some examples that have had major impact in many walks

of life. These developments enable businesses to be more efficient in some cases and in others they facilitate far-reaching reorganisation and total reshaping of value chains. Change has not only been more rapid but is also marked by faster diffusion and wider impact. Of course any change is of two fundamental kinds: one of the *initiated* variety and the second of the *impacted* variety. Initiated refers to all innovations that are originated internally either by specific design or through sheer routine. Specialised departments carry out most basic research in the corporate circles whereas small and continuous improvements largely take place in the shop floor. It is generally felt that the research-manufacturing nexus is an important source of innovations (e.g.Baker & Hart 1989). It is this claim that underpins much of the controversy concerning outsourcing and loss of core competence. Other commentators have pointed out that “hollowing-out” fears might themselves be hollow (e.g.Krugman 1996). Notwithstanding these arguments, what is certain is that the ability to learn through making is vital component. The concept of the experience curve is only one small portion of it. This concept has often been criticised for conflating the effects of learning and technological progress at firm, industry and macroeconomic levels (Kay 1993 p.116).

Moving on to the external sources of change that we term as impacted change, we see that some of these may well turn out to be beneficial and enabling while others may have adverse consequences for a firm. While some adverse developments may be withstood and hence manageable, some may be devastating. The scale of change may be depicted on the continuum that ranges from incremental innovations to radical ones. Generally incremental innovations are more frequent and are of limited impact.

2.1 Convergence of strategies in the face of multifaceted changes

Converging strategies are evident in many industries. This is the consequence of several factors. Widespread and accessible education is perhaps the most notable. Business schools have played an important catalytic role in the process of disseminating information and ideas concerning best practices and success factors. Imitation of successful firms has too a role in this learning. This process of “commodification of knowledge” firstly ensures a level playing field. Ironically, this also means that strategies once known for effectiveness become devalued to the extent

that they are readily incorporated in firms' competitive strategies (Baker & Hart 1989). This does not mean that availability of advice diminishes the need for responding to the incorporation of the same, for while the implementation may give no competitive edge not responding may put the firm at a certain disadvantage. Loyalty cards and baby carriages in trolleys are innovations that many leading supermarkets in Britain have adopted recently. These may not affect directly either the quality of merchandise or other key attributes that shoppers may rate highly but not matching these innovations may lead to erosion of competitive advantage. Convergence may lead to collective failure (Saunders et al. 1999) or success albeit of different levels for different firms.

Levitt's celebrated exposition on globalisation argued that technology is driving world markets for many products towards homogeneity thereby creating the opportunities for manufacturers to derive benefits on a global scale (Levitt 1983). Strategy consultant-guru Ohmae put forth the view of converging commonalities of consumers across borders and called it "californianisation" (Ohmae 1985). He also alluded to other phenomena such as shortening product life cycles and increased research and development expenses. Diffusion of technologies and communication and transport advances were some causes. Competitive intensity is another major driving factor cited. Global strategies involving standardised products/processes and segmentation techniques aimed at uncovering similar needs across borders have proliferated. However as Baker (1985) concluded several years ago and soon after the publication of Levitt's article, global strategies are essentially unsophisticated in character and might be inappropriate as technology and world markets mature.

Marketing's poet (Brown 1999) Ted Levitt had proclaimed boldly but yet not boldly enough one might say with the benefit of hindsight that "differentiation of anything" was the way forward. The three generic strategies – cost, differentiation and focus – that Porter outlined in *Competitive Strategy* are all really of one single kind only different in degrees of what we may term as differentiation. The low cost generic strategy is applicable to undifferentiated goods or commodities, and the third generic strategy focus is all about scale of operations. This issue is discussed in detail in Wensley (1999). To differentiate or not may be the only real issue. Clearly, abstracting from the many and multifaceted modes and means of competing strategies

to the Porter's triad is itself a thoroughly pedagogical yet admirable feat. However, to take the abstraction to an even higher level is a necessary move lest we mistake the categories to be mutually exhaustive and hence deem the typology non-overlapping. As all typologies ought to be, Porter's typology appears to accommodate most varieties of strategies. However the labels of generic strategies are misleading and the overlap among them does little to attenuate the issue and only aggravates it. This is an issue addressed by Mathur (1992). It is the degree of differentiation that serves as the overarching theme that underlies schemes or typologies outlined by several authors.

2.2 Differentiation is the basis of all strategies

A variety of strategies are available to managers and entrepreneurs alike and since performance is a multi-dimensional construct spanning multiple business facets and activities, to ignore and pursue one single strategy to the exclusion of alternatives or indeed to characterise a business in crude terms may turn out to be a meaningless exercise. John Kay who is hailed as Europe's Porter offers a kaleidoscopic appreciation of the field of strategy (1993). He argues that adding value is the purpose of business and that this may be achieved through a range of options. Architecture, innovation, reputation and strategic assets are four distinct sources of competitive advantage for firms. Added value, as demonstrated by Kay (p.208), is equivalent to a number of other financial measures such as cash flow, operating profit, competitive advantage and returns to shareholders. Indeed, firms have multiple stakeholders: investors, managers, employees, suppliers, customers, communities, and governments among others (Doyle 1992). These multiple coalitions have diverse interests, and economic or financial calculus that focuses exclusively on shareholder returns may irreparably damage the fabric that makes up organisations. Organisational goals are normally attended to in a sequential fashion and are treated as a series of independent constraints. These goals themselves are susceptible to adaptation. Clearly, trade-offs exist among these competing claims, and to arrive at a judicious balance one has to adopt a "satisficing" approach (Cyert & March 1963).

Although economics is concerned with the study of markets, there is little effort by economists in the way of representing markets. Markets are assumed to be a set of

homogeneous firms. Once we introduce heterogeneity either among producers or users, the picture changes almost dramatically. Resource based views and explanations depend crucially on this notion of different resource endowments and distributions among firms. One central cause that the discipline of marketing espouses and indeed celebrates is the diversity of the needs of consumers. Here lies the real cue to the all-embracing *uniqueness of differentiation* as the basis of all strategies.

‘Nature is not always red in fang and claw. Cooperation and competition provide alternative or simultaneous paths to success (added emphasis)’ (Contractor & Lorange 1988 p.1). The growth in the use of cooperative strategies and changed context forces conventional paradigms into crisis. The dialogue in marketing strategy and strategic management that concerns explaining firm performance and variations thereof has moved. Strategy discourse that once focused on industry structure and interfirm competition has turned to examining intrafirm resources. These two views are complementary. While the former stressed the importance of market power and adopts an external orientation, the latter emphasises the competences within firm. However, both these perspectives are rooted in the competitive paradigm.

Figure 4.1: Theoretical Perspectives



Source: Author

Paradigms change but only infrequently (Kuhn 1970). It is the fixity of a paradigm that allows progress to be made and investments of both physical and intellectual variety are made. The following eight sections briefly outline theoretical developments across several disciplines. The fields of strategy, organisational theory and marketing have several distinct and interrelated explanations that are examined below for their central orientations, assumptions and implications. The above figure depicts the eight strands of explanations that are examined with a view to derive a holistic picture. This is done with a view to understand fully the way interfirm relations are captured in the current thinking and also to distil main ideas and themes relevant to cooperative strategies. The eight themes to be discussed are distinctive in some senses and overlapping in others. What may be needed is to integrate the different ideas to form a coherent and complete model that is workable. We start with the widely used and critiqued transaction cost views.

3.0 Transaction cost analysis and explanations

Williamson's theories, alluded to in the earlier chapter on the evolution of cooperation, attempt to match transactions to suitable forms of organisations. Transaction cost economics and analysis are concerned with economic organisation. This is a micro-analytical branch of New Institutional Economics. Williamson's (1975) work is 'principally concerned with the institutions of governance (markets, hybrids, hierarchies, bureaus(1981;1983;1985;1993a;1996b;1996a;1985). He proposed 'a logic of organisation in which the discriminating alignment of transactions with governance structures is the source of refutable implications' (1996a p.3). Williamson sketches his core arguments: ' Intuition tells us that simple governance structures should mediate simple transactions and complex governance structures should be reserved for complex transactions. Using complex structures for simple transactions incurs unneeded costs, and using a simple structure to govern a complex transaction involves strain...although hierarchies have the appearance of being more complex governance structures than markets are, that can be disputed'.

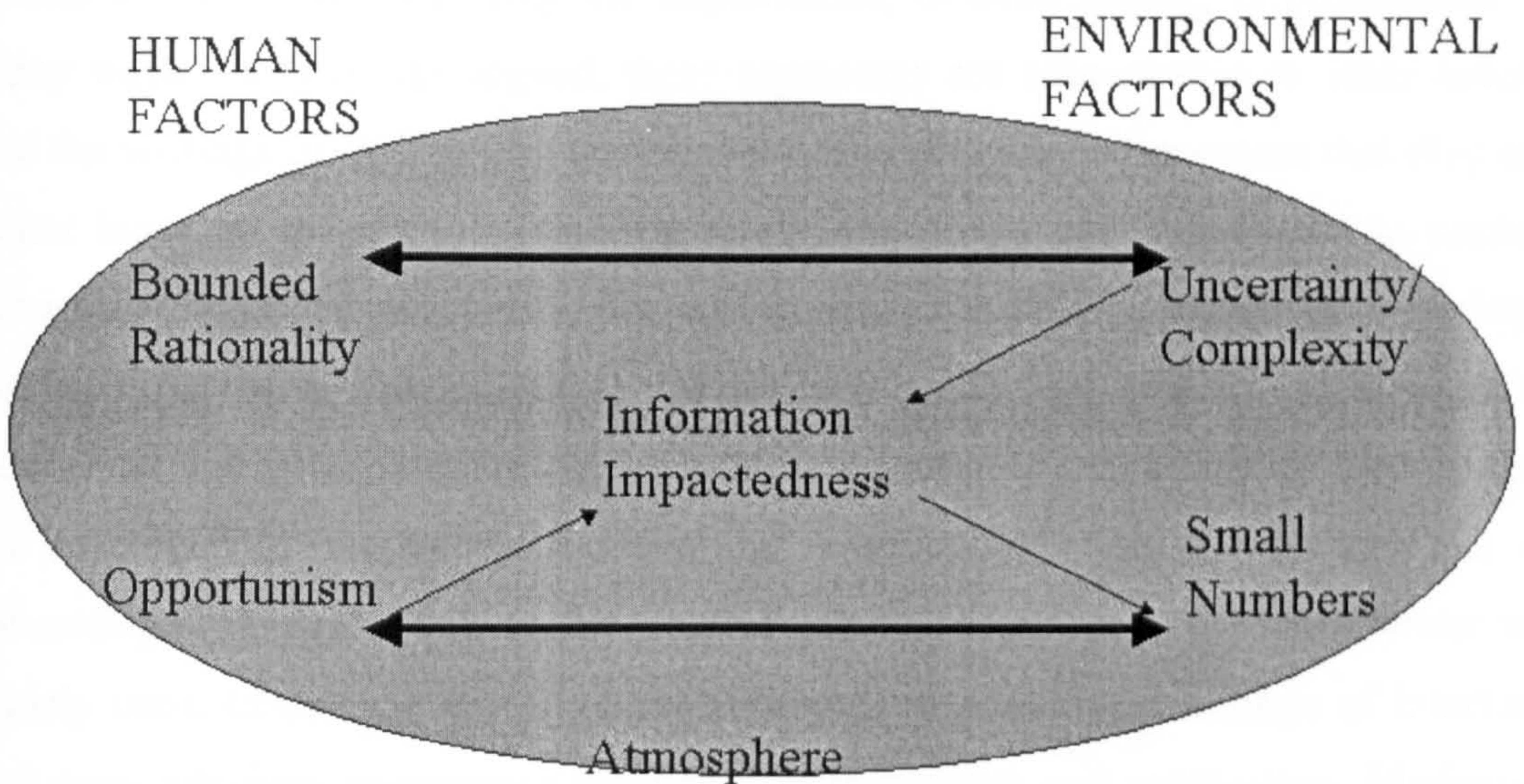
Williamson argues that the three main attributes of transactions: asset specificity, uncertainty and frequency need to be considered. Assets that are specific by use or user need to be safeguarded in the presence of behavioural uncertainty. Williamson's organisational or more appropriately termed market failure framework relies on two behavioural factors (opportunism and bounded rationality) and two environmental factors (uncertainty/complexity and small numbers). In the conduct of complex transactions, parties may be unable to anticipate the future due to bounded rationality. This induces a state of vulnerability to opportunism, which entails several risks including losses on investments that are not re-deployable or have little value in other uses. Both bounded rationality and complexity leads to information asymmetries if one factors in opportunism, which in turn may exacerbate the condition of small numbers. Small numbers situations include oligopolies, bilateral monopolies and importantly the situation wherein initial large numbers situations are transformed post contract into small numbers.

Bounded rationality is a semi-strong form assumption compared to the profit maximising hyper-rationality implied in the neoclassical economics writings. Neil Kay points out this way of dealing with individual discretion is really denying it by severely limiting action or strategy space. Simon (1988) originally put the bounded or limited form that admits intended rationality forward. This is a *key* behavioural assumption indeed as they should be in any theoretical formulation. This, in association with uncertainty, precludes the possibility of drawing comprehensive and contingent claims contracts and agreements.

Williamson (1985) defines opportunism as 'self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing, and cheating. Opportunism more often involves subtle forms of deceit. Both active and passive forms and both *ex ante* and *ex post* types are included... More generally, opportunism refers to the incomplete or distorted disclosure of information, especially calculated to mislead, distort, disguise, obfuscate, or otherwise confuse. It is responsible for real or contrived conditions of information asymmetry, which vastly complicate the problems of economic organisation.... The important lesson, for the purposes of studying economic organisation is this: Transactions that are subject to *ex post* opportunism will benefit if appropriate safeguard can be devised *ex ante*' (p.47-48).

Further 'the importance of asset specificity to transaction cost economics is difficult to exaggerate...the absence of asset specificity would vitiate much of transaction cost economics. It is the source of both striking commonalties among transactions and of numerous refutable implications. To be sure, asset specificity only takes on importance in conjunction with bounded rationality/opportunism and in the presence of uncertainty. It is nonetheless true that asset specificity is the big locomotive to which transaction cost economics owes much of its predictive content (p.56) (Williamson 1985). Four main forms of specific assets are identified: Physical, human, site, and dedicated investments.

Figure 4.2: Organisational failures framework



Source: Williamson (1975 p.40)

In the presence of asset specificity, uncertainty (both behavioural and environmental, more of the former rather than the latter) and bounded rationality, transaction cost economics predicts internalisation of transactions. The market failure framework favours organisations over markets. Any bilateral or multilateral relations or contracting beset by these factors needs safeguards to reduce and/or eliminate costs of arranging and conducting of transactions.

On the surface, it appears that TC and its prescriptions are unproblematic. Certainly they are relevant and an improvement over many earlier alternatives. However, the strong form self-interest seeking assumption is, as Williamson himself admits, a rather jaundiced view of human nature. Trust may contribute to the design of organisations that are more open while other designs that have built in assumption of opportunistic behaviour will have safeguards that add to costs. These assumptions even if only partially unfounded may turn out to be self-fulfilling prophecies and induce organisation members to behave opportunistically.

Transaction costs that parties incur include searching, negotiating, contracting and renewing costs. However, no clear definition is found and the elasticity of the concept makes it unverifiable. Refuting the implications, or even testing, is problematic in many ways. As Neil Kay argued, these arguments are ethnocentric to some extent, and the writings of Williamson are repetitive and obscure to the extent that they are rather loose on specifics. Williamson freely drew from and contributed to several disciplines including economics, law and organisation theory. This logic is perhaps the most pervasive and influential one to be found in the literature in a range of disciplines and fields. Similar logic is used in the form of internalisation theories that are employed to explain the existence of multinational corporations and ties of ownership (Rugman 1981). In the field of purchasing as well, TC frameworks are widely used. In essence scholars have attempted to understand a range of interfirm and even intrafirm transactions through this framework and application. Marketing discipline too was influenced, although the coming to centre stage of the relationship paradigm has significantly changed the scenario. The list and range of TC applications and prospects are highlighted in an article in *Journal of Marketing* (Rindfleisch & Heide 1997). Johansson and Mattsson (1987) provided an early evaluation, which compares the TC and network approaches.

A deeper exploration of the foundations reveals that TC relies on selection arguments at the level of transactions or tasks. This is reminiscent of the arguments employed by Richardson (Richardson 1972) whose framework of interorganisational coordination is based on the distinction between capabilities and activities. Similar activities are organised internally within a firm because 'organisations will tend to specialise in activities for which their capabilities offer some comparative advantage' (p.888). Dissimilar or non-complementary activities are hence organised in markets. Richardson's insight as to the importance of interfirm cooperation as the third mode of organisation was in noting that different but complementary activities may need coordination. Institutional solution reduces the problem of uncertainty. However, TC arguments regularly omit the perspective of competence or capabilities. Intangibles, managerial or knowledge skills are required to carry concrete activities. Drucker (1993b) stated that organisation was the key to progress in all walks of life and spheres of activities. His path breaking book, *Concept of Corporation* (1946), was based on a study of General Motors. Indeed, his ideas of firms and activities are based

on the primacy of human knowledge. This is in contrast to the scientific management and rational principles of the time. Penrose (1959) and Prahalad & Hamel (1990) refer to knowledge and management skills as the most crucial resources. Transaction cost perspectives that focus on incremental transaction organising aspects are only of economising level, and are not strategic in nature. This seriously *limits the applicability* to a few contexts. Indeed, Neil Kay demonstrates that replaceability rather than asset specificity should be the key consideration. This then boils down to the availability of alternatives. Beyond make or buy decisions, for which TC analysis may only help examine not determine, the value may be limited.

TC's concept of asset specificity, which leads to production advantages but to governance problems as well, is founded on the notion of opportunism. Although as in the diagram above, several factors are considered in the formulation of the theory, neither the environment nor the intrinsic attributes of transactions are really the determinants of organisation. Assumptions of human attitudes and behaviour, which are both in an invariant relation that leads to opportunistic actions, are the keys to the whole puzzle of economic organisation as portrayed in the TC perspective. Value generated from relation specific interaction is ignored due to the static nature of the formulation.

The fact that linkages are open to exploitation and vulnerability is noteworthy as are any concerns that attempt to explore the power aspects of resource dependencies.

3.1 Criticisms of TCE

TC analysis is a cost minimising and efficiency based approach. The perspective that is provided in this strand is based on a single party perspective. TCE treats all form of organisation as instruments, and it is rooted in the logic of markets (Moran & Ghoshal 1996). TCE assumptions concerning human attitude and behaviour are deeply flawed. They fail to distinguish between the distinction between attitude and behaviour (Ghoshal & Moran 1996). TCE presents an under-socialised view of human motivation and an over-socialised view of institutional control (Granovetter 1985). Charles Hill (1990) contends that the extent of opportunism in the markets is overstated. Markets should over time weed out those parties who are opportunistic and reward those who are not. Zazac and Olsen (1993) specify one of the most glaring

deficiencies of transaction cost economics in that it deals with costs of activities and not with the value of outputs in markets. Customer's valuations are given the shortshrift in this perspective. Neil Kay (1992;1997) is the strongest critique of the transaction cost foundations. He identifies that the methodological individualism of mainstream economics that treats firms just as collections of individuals, which makes them atomistic entities, is evident in Williamson's analysis. Once firms are constructed as a collection of contracts, the fundamental differences between markets and firms (internal markets characterisation) break down. This is what Kay calls false hierarchies. Kay, and Zazac and Olsen also contend that TC is still rooted in the neoclassical and microeconomics ideas in its emphasis on markets and dependence on the structure-conduct-performance paradigm of industrial organisation but at the level of transactions.

4.0 Game theory

Game theoretic approaches are stylised versions of interactions between and among parties, and depict interdependencies. They serve to highlight *relatedness of goals, expectations, choices and outcomes*. Excellent summaries of the concepts involved in understanding game theory are stated in Kay (Kay 1993 Chapter 3, p.33-49). Three main games are described each of which corresponds to the most important objectives of commercial relationships which are:

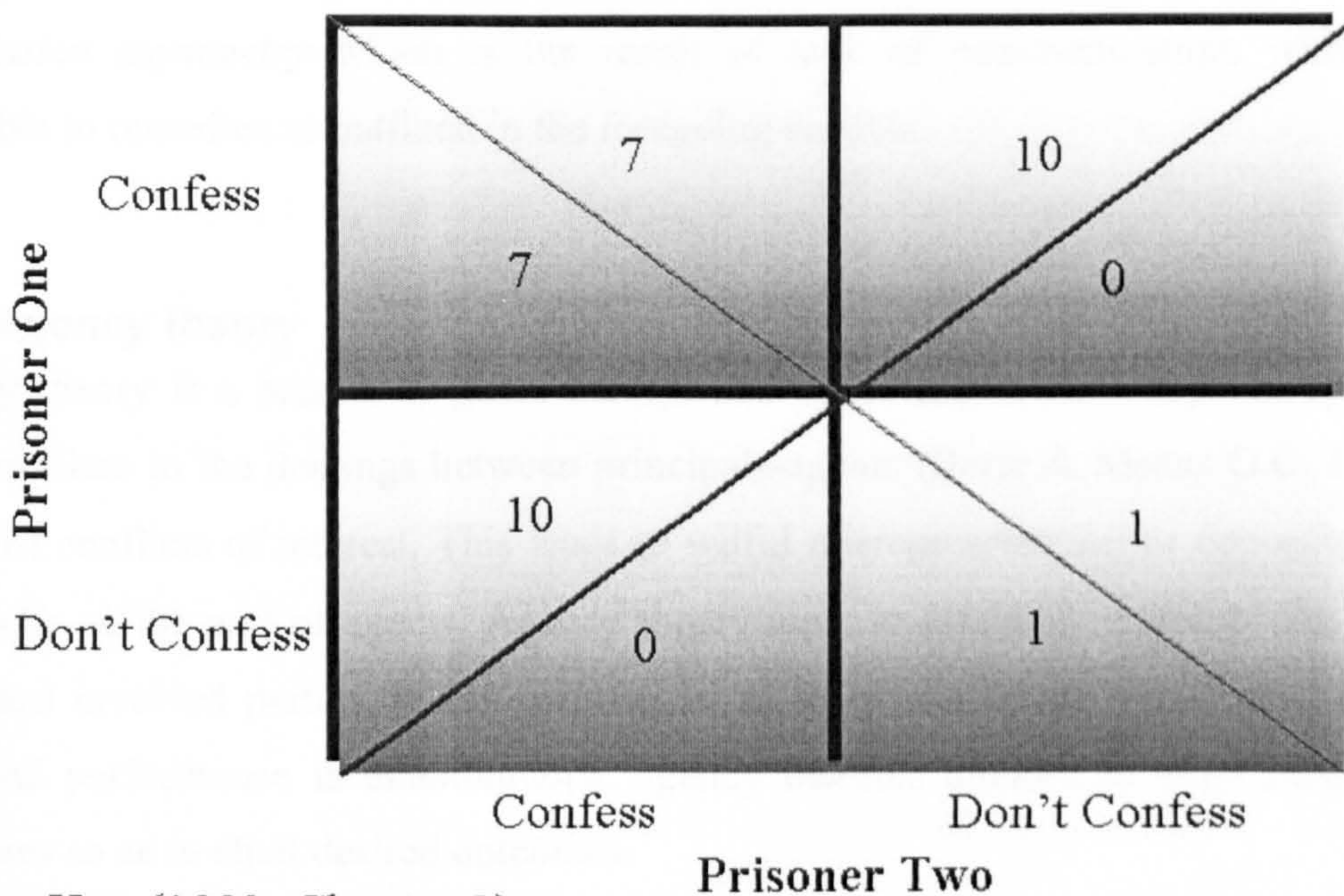
- Cooperation: joint activity towards a shared goal
- Coordination: the need for mutually consistent responses
- Differentiation: the avoidance of mutually incompatible activities

The first issue of cooperation is captured by the most famous and frequently referred to Prisoners Dilemma model, the next in Battle of the Sexes and the last and third in Chicken type models.

Prisoners Dilemma refers to a situation in which two prisoners are involved and the captor has real evidence for their crimes. The captor's interest lies in getting both of

them to confess or failing which, getting at least one of the parties to confess and betray the other. Both prisoners are clearly better off if they both do not confess in which case both get a minimum sentence. The worst outcome is when both confess and receive sentences of imprisonment. In the other two situations involving only one of them confessing while the other does not; the one who confesses gets lighter punishment. The following picture depicts the prisoners dilemma model and payoffs i.e. sentences in years. The dilemma is due to considerations of self-interest, which the incentive structure motivates. Collective interest is served when both parties cooperate, whereas individual's interest is best served when he is the confessing party and the other does not. This however is a sub-optimal strategy from the collective view.

Figure 4.3: Prisoners Dilemma Model and Payoffs



Source: Kay (1993, Chapter 3)

Battle of sexes refers to situations where two interested parties (e.g. a couple) need to coordinate their actions. Payoffs are best when coordination is obtained. Chicken games highlights the need to avoid head-on competition in situations where there can be only one winner and the loser suffers fatal or great damage. Examples include markets that are too small to sustain too many players and where simultaneous entry or operation may lead to losses for all parties involved.

Axelrod (1984) demonstrated through a conducted tournament that cooperative strategies that are successful start out by offering to cooperate and reciprocate a partner's actions. Repeated or iterated games (enlarging the shadow of the future), communication or reputation affect the behaviour of the parties. Unilateral commitments (Gulati, Khanna, & Nohria 1994) are another way of building trust, which serve to avoid game situations with avoidable outcomes.

Game theoretic approaches have roots in mathematical analysis introduced, and have several business applications in situations where outcomes are dependent of bilateral or multilateral actions. However, game theories are known to be problematic in several ways. The context of the parties involved is not considered in any detail and hence the outcomes depicted in these games represent extremes. Even in the context of the games' rules, it may be generally noted that the main issue appears to be that of *information asymmetry* which is the result of lack of communication, which is amenable to remedies as outlined in the foregoing section.

4.1 Agency theory

Agency theory is a branch of game theory. Instead of information asymmetry, the main problem in the dealings between principals-agents (Berle & Means G.C. 1932) is one of conflicts of interest. This leads to wilful misrepresentation or opportunistic behaviour on the part of agents. Agency theory aims to establish contracts that help safeguard involved parties, mainly principals. In situations where monitoring is not easy and performance is unambiguous, agency theories attempt to align incentive structures so as to elicit desired outcomes.

5.0 Market power and industry structure explanations

Porter is the most popular and leading advocate of this strand. Although his later works also draw on resource-based explanations (Porter 1985), his competitive strategy (Porter 1980) draws heavily on industrial organisation theory (Oburai & Baker 1999), and on the Bain-Mason paradigm and oligopoly theory. The examination of structural forces in the firm's competitive environment was the focus.

Exogenous variables such as bargaining power relative to key forces affecting industry/firm performance and entry/mobility barriers that restrict competition were some variables that were used in explaining firm performance. Industry characteristics and firm bargaining power determine firm performance.

So it follows that one prescription that the market power and industry structure view offers to firms concerns increasing bargaining power by employing multiple suppliers. The goal is to find mechanisms to offset or surmount these sources of suppliers' power.... Purchases of an item can be spread among alternate suppliers in such a way as to improve the firm's bargaining power' (Porter 1980 p.123).

Competition is the main anchor for Porter and remains as such. Porter's writings are rooted in pro anti-trust ideology just as Williamson's world-view was affected due to his stint in anti-trust (see autobiographical account in Williamson 1993a). His work on clusters (Porter 1990;Porter 1998) dwells on inter-linkages between firms in confined geographic locales and *cooperation* to some extent. Stephen Brown (1991 p.134) argued that the competitive advantage of nations model involving the four phases which nations go through (factor driven, innovation driven, investment driven and wealth driven phases) (Porter 1990) as it stands appeals primarily because it employs the ancient metaphor of the wheel.

Indeed among the many lessons that this view has to offer, gaining and employing power may be the main one. However, cooperation, not only competition, may help build power. Market share is inherently a *zero-sum* game. And as many scholars pointed out, today's excessive gains could lead to tomorrow's losses. Current performance could be a result at the expense of the future.

The product-market focus and agenda about building strong market positions that characterised the early writings in the field of strategy has changed with attention being paid to the sources of competitive advantage. This has led to the development of evolutionary and resource based explanations, which are discussed next in detail.

6.0 Evolutionary theories

Biological reasoning permeates a variety of management and social science disciplines. Intuitive appeal and ready observations aside, the roots of economics lie and its history owes obvious debt to Darwinian ideas (Oburai & Baker 1999 provides a detailed view of the origins and evolution of economics and several related fields). Darwinian evolution depends on random mutation and hard selection i.e. failure in the competitive arena results in death and elimination. Since mutation is inherently involuntary and hence uncontrollable, the reasoning depends much on the effect of the external environment. Environment is the chief perpetrator and matching any changes thereof closely is what is a prerequisite to survival and success.

This is understandable in view of the circumstances that prevailed during the start of Industrial Revolution, and reflects the times in which classical economists lived. Apart from the fact that commerce and exchange was local and conducted among predominantly small players, commerce was inferior to the institutions of power. In this sense, contrary to the awesome strength of today's multinationals and the great importance of commerce, firms or owner-managed entities were greatly subject to environmental vagaries. This is what is found today in many writings that are implicitly replete with *environmental determinism*. This also explains the portrayal of firms as market determined and price responsive production functions. Given the slow rate of change of technology and science, and constraints on adoption due to both capital and managerial limitations, firms were dependent on their environment. A form of this is seen both in transaction cost and agency theory explanations that attempt to derive or predict organisational forms from the attributes of the environment.

Indeed the controversial (due to its deterministic basics and also misuse) product life cycle concept in marketing is drawn from natural sciences. Evolutionary ideas were evident in the marketing discipline earlier than in most other disciplines and indeed it perhaps was a lost opportunity in terms of a concept that was not built on. Tellis and Crawford (1981) put forward a version in a limited context.

Change is dependent on history. This is now fashionably called “path-dependence”. History is sticky baggage and a commodity that cannot be wished away. As stated before it is simply irrevocable. Rational models deny any role for history as is evidenced in the treatment of sunk costs. In financial and economic calculus sunk costs are to be ignored, and all that matters in the incremental analysis is future gains and costs. In reality past is also experience lending and such learning could and often does lead to value generation. Presence of past may not be as important as the shadow of the future, but its relevance needs to be readily admitted in relation to a range of human endeavours. Heredity or intrinsic attributes are given short change in preference to environment as the selection force.

Nelson and Winter’s (1982) evolutionary theory focuses on routines or sequences of activities or patterned responses that firms generate, modify, acquire, imitate, and use. These routines of organisations are analogous to the skills of individuals and form the organisational memory and reservoirs of knowledge and experience. Firms inherit routines and in an attempt to fit into environment, when needed adapt them through search. This results in differential matching of firms to their environmental demands and hence leads to selection of relatively ill matched routines. Drawing on Schumpeterian theories of *innovation and change*, evolutionary theories focus on explaining industry level population changes through the mechanisms of firm level routines that are knowledge bundles and learning through search.

Routines are the equivalent of genes. History and heredity impact evolution. This serves to highlight the importance of firm attributes and imperfect matching. In this sense the past is a resource in itself. Evolutionary and resource based explanations have much in common and a synthesis has been proposed in some quarters on the grounds of commonalities.

7.0 Resource based explanations

Strategy literature is now replete with resource-based views. Penrose (1959) was an early statement and was influenced by both Ricardian and Marshallian views. This

perspective was formalised by Wernerfelt (1984) and has since grown in application. RB theories attempt to explain interfirm differences in performances and attribute them to the possession of unique and lasting resources. Competitive advantage is the result of internal firm organisation and hence managerial discretion is an important aspect considered. In the acquisition, development and usage of resources, and resource linkages lie the sources of capabilities.

As highlighted by Peteraf (1993), four essential conditions support the resource based competitive advantages. They are:

- Resource heterogeneity which is the source of profits
- Imperfect resource mobility which ensures that unique and idiosyncratic resources remain within a firm
- Ex ante limits to competition that keep cost of acquisition of resources low, and
- Ex post limits to competition that helps sustain relative superiority.

The endogenous orientation is necessary to explain firm level differences unlike the above market power and evolutionary theories. Hunt (1997) is a resource-based theory with an explicit marketing perspective.

7.1 Competence perspectives

Another important variant of Strategy paradigms is the competence perspective (Prahalad & Hamel 1990) that argues for coherence among the activities performed by firms. The competence perspective is complementary to the resource and evolutionary perspectives and market power writings.

7.2 Summary

The one issue that crops up with the resource based views is that its avowed perspective and internal orientation to growth and sustenance of advantages despite a welcome addition to existing explanations, its inward focus makes it inadequate to firms contemplating the adoption of an external orientation. Intra-firm focus needs to be supplemented with the need to utilise and nurture external linkages. In a sense, the resource explanations are still all about competition where the firm boundary ends and

are seen to be relevant to the study of large and diversified firms whereas evolutionary arguments may be more suited to the study of small and growth firms.

8.0 Interaction and network theories

Interaction and networks views are mainly the contribution of the IMP team. This is a vast and growing collection (Turnbull, Ford, & Cunningham 1997). The IMP group interaction model (Hakansson 1982) recognise that interaction may lead to the institution of relationships. However, this dyadic focus is now giving way to network views of the firm and its context. This sharply brings forth the perspective that is not provided by other theories. An actors-activities-resources framework is used to depict firms.

Network theories recognise the importance of the environment and hence take a more realistic perspective of firms (Axelsson & Easton 1992). Networks bind as well as blind; they enable and constrain. While network centrality is seen as an important attribute, the ability to influence other firms in a network may not be a straightforward possibility. Inter-linkages among multiple actors and memberships in different networks are some issues (Mattsson 1997). The redundancy of common linkages (Granovetter 1973) and associated transaction costs are issues that are may need to be resolved. This perspective also draws on earlier and ongoing developments in sociology and related fields. Wensley (1995) is an important critique of the network agenda and prospects.

Resource linkages, dependence and power (Peffer 1997) issues can be explored in this perspective. Rich linkages are shown to influence both survival and growth (Powell, Koput, & Smith-Doerr 1996). With a rich range of history and literature in related fields, network theories are of growing importance in business research. Studying networks is argued to be problematic (Easton 1995). Multiple members and links are difficult to explore and hence methodological issues are the main hurdles that may need to be overcome.

9.0 Complexity theories

Organisations are not machines, but complex overlapping sets of dynamic, non-linear systems. This particular view of firms is the basic premise that underlies the insights that are provided by this new set of theories. The Newtonian world of certainty and nineteenth century reductionism are increasingly being replaced by complexity and chaos theories (Freedman 1992; Istvan 1992). The behaviour of complex adaptive systems is unpredictable and the precision of linear relations between cause and effect cannot be obtained in these systems (Waldrop 1992). The following are the major principles that underlie complexity explanations.

- **Self-organisation:** Each element or part of a system acts independently and without any central mechanism's guidance.
- **Attractors:** recurring patterns of interaction
- **Leverage:** Small changes can lead to large effects. Increasing returns from introducing standards are examples (e.g. VHS or Microsoft windows program) of this phenomenon.
- **Non-Linear Dynamics:** Non-linear relations and intricate interrelations exist among elements, departments or units. In a linear system, the sum of local optima is the global optimum. In non-linear systems the global optimum is not the sum of local optima.
- **Self-similarity:** Complex systems are indeed composed of simple elements that may be similar to one another. This insight states that simplicity underlies complexity. In a sense this principle is what is also in fractal systems or in the fact that most matter is made up of aggregation of atoms or genes. It is the interconnections or inherent properties of these self-similar elements that makes for complexity and hence unpredictability.

Dedicated equipment leads to higher returns when scale advantages are gained. This is the principle of mass production. However, several studies have indicated that scale and learning curve effects that drive productivity improvements are difficult to realise when product complexity is introduced. A study of the Ford motor company by Abernathy and Wayne (1974) established that after the discontinuation of the Model T and introduction of new products Ford's productivity declined. Specialisation in the

absence of linkages has limited productivity scope. This serves to underline the need the need for rich linkages.

In the place of the hypothesis of gradual evolution and random selection espoused by Darwinian explication, complexity theories recognise and advance the view that the nature of evolution is essentially unpredictable and explicitly make allowances for massive, sudden transitions, and the emergence of internal order. This makes the complexity views compatible with the evolutionary and resource theories, but also provide room for radical and sudden transformations. Increasing returns are but one example. Small innovations, yet massive scales of impact are simultaneously possible in this thinking.

Complexity theories adopt a systems perspective. Peter Senge's (1990) contribution on learning firms relies and draws on this strand of theories. A good summary of progress of this range of theories is provided in Lewin (1993). Kauffman is one of the pioneers (1992). The main contribution of complexity theories may be the concept of attractors that capture the idea that evolution is varied but limited in its patterns. Geoff Easton and Ian Wilkinson are applying some of these principles to the analysis of networks. It is early days yet. However, increasing influence is to be found in marketing studies.

10.0 Relational views

Relational views are perhaps among the most influential ones in currency across business disciplines, and the marketing discipline, with its fundamental notions concerning the *primacy of exchange relationships and external orientation*, is the leading contributor in this group of theories. Overlapping themes are to be found in both the industrial and services marketing concepts and in the growing field of relationship marketing. The above noted interaction and network perspectives do capture several of the importance notions of other theories. It is in this sense that these

paradigm movement and evolution is considered cumulative, complementary and as a journey towards embracing the reality of connectivity of firms.

In our view, the relational view as captured by Dyer and Singh (see the table below) embraces to a large extent the different contributions of the traditional strategic management, organisational theory and economic explanations. Many of these notions are incorporated in the transaction cost and resource and evolutionary explanations. The relational view is an abstract mixture of the earlier and emerging perspectives. Investments, routines, resources and governance are all considered in this perspective. While this is an admirable effort, we feel that it tends to neglect older contributions. Some of these contributions are in themselves built on some seminal contributions. This was discussed in detail in the above sections in some detail. To reiterate, an example is Cyert and March's theory of the firm, which was built on four key ideas. They are quasi-resolution of conflicts, uncertainty avoidance, problematic search and organisational learning. Simon's concept of bounded rationality is another important concept. Competition aspects captured in the notions of power and other constructs, if they are rooted in reality changed, changing, or entirely unchanging, cannot be ignored is our contention. In this sense the relational view is inadequate in satisfying the key criterion of cumulativeness that is mandatory if any progress is to be made.

Table 4.1: Comparing the Industry Structure, Resource-based, and Relational Views of Competitive Advantage

Dimensions	Industry structure view	Resource based view	Relational view
Unit of analysis	Industry	Firm	Pair or network of firms
Primary sources of supernormal returns	Relative bargaining power Collusion	Scarce physical resources (e.g., land, raw material inputs) Human resources/know-how (e.g., managerial talent) Technological resources (e.g., process technology) Financial resources Intangible resources (e.g., reputation)	Relation-specific investments Interfirm knowledge-sharing routines Complementary resource endowments Effective governance
MECHANISM THAT PRESERVE PROFITS	Industry barriers to entry <ul style="list-style-type: none"> • Government regulations • Production economies/sunk costs 	Firm-level barriers to entry <ul style="list-style-type: none"> • Resource scarcity/property rights • Causal ambiguity • Time compression diseconomies • Interorganisational asset stock connectedness 	Dyadic/network barriers to imitation <ul style="list-style-type: none"> • Causal ambiguity • Time compression diseconomies • Interorganisational asset stock connectedness • Partner scarcity • Resource indivisibility • Institutional environment
OWNERSHIP/CONTROL OF RENT-GENERATING PROCESS/RESOURCES	Collective (with competitors)	Individual firm	Collective (with trading partners)

Source: Dyer and Singh (1998 p.674)

11.0 A Theoretical Comparison

The following table summarises the main implications and criticisms of the eight theoretical explanations discussed above.

Table 4.2: Summary and main implications of eight theoretical perspectives

No.	Theories	Main implications	Criticisms
1.	Transaction cost analysis	<ul style="list-style-type: none"> • Safeguarding idiosyncratic investments • Reduction of transaction costs 	<ul style="list-style-type: none"> • Static nature of the model • Biased view of human behaviour • The cost focused analysis neglects value considerations
2.	Game theory	<ul style="list-style-type: none"> • Enlarging the shadow of the future • Improve communication • Make unilateral commitments • Build reputation 	<ul style="list-style-type: none"> • Disembodied from context and ignores societal norms • Largely deals with two party situations
3.	Market power and industry structure theories	<ul style="list-style-type: none"> • Industry structure is an important determinant of firm conduct and performance. 	<ul style="list-style-type: none"> • Anchored in competition concepts. • Insufficient attention to firm resources.
4.	Evolutionary theories	<ul style="list-style-type: none"> • Firms evolve and adapt routines. 	<ul style="list-style-type: none"> • Sticky routines limit the space for strategies.
5.	Resource based theories	<ul style="list-style-type: none"> • Unique resources underlie competences. • Protect core resources. 	<ul style="list-style-type: none"> • Excessively introspective • Uniqueness may preclude generalisation.
6.	Complexity theories	<ul style="list-style-type: none"> • Order can emerge from self-organisation. • Recurring patterns of interaction help predictions 	<ul style="list-style-type: none"> • In early stage and rely on computer models and binary logic. • Reality cannot be captured through simple models.
7.	Interaction and network theories	<ul style="list-style-type: none"> • A rich picture of multiple linkages and plurality of actors. • Links enable as well as constrain 	<ul style="list-style-type: none"> • Empirical verification is difficult
8.	Relational view	<ul style="list-style-type: none"> • Integration of a variety of concepts in forming a coherent view of the rich contents that make up a relationship 	<ul style="list-style-type: none"> • The details that provide complementarity and connectivity lend the depiction more reality but also make for complexity.

Source: author

12.0 A quiver full of arrows: The idea of multiple explanations suited to contexts

The prevalence of interorganisational coalitions and alliances were termed variously by marketing scholars. Adler's (1966) "symbiotic marketing" and Arndt's (1979) "domesticated markets" are a few early examples. 'Conditions of market domestication require a strong emphasis on strategic marketing thinking and the development of the art and science of the management of coalitions' (Arndt 1979 p.74). It is often the case that extremes of competition result in resource wastage and extremes of cooperation produce anti social effects. Between these two positions exists the middle ground where most business activity is situated. In most industries, vertical integration is giving way to virtual integration, and competition to cooperation. Sheth and Sisodia (1999) state that 'Competition-centred concepts include the use of market share as a surrogate for performance, the development of mutually exclusive competitive strategies, and the advocacy of high levels of vertical integration... With a shift toward simultaneous cooperation and competition, we need to develop new law like generalisation and shift the focus from traditional competitive strategies to non-traditional cooperative strategies, including outsourcing of customers; and from vertical integration to virtual integration...One of the fundamental premises of public policy is coming into question – namely, that public interest is best served by a zero-sum game in which competitors engage in vigorous market share rivalry. We are now recognising that it is possible to have positive-sum games in which a degree of cooperation results in greater value creation and enlarging the market pie for all participants'.

What is needed to view holistically the cooperative yet in many ways simultaneously competitive nature of today's business is a more realistic portrayal (Saren & Tzokas 1998). This needs a larger canvas and more colours. Monochromatic or uni-dimensional (Brownlie & Saren 1997) sketches are at best partial, at worst misleading. The concepts of power and structural interplay that play central roles in Porter's classic efforts are still relevant even if less so today. Resource and innovation

perspectives, and costs of coordination are important. Much more so are the interaction, networks and relational views. *Contextual factors* may be the ones that determine the applicability of some or all of these views. Integration may not be elegant in pedagogical terms, but reality may just be that: messy in patterns and revealing in many ways but hopelessly entangled in parts.

Managerial task is more complex and needs a fuller quiver, an expanded repertoire. Movement, speed, agility are subtle (Baker & Hart 1989) in their shades but more of these potions may be the only route to gaining fleeting and transient advantages. What we know for certain is that cooperative strategies are as good a bet as any others.

The next chapter details the adopted research methodology and rationale for the variety in the chosen contexts.

13.0 References

- Abernathy, W. J. & Wayne, K. (1974), "Limits of learning curve", *Harvard Business Review* September-October.
- Adler, L. (1966), "Symbiotic Marketing", *Harvard Business Review*, vol. 44, pp. 59-71.
- Arndt, J. (1979), "Toward a concept of Domesticated Markets", *Journal of Marketing*, vol. 43, pp. 69-75.
- Axelrod, R. (1984), *The Evolution of Cooperation*, Basic Books, USA.
- Axelsson, B. & Easton, G. (1992), *Industrial Networks: A New View of Reality*, Routledge, London.
- Baker, M. J. (1985), "Globalisation versus differentiation as international marketing strategies", *Journal of Marketing Management*, vol. 1, pp. 145-155.
- Baker, M. J. (2000), *Marketing Strategy and Management*, Third edition, Macmillan, Basingstoke, England.

- Baker, M. J. & Hart, S. (1989), *Marketing and Competitive Success*, Philip Allan, Oxford, England.
- Berle, A. A. & Means G.C. (1932), *The modern corporation and private property*, Macmillan, New York.
- Brown, S. W. (1991), "Variations on a marketing enigma: the wheel of retailing theory", *Journal of Marketing Management*, vol. 7, 2, pp. 131-156.
- Brown, S. W. (1999), "Marketing and Literature: The Anxiety of Academic Influence", *Journal of Marketing*, vol. 63, January, pp. 1-15.
- Brownlie, D. & Saren, M. (1997), "Beyond the one-dimensional marketing manager: The discourse of theory, practice and relevance", *International Journal of Research in Marketing*, vol. 14, pp. 147-161.
- Contractor, F. & Lorange, P. (1988), *Cooperative strategies in international Business*, Lexington Books, Lexington.
- Cyert, R. M. & March, J. G. (1963), *A Behavioral Theory of the Firm (reprint 1998)*, Blackwell Publishers Limited, Oxford.
- Doyle, P. (1992), "What are the excellent companies?", *Journal of Marketing Management*, vol. 8, pp. 101-116.
- Drucker, P. F. (1993b), *Post-Capitalist Society*, Butterworth Heinemann, Oxford.
- Dyer, J. H. & Singh, H. (1998), "The relational view: cooperative strategy and sources of interorganisational competitive advantage", *Academy of Management Review*, vol. 23, 4, pp. 660-679.
- Easton, G. (1995), "Methodology and Industrial Networks," in *Business Marketing: An Interaction and Network Perspective*, K. Moller & D. T. Wilson, eds., Kluwer Academic Publishers, Boston Dordrecht London, pp. 411-492.
- Freedman, D. H. (1992), "Is management still science?", *Harvard Business Review* November-December, pp. 26-38.

- Ghoshal, S. & Moran, P. (1996), "Bad for practice: A critique of the transaction cost theory", *Academy of Management Review*, vol. 21, 1, pp. 13-47.
- Granovetter, M. S. (1973), "The strength of weak ties", *American Journal of Sociology*, vol. 78, 6, pp. 1360-1380.
- Granovetter, M. S. (1985), "Economic Action and Social Structure", *American Journal of Sociology* November, pp. 481-510.
- Gulati, R., Khanna, T., & Nohria, N. (1994), "Unilateral commitments and the importance of process in alliances", *Sloan Management Review*, vol. 35, 3, pp. 61-70.
- Hakansson, H. (1982), *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, John Wiley & Sons, New York.
- Hill, C. W. (1990), "Cooperation, opportunism, and the invisible hand: Implications for transaction cost theory.", *Academy of Management Review*, vol. 15, 3, pp. 500-513.
- Hunt, S. D. (1997), "Competing through relationships: grounding relationship marketing in resource-advantage theory", *Journal of Marketing Management*, vol. 13, 5 (Special issue), pp. 431-446.
- Istvan, R. L. (1992), "A new productivity paradigm for competitive advantage", *Strategic Management Journal*, vol. 13, pp. 525-537.
- Johansson, J. & Mattsson, L.-G. (1987), "Interorganisational relations in industrial systems: A network approach compared with the transaction-cost approach", *International Journal of Management and Organisation*, vol. 17, 1, pp. 34-48.
- Kauffman, S. (1992), *The Origins of Order*, Oxford University Press, London, New York.
- Kay, J. A. (1993), *Foundations of Corporate Success: How Business Strategies Add Value*, Oxford University Press, Oxford.

- Kay, N. M. (1992), "Markets, false hierarchies, and the evolution of modern corporation", *Journal of Economic Behaviour and Organisation*, vol. 17, pp. 315-333.
- Kay, N. M. (1997), *Pattern in Corporate Evolution*, Oxford University Press, New York.
- Krugman, P. (1996), *Pop Internationalism*, MIT Press, Cambridge, Massachusetts.
- Kuhn, T. S. (1970), *The Structure of Scientific Revolutions*, Second edition, The University of Chicago Press, Chicago and London.
- Levitt, T. (1983), "The Global Village", *Harvard Business Review*, vol. 61, May-June, pp. 92-102.
- Lewin, R. (1993), *Complexity: Life on the edge of chaos*, Pheonix, London.
- Mathur, S. S. (1992), "Talking straight about competitive strategy", *Journal of Marketing Management*, vol. 8, pp. 199-217.
- Mattsson, L.-G. (1997), "'Relationship Marketing" and the "Markets-as-Networks Approach" - A comparative analysis of two evolving streams of research", *Journal of Marketing Management*, vol. 13, 5 (special issue), pp. 447-462.
- Moran, P. & Ghoshal, S. (1996), "Theories of economic organization: The case for realism and balance", *Academy of Management Review*, vol. 21, 1, pp. 58-72.
- Nelson, R. R. & Winter, S. G. (1982), *An evolutionary theory of economic change*, Harvard University Press, Cambridge, MA and London.
- Oburai, P. & Baker, M. J. 1999 "100 Years of Quest for A General Theory of Marketing: The Principle of Cumulativity", UK Academy of Marketing, Stirling, United Kingdom.
- Ohmae, K. (1985), *The Triad Power: The Coming Shape of Competition*, Free Press, New York.
- Peffer, J. (1997), *New Directions for Organization Theory: Problems and Prospects*, Oxford University Press, New York, Oxford.

- Penrose, E. (1959), *The theory of the growth of the firm*, Oxford University Press, Oxford.
- Peteraf, M. A. (1993), "The cornerstones of competitive advantage: A resource-based view", *Strategic Management Journal*, vol. 14, pp. 179-88.
- Porter, M. E. (1980), *Competitive Strategy*, Free Press, New York.
- Porter, M. E. (1985), *Competitive Advantage*, Free Press, New York.
- Porter, M. E. (1990), *The Competitive Advantage of Nations*, Macmillan, New York.
- Porter, M. E. (1998), "Clusters and the new economics of competition", *Harvard Business Review* November-December.
- Powell, W. W., Koput, K. W., & Smith-Doerr, L. (1996), "Interorganisational collaboration and the locus of innovation: Networks of learning in biotechnology", *Administrative Science Quarterly*, vol. 41, pp. 116-145.
- Prahalad, C. K. & Hamel, G. (1990), "The Core Competence of the Organisation", *Harvard Business Review* May-June.
- Richardson, G. (1972), "The organisation of the industry", *Economic Journal*, vol. 82, pp. 883-96.
- Rindfleisch, A. & Heide, J. B. (1997), "Transaction Cost Analysis: Past, Present, and Future Applications", *Journal of Marketing*, vol. 61, October, pp. 30-54.
- Rugman, A. (1981), *Inside Multinationals*, Croon Helm, London.
- Saren, M. & Tzokas, N. (1998), "The nature of the product in market relationships: A pluri-signified product concept", *Journal of Marketing Management*, vol. 14, pp. 445-464.
- Saunders, J., Stern, P., Wensley, R., & Forrester, R. 1999 "In search of the Lemmus Lemmus: An investigation into convergent competition", 28th EMAC Conference, Berlin.

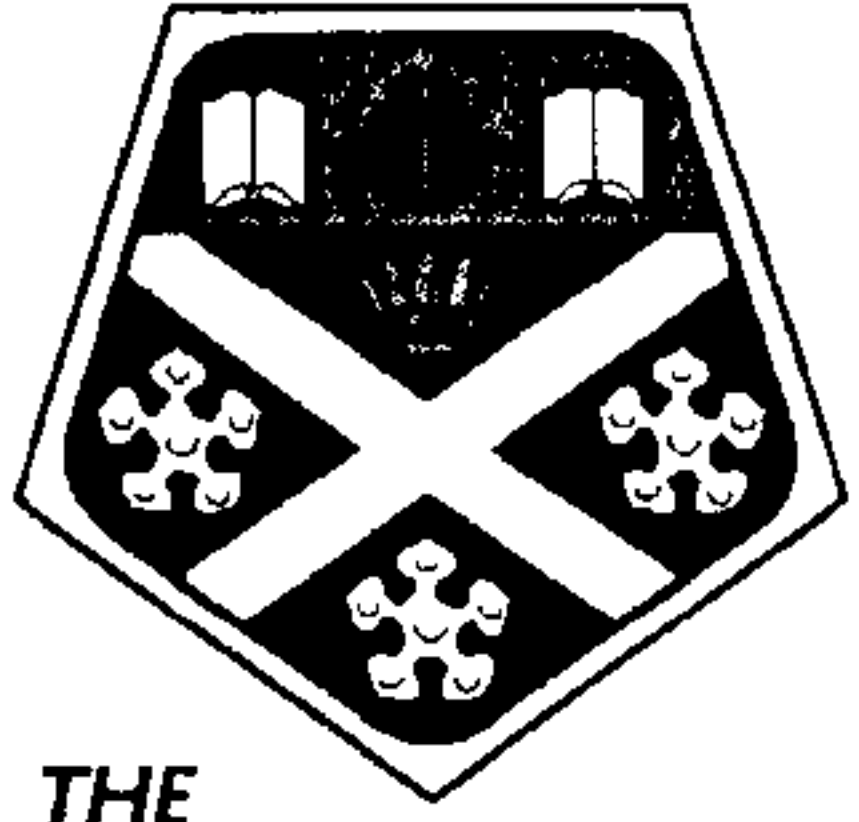
- Senge, P. M. (1990), *The fifth discipline: The art and practice of learning organisation*, Doubleday, New York.
- Sheth, J. N. & Sisodia, R. S. (1999), "Revisiting marketing's lawlike generalisations", *Journal of the Academy of Marketing Science*, vol. 27, 1, pp. 71-87.
- Simon, H. A. (1988), *The Sciences of the Artificial*, The MIT Press, Cambridge, MA.
- Tellis, G. J. & Crawford, M. (1981), "An evolutionary approach to product growth theory", *Journal of Marketing*, vol. 45, Fall, pp. 125-132.
- Turnbull, P., Ford, D., & Cunningham, M. (1997), "Interactions, relationships and networks in business markets: an evolving perspective", *Journal of Business & Industrial Marketing*, vol. 11, 3/4, pp. 44-62.
- Waldrop, M. M. (1992), *Complexity: Life at the edge of Chaos*, Simon & Schuster, New York.
- Wenerfelt, B. (1984), "A resource-based view of the firm", *Strategic Management Journal*, vol. 5, pp. 171-180.
- Wensley, R. (1995), "A critical review of research in marketing", *British Journal of Management*, vol. 6, Special Issue, p. S63-S82.
- Wensley, R. (1999), "Marketing Strategy," in *The Marketing Book*, Fourth edition, M. J. Baker, ed., Butterworth-Heinemann Limited, Oxford, UK, pp. 16-49.
- Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*, Free Press, New York.
- Williamson, O. E. (1981), "The Economics of Organization: The Transaction Cost Approach", *American Journal of Sociology*, vol. 87, 3, pp. 548-577.
- Williamson, O. E. (1983), "Credible Commitments: Using Hostages to Support Exchange", *American Economic Review*, vol. 73, pp. 519-540.
- Williamson, O. E. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, Free Press, New York.

Williamson, O. E. (1993a), "Introduction," in *The Nature of Firm: Origins, Evolution, and Development*, O. E. Williamson & S. G. Winter, eds., Oxford University Press, New York Oxford, pp. 3-17.

Williamson, O. E. (1996b), "Economic organization: The case for candour", *Academy of Management Review*, vol. **21**, 1, pp. 48-57.

Williamson, O. E. (1996a), *The Mechanisms of Governance*, The Free Press, New York.

Zazac, E. J. & Olsen, C. P. (1993), "From transaction cost to transaction value analysis: Implications for the study of interorganisational strategies.", *Journal of Management Studies*, vol. **30**, 1, pp. 131-145.



THE
**UNIVERSITY OF
STRATHCLYDE**
IN GLASGOW

Chapter Five

Research Methodology – Theory Building Case Research in Business-to-Business and Industrial Markets

— THE —
DEPARTMENT OF
MARKETING
—

Chapter Five: Research Methodology – Theory Building Case Research in Business-to-Business and Industrial Markets

The issues to discuss in this chapter include:

1. The philosophical and methodological bases of alternative research methods.
2. Theory building case research objectives and plan.

CHAPTER FIVE: RESEARCH METHODOLOGY – THEORY BUILDING CASE RESEARCH IN BUSINESS-TO-BUSINESS AND INDUSTRIAL MARKETS	100
1.0 INTRODUCTION	100
2.0 BIRTH OF MODERN SCIENCES AND EMPIRICISM	101
2.1 THE PRINCIPLE OF CUMULATIVITY IN SOCIAL SCIENCES.....	104
3.0 THE NEED FOR THEORY DEVELOPMENT	106
4.0 QUANTITATIVE AND QUALITATIVE DIVIDE	109
4.1 ALTERNATIVE AVENUES FOR ENQUIRY IN INDUSTRIAL MARKETS	111
5.0 ORGANISATIONAL SURVEYS: SOME ISSUES	112
6.0 CASE RESEARCH: HISTORY AND EVOLUTION	117
6.1 PHILOSOPHICAL AND METHODOLOGICAL BASES.....	119
7.0 OBJECTIVES OF THE RESEARCH	123
8.0 THEORY BUILDING CASE RESEARCH PLAN AND CONCLUSIONS.....	124
9.0 REFERENCES.....	124

1.0 Introduction

This chapter details the growth of empiricism, and highlights a significant principle, The Principle of Cumulativity, that underlies the processes of building knowledge in social and physical sciences. This leads us to the next section on theory development in marketing, and a brief review of the wide range and choice of means available to researchers are noted. The next section details the reasons for adopting a case research approach.

Changed agenda and paradigms require marketing's research methods and tools of enquiry to reflect fully the need to intensify theory-building programmes. With a view to contribute to theory, a number of theoretical propositions that are proposed for investigation are outlined in the final section. The investigation is based on case studies in a variety of industries.

2.0 Birth of modern sciences and empiricism

The Renaissance and the Age of Enlightenment had a huge impact on the ways of learning, in the way teaching was organised and its methods, and in the incorporation of new principles and beliefs into the accepted body of knowledge. Philosophical change was the force that led to the processes and resulted in their manifestation as “industrial revolution” which transformed the world (Oburai & Baker 1999) (full paper in Appendix III). As a corollary, we add that its counterpart that is generally most under appreciated is the principle that led to the building of knowledge in both the scientific and philosophical fields, and in the development of appropriate methods/techniques for building, analysis and testing of theories. That principle we contend is the almost immutable and the cumulative nature of knowledge building processes that paved the way forward since ancient times. The two seemingly contradictory processes: on the one hand the *variability* of philosophical change, and on the other the *permanency and the constancy* of Principle of Cumulativity that underlies knowledge building are but fundamentally interactive in nature. Longer timeframes and historical studies uncover elements of both continuity and discontinuity. Discontinuities (Drucker 1968) are often the focus of business literature, but short time spans exaggerate some effects while masking others: it is just as easy to miss and not discern the elements of continuity which are for all to see when a longer timeframe is chosen. It is to the task of highlighting the cumulative nature of knowledge building that we now turn our focus to and, as stated before, we attempt to sweep a long span of time.

Aristotle's (384-322 BC) contributions are many and varied, and rightly, he is credited among other things with having single-handedly invented and enunciated the principles and logic of deduction (through syllogism). Indeed, his contributions were so great as to have withstood the test of time for almost another two millennia and a substantial number survive even to this day. Until the 19th century, when the word “science” was coined, the study of nature and associated techniques was part of the discipline of philosophy. A fuller and a

more detailed discussion concerning the growth of separate disciplines and traditions is furnished elsewhere (Oburai & Baker 1999) and needs no repetition here. Suffice it to say that there is clearly more than an element of truth in Russell's (1995) argument that what was for the most part proven by philosophers became science and what was not resolved remained under the rubric of philosophy. 'Every later age has drawn upon Aristotle, and stood upon his shoulders to see truth' (Durant 1954 p.72). The creation of science was facilitated when Aristotle 'merged Plato's method of knowledge-through-critical discussion with the empiricist method of careful observation' (Hunt 1991 p.222).

Behind all of Aristotle's achievements lie a marvellous brain, and a research schema. His dominant paradigm for research, which will be unsurprisingly old wine for most scholars in the field of marketing, is based on three principles: Observation, classification, and generalisation. This is what we call today as empiricism. John Locke is generally considered the father of modern empiricism (Hunt 1991; Russell 1995; Wallerstein 1991). Empiricism has its roots in observation and generalisation. Observation (which may be aided by experimentation) and generalisations form the basis of theory building exercises.

The most crucial missing element was "systematic experimentation" which had to wait till the 17th century for both Galileo (1564-1642) and Bacon (1561-1626) for its introduction. As against Plato, Bacon drew on the 'induction-deduction scientific procedure advocated by Aristotle' (Hunt 1991 p.233) in emphasising the importance of observation, organising of data and experimentation. Although he underestimated the importance of mathematics, the role of deduction in science and the indispensability of hypotheses, '[Bacon] valued his method as showing how to arrange the observational data upon which science must be based. We ought, he says, to be neither like spiders, which spin things out of their own insides, nor like ants, which merely collect, but like bees, which both collect and arrange.' (Russell 1996 p.528).

Russell (1996) asserts that Bacon will always have 'permanent importance as the founder of modern inductive method and the pioneer in the attempt at logical systematization of scientific procedure (p.526)' and that 'the whole basis of his philosophy was practical (p.527)'. The synthesis of induction, deduction, logic and maths culminated in science.

‘Four features characterize the rise of modern science in the 17th century. First, there was a *rapid growth* in knowledge. The rapidity in the growth of knowledge justifies calling it a “revolutionary,” rather than an “evolutionary” phenomenon. Second, the rapid growth in knowledge occurred across many different areas, including medicine, biology, anatomy, electricity, mechanics, and astronomy. Third, rather than natural philosophers (scientists) “starting from scratch” and building free-standing, complete philosophical systems, they took the works of other philosophers and built upon them. The *cumulative* nature of their work was (in today’s terms) both verificationist and falsificationist in nature. The work of Galileo built upon the efforts of Kepler and Copernicus (verificationist), and *refuted* the work of Ptolemy (falsificationist)....

The fourth feature characterizing the rise of modern science was its *method*. The “new philosophy” emphatically rejected the position that knowledge was to be restricted to the proper interpretation of the ancient canonical trio of Aristotle, Ptolemy and Galen. First, the new philosophy brought back the *knowledge-thorough-critical-discussion* criterion of Plato. Second, the new philosophy retained the strong emphasis on *logic* and *observation*, as expounded by Aristotle. Third, it resurrected the notion from Pythagoras that much of the external world can be expressed in terms of *mathematical relationships*. To the methods of Plato, Aristotle, and Pythagoras, the methods of new philosophy added a new and key component: the belief in *experimentation*. Not only was the knowledge generated by the new philosopher-scientist to be logical, consistent with observation, and capable of passing the tests of critical discussion, but also, the truth-content of the knowledge should be capable of empirical testing through experimentation, as with Galileo’ (Hunt 1991 p.224-225 emphasis in original)

The geocentric views of Aristotle and his ‘doctrines that change and decay are confined to the sublunary sphere...and like everything else that Aristotle said on the scientific subjects, proved an obstacle to progress’ (Russell 1996 p.515). Other sources indicate that many more factors intervened with the natural progression of science until the Renaissance and Enlightenment. Notwithstanding the errors in Aristotle’s logic, in the 17th century, the scientific processes moved on relentlessly. Indeed no other times before or since has seen this pace of change.

‘Newton (1642-1727) achieved the final and complete triumph for which Copernicus, Kepler, and Galileo had prepared the way.... His triumph was so complete that Newton was in danger of becoming another Aristotle, and imposing an insuperable barrier to progress’ (Russell 1996 p.520-521). Fortunately, just another 200 years not 2000 as was the case in the earlier instance went by before Einstein’s Theory of Relativity was promulgated in 1905 (Casti 1989 p.37). It is important for us to note in all of the above accounts the cumulative and progressive nature of science. ‘We have good reason to believe that the general theory of relativity better describes the characteristics of the world than does Newtonian mechanics, which itself better describes the world than Galilean mechanics, which itself better describes the world than Aristotelian mechanics’ (Hunt 1991 p.337). However, it was not solely scientific and technical achievements that the period witnessed, far from it.

2.1 The Principle of Cumulativity in Social Sciences

The 17th century was perhaps even more important for the ideas of liberalism that contributed to the processes of Enlightenment. In the beginning of this period John Locke expounded on both the necessity and *principles of modern empiricism*. His ideas spread very quickly in Britain and France among other nations. The list of people who were greatly influenced includes Berkeley, Hume, Voltaire, Kant, and Marx (Russell 1996 p.617). Commerce and interstate dealings multiplied, and both the American and French revolutions took place, whereas Britain for the first time gained hegemony over a quarter of the world and was way ahead of other nations in reaping the combined benefits of industrial revolution and relative political stability. The political stability was ensured by the implementation of governance mechanisms devised by philosophers and the growing prosperity of common man. Building on both philosophical and scientific successes, almost in the fashion of what we know today as Maslow's Hierarchical stages, economists started taking the centre stage and their influence on Darwin is clear. For those readers who are interested in pursuing further, a wide ranging discussion of the links between economic and ecologic theories of evolution is provided in Rosser (1992).

'What Galileo and Newton were to the seventeenth century, Darwin was to the nineteenth century. Darwin's theory had two parts. On the one hand, there was the doctrine of evolution, which maintained that the different forms of life had developed gradually from a common ancestry. This doctrine which is now generally accepted, was not new. It had been maintained by Lamarck and by Darwin's grandfather Erasmus, not to mention Anaximander. Darwin supplied an immense mass of evidence for the doctrine, and in the second part of the theory believed himself to have discovered the cause of evolution. He thus gave to the doctrine a popularity and a scientific force which it had not previously possessed, but he by no means originated it' (Russell 1996 p. 696).

As with most theories and concepts over the diffusion and application of which originators have little control, general public usage of Darwin's ideas had far reaching influence and dramatic consequences. Although Darwin himself was a confirmed supporter of liberal ideas, his theory that in part emphasised congenital differences was not quite in line with traditional liberalism.

And 'what is interesting is Darwin's extension to the whole life of the economics that characterized the philosophical radicals. The motive force of evolution, according to him, is a kind of biological economics in a world of free competition. It was *Malthus's doctrine of population, extended to the world of animals and plants, that suggested to Darwin the struggle for existence and the survival of the fittest as the source of evolution*'.... There is, however, another aspect of liberalism which was greatly strengthened by the doctrine of evolution, namely the belief in progress. So long as the state of the world allowed optimism, evolution was welcomed by liberals, both on this ground and because it gave new arguments against orthodox theology. Marx himself, though his doctrines are pre-Darwinian, wished to dedicate his book to Darwin (emphasis added)' (Russell 1996 p.697-698).

In modern philosophy, we do gather the interlinkages among Russell, Wittgenstein, Popper, Lakatos, and Feyerabend (Casti 1989; Hunt 1991; Russell 1996). In some cases it was the teacher-pupil relationship that set most of the modern philosophy in motion. Although these philosophers' later lives and reputations were very divergent, the cumulative impact is evident.

While the field of economics developed in its theories and principles it relied heavily on past contributions. It is interesting to see that economics struggled for a long time before it got recognition it so richly deserved. Today, Nobel prizes are awarded to academics in the field but the rise of the field as charted by Coase (1994 p.78) is presented below:

'What Adam Smith did was to give economics its shape. The subjects he dealt with, the approach he used, even the order in which the various topics were treated can be found repeated in economics courses as they are given today. From one point of view, the last two hundred years of economics have been little more than a vast "mopping up operation" in which economists have filled in the gaps, corrected the errors, and refined the analysis of the *Wealth of Nations*' (emphasis added; this point about the impact of Adam Smith on the design of economics text books can be found elaborated in Kay (1997 p.102-103)).

John Kay demonstrates through the charting of the growth of the field of strategic management that the growth of strategy has suffered from its neglect of its roots in sociology and economics, and that it would take some more time before the field achieves scientific status (Kay 1993p.362). If not the most, one of the most influential writings of 20th century in the field of business education are the writings of Harvard professor Michael E. Porter. His classic and widely quoted books focussing on competition and competitiveness have reshaped the spheres of business and managers' minds across the globe. Whatever may be the nature of opinions that we hold about the validity of his ideas (see Wensley (1991 p.43) for an evaluation of Porter's early works and Kay (1997 p.17)) for changes over time in Porter's perspectives), the factor that is less known but one that principally underlies his success is the fact that 'the essence of Michael Porter's influential writings on competition and competitive advantage (Porter 1980; Porter 1985; Porter 1990) is derived 'directly from the sub-field of economics known as "industrial organisation" or "industrial economics"' (Baker 1992 p.17).

In this section, our aim was to demonstrate the cumulative nature of processes that growth of knowledge invariably entails. The next section deals with some issues concerning theory development in marketing.

3.0 The need for Theory development

Theory may be described as ‘a tightly organized set of interrelated, disprovable hypotheses derived from a minimum set of axioms, and normally one that has survived a certain amount of rigorous empirical probing (Wallerstein 1991)(p.50)’. For another renowned social science researcher, a theory was ‘no more than a set of correlated set of questions to the social reality under study (p.25) (Myrdal 1968)’.

Nolan and Grant (1994) suggest that theories should be judged by “their ability to describe, explain, predict the phenomena of interest”. General theories ought to explain either all the phenomena within discrete domains of marketing, such as buyer behaviour, or all phenomena of what Hunt (1983) described the “four sets of fundamental marketing explanada”. To list, these four are: (1) buyer behaviour directed at consummating exchanges; (2) seller behaviour directed at consummating exchanges; (3) the institutional framework; (4) and the impact on society of exchange.

The fact is that observation, explanation, prediction and understanding have long become central to research in most disciplines. That in the marketing field empirical tradition has taken strong roots and has been the mainstay of research is undeniable. As highlighted at the outset, our environment has changed dramatically in the years after the industrial revolution and more so since the advent of the information age that in a few cases yesterday’s solutions may no longer be relevant to today’s problems. As time progresses, it likely that the information revolution (Toffler calls this the “third wave”) that we are experiencing will have no less impact as the last industrial revolution. Micro organisations with global links may become the order of the day, and one-man entities that rely solely on brainpower are increasingly becoming visible. Craft based and flexible specialisation within clusters of industrial firms such as those in Italy and in Silicon Valley is now appearing elsewhere as well.

That there exists a gap between theory and practice has been a matter of debate in social sciences in general, and in the field of marketing as well. Brownlie and Saren (1997) argue that the methodological pluralism is essential to understanding marketing as it exists in practice and to be able to portray a more accurate picture of it. They urge marketing

researchers to ‘move beyond naive literal interpretations of interview transcripts as an analytical strategy (p.158).’ These authors also suggest usage of alternative techniques such as ‘participant observation, discourse analysis, ‘shadowing’, self-completion diaries, and activity analysis (p.159).’ In similar note, Hirschman and Holbrook (1992) highlighted the need to fully understand social and cultural issues that underlie and guide many activities that are the focus of the domain of consumer research.

According to Francis Bacon, founder of the logic of deduction, nothing is as practical as a good theory. According to Baker (1992 p.18) ‘The point about ‘theory’ is that it is usually distilled wisdom based upon observation and documentation of real world experience, i.e. it is what works in practice’. However, it may be that the two differ only in terms of formalisation; but once exchange and interaction between practice and academia takes place on a sustained basis, any lag that usually exists will only be a temporary one. We do know that the father of scientific management, Henry Taylor left Harvard to take up a common and labour intensive job in a factory as a result of failing eyesight (Drucker 1993). Presto, his contributions are nonpareil, notwithstanding the criticisms regarding his role in minimising the role of common workers in manufacturing. Many strategy principles originated in General Electric (p.338) (Kay 1993). McKinsey consultants originally invented both the 7s framework and articulated the value chain concept. Baker had written and taught in the “Creative Marketing Strategy” course about “value chain analysis” during his stay at Harvard in 1969-71 although it was Porter who refined and popularised it. The PIMS study is renowned for its close relations between academics and firms (Buzzell & Gale 1998). This has in part been so because the MBAs and others who work in these firms are themselves products of an educational system that is so rich and dynamic in its linkages to industry. Indeed, the futures of both academia and industry are inextricably linked.

Hunt argues that ‘[U]nfortunately, all too many marketing students and academicians have tended to bestow the term *theory* on locutions that are nothing more than obtuse armchair philosophy or mathematical mental gymnastics with little or no explanatory power.... it has been awash in nontheoretical constructions masquerading as theory.’ He goes on to state that ‘...the notion that *theoretical* and *practical* are at opposite end of a continuum is nonsense. Any construction which purports to be a theory must be capable of explaining and predicting real-world phenomena. And the explanation and prediction of phenomena

are eminently *practical* concerns' (Hunt 1991 p.151). We see similar views being expressed in other fields as well (DiMaggio 1995; Sutton & Staw 1995; Weick 1995).

Anderson proposes that 'an important goal of any area of enquiry with scientific pretensions is to insure that its knowledge base is widely dispersed through the greater society, so that this knowledge can be used to benefit society as a whole' (Anderson 1983 p.27). He further proposed that the discipline should seek society's recognition through marketing "marketing science" for both altruistic and self-serving reasons. Hunt commends Anderson for his suggestion that "knowledge for knowledge sake" and "theory-driven research" are priorities. He states that 'marketing will be perceived as a science only when the umbilical cord tying the discipline to the marketing manager is severed' (1984). On the surface it appears as if Hunt contradicts himself in attempting to separate theory from practice. But we believe that his idea is to bring to light the fact that marketing has many constituencies among which the marketing manager is only one, even if one that is perhaps of great importance.

One organisational researcher lamented that 'methods are guiding our theory' and that 'programmed research is driving out the unprogrammed' (Van Maanen 1979). Our tools of analysis may have become sophisticated, but the need to triangulate and use appropriate and suitable enquiry techniques for theory building versus verification can never be emphasised enough (Oburai & Baker 1999). The debate and tension regarding naturalistic and anthropological as opposed to more quantitative empiricism will continue, but it appears that our power to probe deeper continues to rely largely on unaided human abilities. With the availability of modern instruments and computing techniques, it is now far easier than ever imagined to delve deeper into molecular and sub-atomic structures. What could not be penetrated using the human eye is now done using electronic eyes. While natural sciences have overcome many barriers using technology, methods of enquiry in social sciences still rely largely on self-report and verbal communication (Bonoma 1985; Hirschman & Holbrook 1992). This is clearly changing with the intensive usage of computers, incorporation of scanner and other electronically captured data/images, census databases etc.

That marketers perhaps have in many cases eschewed the usage of rich and wide spectrum of techniques in favour of easy, low cost, and low involvement methods is what we attempt to highlight in the following section.

4.0 Quantitative and qualitative divide

Qualitative and quantitative methodologies are often portrayed and perceived in some circles as opposing and mutually exclusive methodologies, if not ideologies. However, most academics and practitioners know this to be a false dichotomy. While qualitative techniques can often provide holistic understanding, quantitative tools afford us deeper view of a chosen issue. Having said that, it is necessary to state that most of the research methods in use are an amalgam of the two traditions and perhaps it is only in experimental and laboratory settings that we could expect to find pure methods. The following table highlights some differences.

Table 5.1: Characteristics of Qualitative and Quantitative Research

Point of Comparison	Qualitative Research	Quantitative Research
Focus of Research	Quality (nature, essence)	Quantity (how much, how many)
Philosophical Roots	Phenomenology, symbolic interaction	Positivism, logical empiricism
Associated Phrases	Fieldwork, ethnographic, naturalistic, grounded, subjective	Experimental, empirical, statistical
Goal of Investigation	Understanding, description, discovery, hypothesis generating	Prediction, control, description, confirmation, hypothesis testing
Design Characteristics	Flexible, evolving, emergent	Predetermined, structured
Setting	Natural, familiar	Unfamiliar, artificial
Sample	Small, nonrandom, theoretical	Large, random, representative
Data Collection	Researcher as primary instrument, interviews, observations	Inanimate instruments (scales, tests, surveys, questionnaires, computers)
Mode of Analysis	Inductive (by researcher)	Deductive (by statistical methods)
Findings	Comprehensive, holistic, expansive	

Source: (Merriam 1988 p.18)

4.1 Alternative Avenues for Enquiry in Industrial Markets

All research methods have their inherent strengths and weaknesses. Qualitative methods yield data that are ‘rich, full, earthy, holistic, “real”’; their face validity seems unimpeachable; they preserve chronological flow where that is important, and suffer minimally from retrospective distortion... Furthermore their collection requires minimal front-end instrumentation (Miles 1979 p.590).’ While the attractions are many, Miles also notes that ‘Qualitative data tend to overload the researcher badly at almost every point: the sheer range of phenomena to be observed, the recorded volume of notes, the time required for write-up, coding, and analysis can all be overwhelming. But the most serious and central difficulty in the use of qualitative data is that methods of analysis are not well formulated’(Miles 1979 p.590). Qualitative data analysis is now much more advanced with the availability of computer software and programmes (Miles & Huberman 1994;Weitzman & Miles 1995) that help ease the burden on the researcher, and make it feasible to record processes of analysis. On the other hand, quantitative data are generally considered to be more objective, the collection process easier, and analytical techniques more advanced and user-friendly.

Most research methods advocate the need to reduce bias and the need to maintain objectivity on the part of the researcher. This is one main reason why quantitative methods are favoured among numerous others. On the other hand, albeit in the qualitative tradition, there is an equally good number of methods that explicitly treats the researcher as an instrument or as an actor. The role of the researcher does not appear in many accounts of published material and texts. Perhaps, authors themselves edit it out as it is assumed that such accounts are considered more credible and scientific and objective. It has often been suggested that authors make their own roles more explicit and accounts more reflexive in order to let readers figure out the depth of subjectivity involved in the writings (Hammersley 1998).

Myrdal has explored the relationship between the researcher and the researched, scientist and the scientific object in depth (Myrdal 1944;Myrdal 1958;Myrdal 1969). He argued against naïve empiricism and said that biases cannot be erased either ‘simply by keeping to the facts and by refined methods of statistical treatment of data’

or by ‘the scientists stopping short of drawing practical conclusions’ (1944 p.1041). ‘[E]xplicit value premises should be found and stated’ and that such a technique could ‘expect both to mitigate biases and to lay a rational basis for the statement of the theoretical problems and the practical conclusions(1944 p.1045)’.

That humanistic (Hirschman & Holbrook 1992), idiographic, ethnographic and phenomenological (Donnellan 1995) studies can make vital contributions is readily recognised by all researchers. Hunt (1994) acknowledges that qualitative methods can potentially make contributions to marketing, he suggests that

‘both a systematic rethinking of the philosophical foundations of qualitative methods and a major change in rhetoric would contribute greatly to bringing about the acceptance of qualitative methods. As long as mainstream marketing academics believe that advocates of qualitative methods embrace relativism, constructionism, and subjectivism, mainstream marketers will – quite appropriately – be unreceptive to qualitative studies. As long as advocates of qualitative methods begin their analyses with the ritual of bashing what they misleadingly call “positivism” (i.e. science and/or quantitative methods), mainstream marketers will view such rhetoric as anti-reason, anti-evidence, anti-civility, and anti-science – in short, as untrustworthy. Progress requires both a civil, reasoned rhetoric and a rethought philosophy. (p.23)’

Qualitative and quantitative methodologies are often portrayed and perceived in some circles as opposing and mutually exclusive methodologies, if not ideologies. However, most academics and practitioners know that qualitative and quantitative techniques provide complementary knowledge. Systemic (holistic) and component (reductionist) level perspectives are ‘both natural and complementary features of human cognition’(Kay 1997 p.99). While qualitative techniques can often provide holistic understanding, quantitative tools afford us a deeper view of a chosen issue. However, it is important to note that it is integration of methodologies and balanced usage that helps in building new theories is our main argument. Indeed, it is the circular and interactive connections and linkages between the inductive and deductive routes that make possible both the discovery and verification of theories.

5.0 Organisational surveys: some Issues

More than a decade ago, Bonoma (1985 p.202) argued that research methods in the field of marketing had three characteristics ‘(1) substantial methodological attention and self-study, ordinarily advocating quantitative or “objective” methodological innovations, (2) no qualitative studies of any sort and (3) considerable use of indirect measures of behavior (e.g., verbal reports) rather than direct assessments of the phenomena (e.g., purchases) under consideration.’ This assessment was based on a

study of a sample of articles from the Journal of Marketing Research over the period 1977-1982.

A cursory examination of empirical studies published in the US and to a limited extent in Europe reveals that the same characteristics could be discerned even today. That some marketing research techniques such as mail surveys and interviewing pose serious threats to the profession has long been recognised (Day 1975). Day listed three main issues: (1) excessive interviewing, (2) lack of consideration and abuse of respondents, and (3) the use of marketing research as a sales ploy. Among others excessive interviewing and repeated mailings to homes and offices still remain serious concerns that face us.

Over-sampling' (McDaniel, Verille, & Madden 1985) is all the more an issue if we take into account that it is the affluent sections and segments that are often the targets in consumer markets. Similarly, important and well-known firms are rarely, if ever, left out of any organisational survey. Indeed in the business field, no other firm has been written about as much or studied in depth as IBM. So, we are potentially alienating the very consumers and firms that are vital in many respects. Those who do not respond might be meted out special and focused treatment. As many marketing academics admit, in the case of mail-surveys, non-respondents are repeatedly contacted either by second wave of mailing or by telephone with a view to increase response rates and reduce non-response bias. Although McDaniel et al recommended (1) self-restraint on the part of researchers, (2) screening out by asking initial questions persons who have been interviewed too frequently, and (3) usage of non-interviewing techniques, it is evident that the situation has deteriorated considerably since. For example, in the United Kingdom, the members of the Association of Market Survey Organisation (AMSO) are reported to have conducted 1,080,000 mail surveys in 1990, an increase of more than 300% compared to 1985 (Mitchell V.-W. & Brown 1998).

Organisational populations differ on three main characteristics (Tomaskovic-Devey, Leiter, & Thompson 1994): capacity, the intrinsic knowledge of the informant; authority, official sanction to act; and motivation, willingness to comply with requests to participate in surveys. It has hence been argued by many researchers that

inducements, incentives, pre-notification using post-card or telephone, second mailing etc may produce different effects on informants and response rates. For example, all the mentioned tactics might produce no effect on the response rate if respondents' limitations are on account of lack of knowledge or authority.

Or response rate may increase at the expense of quality of responses. It has long been known that responses to surveys are not always truthful (Hyman 1944). Managers may use 'truth staging effects' in order to impress academic researchers or may feel that they are obliged to provide socially desirable responses (Brownlie & Saren 1997). Busy schedules of senior managers don't allow too much time either and so are privacy matters (Aaker & Day 1990). Mathews and Diamantopoulos (1995) have surveyed product managers of an industrial firm with a large portfolio of products, and provide evidence concerning the existence of response bias among participants. Although the authors emphasise the limitations of the study and the sample size, they identified no 'correspondence between what the executives claim to be the case of what they did and the reality of the situation' (p.843).

A number of papers examined ways of improving responses to surveys, a method frequently used in surveys, and the results are mixed. Supposedly a low cost method, when adjusted for quality of data levels, and low responses, and more importantly the long term damage that the method may have on the industrial population, the huge advantages that are portrayed disappear. This should not be interpreted as a message that demands total abolition of surveys, but for self-restraint on the part of marketing researchers. No contact, low involvement methods may produce results of little value. One of the most successful programmes, the PIMS project, maintained contact with numerous client firms on a regular basis (Buzzell & Gale 1987).

In the field of business studies in general and in marketing in particular, Harvard Business School (HBS) is renowned for having used the case method extensively from the turn of the century. HBS published a collection of essays on the case method to commemorate the 50th anniversary of the institution (McNair 1954). Bartels argued that the case method was the school's 'principal contribution throughout the years to the development of marketing thought' (1951 p.11), and it was considered by marketing scholars as one of the most important research strategies in marketing

(Converse 1945 p.20). Indeed as experience shows the complex interactions that mark business markets may be best understood by means of detailed case study approaches. This is the favoured form of the profoundly successful IMP group's approach that resulted in the accumulation of hundreds, if not thousands, of case studies.

Case research approach had been used widely in organisational research in Europe with great success (Baker, Parkinson, & Moller 1986; Hakansson 1982). Although in many instances case research methods are used in qualitative traditions, for example in the field of education (Merriam 1988), quantitative data and techniques could be incorporated into case research with equal facility. One of the most referred to texts on case research advocates a more scientific and quasi-experimental approach (Yin 1994). Case research can encompass a wide range of basic methods of data collection, incorporate information from a variety of sources and enrich our analysis of issues. The following table outlines a range of sources of information that can be incorporated when using case research.

Table 5.2: Six Source of Evidence: Strengths and Weaknesses

Source of Evidence	Strengths	Weaknesses
Documentation	<ul style="list-style-type: none"> ◆ Stable – can be reviewed repeatedly ◆ Unobtrusive – not created as a result of the case study ◆ Exact – contains exact names, references, and details of an event ◆ Broad coverage – long span of time, many events, and many settings 	<ul style="list-style-type: none"> ◆ Retrievability – can be low ◆ Biased selectivity, if collection is incomplete ◆ Reporting bias – reflects (unknown) bias of author ◆ Access – may be deliberately blocked
Archival Records	<ul style="list-style-type: none"> ◆ [same as above for documentation] ◆ precise and quantitative 	[same as above for documentation] accessibility due to privacy reasons
Interviews	<ul style="list-style-type: none"> ◆ Targeted – focuses directly on case study topic ◆ Insightful – provides perceived causal inferences 	<ul style="list-style-type: none"> ◆ Bias due to poorly constructed questions ◆ Response bias ◆ Inaccuracies due to poor recall ◆ Reflexivity – interviewee gives what interviewer wants to hear
Direct Observations	<ul style="list-style-type: none"> ◆ Reality – covers events in real time ◆ Contextual – covers context of the event 	Time-consuming Selectivity – unless broad coverage Reflexivity – event may proceed differently because it is being observed Cost – hours needed by human observers
Participant Observation	<ul style="list-style-type: none"> ◆ [same as above for direct observations] ◆ insightful into interpersonal behaviour and motives 	<ul style="list-style-type: none"> ◆ [same as above for direct observations] ◆ bias due to investigator's manipulation of events
Physical Artifacts	<ul style="list-style-type: none"> ◆ Insightful into cultural features ◆ Insightful 	<ul style="list-style-type: none"> ◆ Selectivity ◆ Availability

Source: (Yin 1994) p.80

Van Maanen states that qualitative techniques 'seek to describe, decode, translate, and otherwise come to terms with the meaning, *not the frequency*, of certain more or less naturally occurring phenomena in the social world' (1979 p.520 emphasis added). In similar vein, Bonoma adds that the 'goal of data collection in case research is not quantification or even enumeration, but rather (1) description, (2) classification (typology development), (3) theory development, and (4) limited theory testing'. Indeed he argues that our lack of understanding of some complex phenomena poses for research significant context and quantification limitations which are best overcome by theory building efforts. The next section focuses on the case research method and its evolution.

6.0 Case research: History and evolution

Case methods are among the oldest means employed by humankind in describing, exploring, and explaining various phenomena. The earliest usage of the case study technique is attributed to Hippocrates who presented 14 classic case studies of disease some 2300 years ago (Bonoma 1985 p.1). In the field of sociology (Hamel, Dufour, & Fortin 1993) the case research approach is closely associated with the members of Frederic Le Play School of France and the Chicago School (George Mead, Herbert Blumer, Robert Redfield are some prominent members of the time). Malinowski employed the method extensively in founding the modern anthropological tradition. About 1935, the case study proponents of the Chicago School faced serious challenges from the advocates of statistical survey techniques, and the restoration of the method had to wait till the formation of a second Chicago School represented by Strauss, Glaser and Becker. In particular, it was the seminal contribution of Glaser and Strauss (1967) that revived interest in theory building research rather than efforts aimed at theory verification (cf. Glaser 1998).

Case research is an appropriate strategy that is 'well suited to aspects of marketing where there is a relatively thin theoretical base or complex observational task' and when the context of the object of study cannot easily be separated from the focal object (Bonoma 1985 p.203). Gummesson argues that the case study method allows in-depth and holistic understanding of multiple aspects of a phenomenon and the

interrelationships between different aspects. *Holism* may be viewed as the opposite of *reductionism*. The latter consists of breaking down the object of study into small, well-defined parts. This approach goes all the way back to the seventeenth century and the view of Descartes and Newton that the whole is the sum of its parts. This leads to a large number of fragmented, well-defined studies of parts in the belief that they can be fitted together, like a jigsaw puzzle, to form a whole picture. According to the holistic view, however, the whole is not identical with the sum of its parts. Consequently the whole can be understood only by treating it the central object of the study' (1988 p.76-77).

There has been in the recent past a great acceleration in formalising case research strategy. Yin advocated a quasi-experimental version of case research. Indeed, his book remains the most influential one for case researchers. Yin argued that there is a 'frequent confusion regarding types of evidence (e.g., qualitative data), types of data collection methods (e.g., ethnography), and research strategies (e.g., case studies)' (Yin 1981 p.58). Indeed, case research is a versatile strategy that has many distinguishing characteristics. Yin (1994 p.13) offers a technical definition of case study:

- ◆ case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when
- ◆ the boundaries between phenomenon and context are not clearly evident.

Yin further states some of the data collection and analysis strategies that a case study enquiry deals with:

- ◆ Copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as a result
- ◆ Relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
- ◆ Benefits from the prior development of theoretical propositions to guide data collection analysis.

'An experiment, for instance, deliberately divorces a phenomenon from its context, so that attention can be focused on only a few variables (typically, the context is "controlled" by the laboratory environment). A history, by comparison, does deal with the entangled situation between phenomenon and context, but usually with *noncontemporary* events. Finally, surveys can try to deal with phenomenon and context, but their ability to investigate the context is extremely limited. The survey designer, for instance, constantly struggles to limit the number of variables to be analyzed (and hence the number of questions that can be asked) to fall safely within the number of respondents that can be surveyed(Yin 1994 p.13).

Case studies are best equipped to deal with situations when a holistic perspective of both the context and object of study is required. Because of its rather unique ability to address complex phenomena, case research always has "too many variables (V)"

compared to the number of observations (O) to be made (Yin 1981). This $V \gg O$ inequality (number of variables far exceeds number of data points) is precisely what makes the case study method singularly appropriate and most other methods including standard experimental and mail survey designs totally unsuitable. Mail surveys are suitable when the number of variables of interest is low in relation to the number of data points. In fact unless the number of variables is matched by several multiples of number of respondent cases, some techniques of analysis such as factor analysis simply cannot be applied with any degree of external validity (Hair et al. 1995). On the other hand experiments require laboratory like conditions that divorce a phenomenon from its context and control variables that are not of interest.

6.1 Philosophical and Methodological Bases

We cite below a summary of different philosophical strands, their main proponents and the main bases for discriminating among them. A more comprehensive discussion of the range of philosophies is provided in Easton (1995) and Hunt (1991) (Hunt 1991). This is a schematic picture and understates both differences and similarities that lie between these perspectives.

Table 5.3: The Battle of the Philosopher kings

SCHOOL	REALITY BELIEF	METHOD	ARGUMENT
Wittgenstein I	Realism	Rationalist	Picture language
Wittgenstein II	Relativism	Irrationalist	Language rules
Logical positivists	Instrumentalism	Rationalist	Verification principle
Popper	Realism	Rationalist	Falsification
Lakatos	Relativism	Rationalist	Scientific Research Programs
Feyerabend	Relativism	Irrationalist	"anything goes"
Kuhn	Relativism	Rationalist	Paradigms

Source: (Casti 1989 p.47)

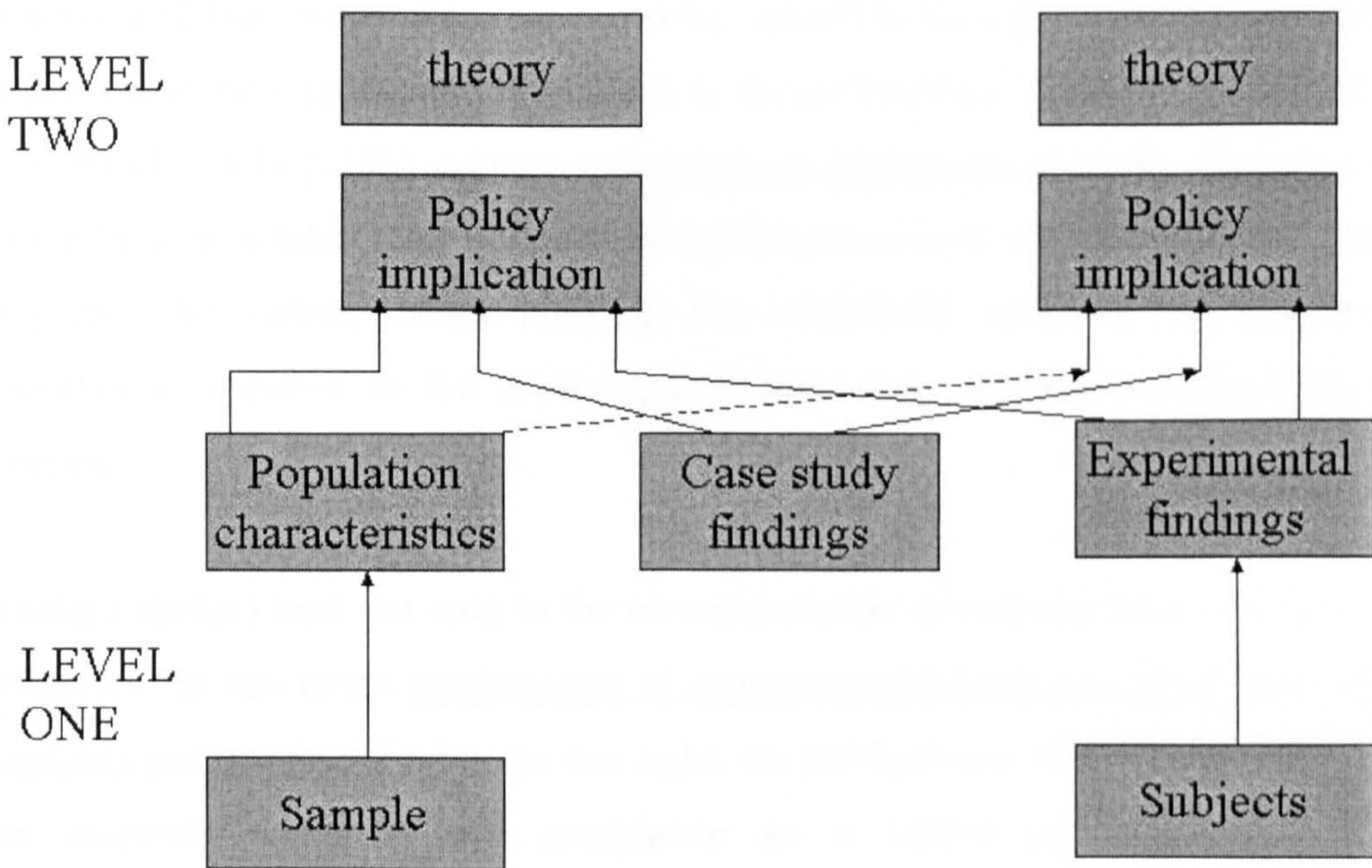
'Realism = Objective reality exists. Instrumentalism = Reality is the readings noted on measuring instruments. Relativism = Reality is what the community says it is' Casti (1989 p.46).

In the last two decades, there have been some significant methodological developments in the area of case research. The case research processes are by now rather well established (Bonoma 1985; Eisenhardt 1989; Glaser & Strauss

1967;Gummesson 1988;Yin 1994) and recent papers (Donnellan 1995;Perry 1998) draw together different strands of writings and provide detailed guidance on why, how, when and where to implement the research strategy. Indeed the case of methodological rigour has been made very clear in the new genre of writings (Dyer & Wilkins 1991;Eisenhardt 1991).

In general the acceptance of alternative research methodologies has been in ascendancy in the recent times owing to the greater methodological rigour displayed in both the adoption and implementation of these research strategies. In case research, scholars agree that the versatile nature of the tool allows both *theory building and theory testing*, although it is generally the former that it is known for. Yin (1994 p.30) was the first to make the distinction between the traditional “statistical generalisation” and “analytic generalisation”. Yin argues that the sampling logic is not appropriate with case studies and likens cases to experiments or surveys and suggests that in analytic generalisation, one draws theoretical inferences thereby obviating the intermediate step of drawing inferences to populations. The following diagram illustrates this process of theorising directly. Both Yin (1994) and Eisenhardt (Eisenhardt 1989) suggest that multiple cases can be compared to one another with a view to establish either “literal replication” or “theoretical replication” leading respectively to confirmation and disconfirmation of results. In effect the process of multiple cases could be used for both building and testing theories through the application of comparative logic.

Figure 5.1: Making Inferences: Two Levels



Yin (1994) P.31

Easton's analysis of some of the strategies used in case research throws light on the underlying methodological and philosophical perspectives. 'Bonoma, for example suggests a stage model that has echoes of logical empiricism/falsificationism.... Yin's preferred strategy is more deductive style [testing of hypothesis derived from theory developed beforehand.].... Mitchell's position, for example, is essentially realist and logical empiricist.... Yin and Bonoma adopt similar positions when they use the empiricist's criteria of validity and reliability to guide the way in that research is conducted.... If case research is represented as the creation and testing of theory in miniature, it cannot be immune from the epistemological problems that such activities attract in other forms of research'(1995 p.478-479 references deleted, emphasis added).

“Science is a journey and the existing is not its destination”. In this light new data are never discomfoting, they never “destroy” existing theory, they expand and improve it’ (Gummesson 1988 p.79). ‘Most empirical studies lead from theory to data. Yet, the accumulation of knowledge involves a continual cycling between theory and data’

(Eisenhardt 1989 p.549) which requires enhanced theory building programmes. Several organisational researchers have argued that there is a paucity of ‘strong theorists’ and that ‘researchers are primarily trained in data collection techniques and the latest analytical tools, not the nuances of theory building’. (Sutton & Staw 1995 p. 378). Weick (1995 p.386) informs that theory is continuum and asks researchers not to save ‘theory to label their ultimate triumph, but use it as well to label their interim struggles’. Altogether, theory building has essentially remained an idiosyncratic procedure as opposed to the great sophistication that verification techniques have acquired.

Paradigm shift(s) lead not only to *the reconfiguration of existing ideas and additions of theories* but also to the modification of extant research tools or even to the adoption of entirely new methodologies. In this light, we put forth our view that at this stage of case research evolution and acceptance as a viable mechanism for theory building/testing, the marked convergence of both methodological and philosophical views that place emphasis on “greater rigour” is perhaps premature. The possibility that convergence is a necessary phase of evolution can indeed be entertained but it is our contention that environmental demands that we outlined in the introduction to this chapter are not too favourable to anything but a very short phase, if any. Indeed, what theory building needs is a boost through meta-theoretical developments that outline and *formalise techniques that both provide easier, quicker and more accurate routes* for arriving at empirically testable theories.

This leads us to derive a suggestion that might assist theory building i.e. a focus on industry specific issues and comparison across geographic territories is essential to building theories that aim to explain industrial markets. Longitudinal analysis may also help in increasing internal and external validity.

The utility of theories that afford only a uni-dimensional and partial perspective is necessarily limited in scope and this is the reason why both academics and practitioners are turning to approaches that treat firms as a value adding entity with great synergistic potential and a unique combination of resources that generate competencies. Efficiency and cost driven explanations, such as the transaction cost explanations (Williamson 1975;Williamson 1985;Williamson 1996a), however true

and elegant, are but partial pictures (Ghoshal & Moran 1996; Kay 1992; Moran & Ghoshal 1996; Williamson 1996b). It is our view that practically relevant and workable theories may have to examine a given issue from multiple angles and integrate relevant theoretical perspectives to increase chances of success in explaining the realities that underlie the workings of interfirm dealings in industrial markets. Strategic considerations and external influences shape firms slowly, surely and over long time periods. Indeed, there is a case to be made for inertia that characterises many dealings. Any effort that aims to differentiate truly performance enhancing relations (Noordewier, John, & John 1990) from merely short term effects (Kalwani & Narayandas 1995), will have to undertake to incorporate both qualitative and quantitative dimensions some of which are more amenable to measurement and others less so. The case research strategy has the ability to incorporate such disparate and diverse sources of information as well as flexibility to allow the researcher to *improvise and innovate* in employing the same for theory building purposes. Resulting cases are likely to be illustrative and improve both discussion and refinement leading to further research.

It was Kuhn's contention that knowledge creation in the field of natural sciences is a cumulative process (1970). This is what is demonstrated from the established Principle of Cumulativity. In line with the principle, a number of broad objectives are derived from the literature and are stated below.

7.0 Objectives of the research

This dissertation attempts to outline some of the **strategic issues** involved in building competitive advantages through the route of co-operative relationships in a business-to-business context between customers and suppliers. While the focus here is very much on the alliances between suppliers and customers, the *processes of building relations and implications* thereof, I believe, have broader applicability to other links that corporations need to have, for example, with their intermediaries, end-users and not uncommonly even with their competing firms.

The main purpose of this dissertation is to take a few cautious steps in moving towards building or at least laying the foundations of a *theory* of strategic alliances.

The objectives of the research are:

- To understand what processes and modes of alliance-organisation lead to the creation of value,
- To explore the implications of customer-supplier alliances and partnerships and how these lead to performance improvements for partnering firms, and
- To develop a theory of alliances.

8.0 Theory building case research plan and conclusions

This chapter details the philosophical and methodological foundations for the proposed research. Since the research aims to build theory, the plan is to conduct in-depth qualitative interviews in as varied a set of contexts as possible so as to allow for the emergence of new ideas and practices. The focus is on firms, their strategies and the context of the industry. This is done with a view to build a rich picture of the focal firm and its collaborative strategies towards its suppliers. The next chapter will provide details of plan, execution and findings.

9.0 References

- Aaker, D. A. & Day, G. S. (1990), *Marketing Research*, Wiley, New York.
- Anderson, P. F. (1983), "Marketing, Scientific Progress, and Scientific Method", *Journal of Marketing*, vol. 47, Fall, pp. 18-31.
- Baker, M. J. (1992), *Marketing Strategy and Management*, Second edition, Macmillan, Basingstoke, England.
- Baker, M. J., Parkinson, S. T., & Moller, K. (1986), *Organizational Buying Behaviour: Purchasing and Marketing Management Implications*, The Macmillan Press Limited, London.

- Bartels, R. (1951), "Influences on the Development of Marketing Thought, 1900-1923", *Journal of Marketing*, vol. 16, 1, pp. 1-17.
- Bonoma, T. V. (1985), "Case Research in Marketing: Opportunities, Problems, and a Process", *Journal of Marketing Research*, vol. XXII, May, pp. 199-208.
- Brownlie, D. & Saren, M. (1997), "Beyond the one-dimensional marketing manager: The discourse of theory, practice and relevance", *International Journal of Research in Marketing*, vol. 14, pp. 147-161.
- Buzzell, R. D. & Gale, B. T. (1987), *The PIMS Principles: Linking Strategy to Performance*, The Free Press, New York.
- Buzzell, R. D. & Gale, B. T. (1998), *The PIMS Principles: Linking Strategy to Performance*, Free Press, New York.
- Casti, J. L. (1989), *Paradigms Lost*, Cardinal, Reading, Great Britain.
- Coase, R. H. (1994), *Essays on Economics and Economists*, The University of Chicago Press, Chicago and London.
- Converse, P. (1945), "The Development of the Science of Marketing", *Journal of Marketing*, vol. 10, July, pp. 14-23.
- Day, G. S. (1975), "The Threats to Marketing Research", *Journal of Marketing Research*, vol. 12, May, pp. 462-467.
- DiMaggio, P. J. (1995), "Comments on "What Theory is Not"", *Administrative Science Quarterly*, vol. 40, September, pp. 391-397.
- Donnellan, E. (1995), "Changing Perspectives on Research Methodology in Marketing", *Irish Marketing Review*, vol. 8, pp. 81-90.
- Drucker, P. F. (1968), *The Age of Discontinuity: Guidelines to our Changing Society*, Harper & Row Publishers, New York and Evanston.
- Drucker, P. F. (1993), *Post-Capitalist Society*, Butterworth Heinemann, Oxford.
- Durant, W. (1954), *The Story of Philosophy*, Simon and Shuster, New York.

- Dyer, G. W. & Wilkins, A. L. (1991), "Better Stories, Not Better Constructs, To Generate Better Theory: A Rejoinder to Eisenhardt", *Academy of Management Review*, vol. 16, 3, pp. 613-619.
- Easton, G. (1995), "Methodology and Industrial Networks," in *Business Marketing: An Interaction and Network Perspective*, K. Moller & D. T. Wilson, eds., Kluwer Academic Publishers, Boston Dordrecht London, pp. 411-492.
- Eisenhardt, K. M. (1989), "Building Theories from Case Study Research", *Academy of Management Review*, vol. 14, 4, pp. 532-550.
- Eisenhardt, K. M. (1991), "Better Stories and Better Constructs: The Case for Rigor and Comparative Logic", *Academy of Management Review*, vol. 16, 3, pp. 620-627.
- Ghoshal, S. & Moran, P. (1996), "Bad for practice: A critique of the transaction cost theory", *Academy of Management Review*, vol. 21, 1, pp. 13-47.
- Glaser, B. B. (1998), *Doing Grounded Theory: Issues and Discussions*, Sociology Press, Mill Valley, CA, USA.
- Glaser, B. & Strauss, A. (1967), *The Discovery of Grounded Theory: Strategies of Qualitative Research*, Aldine, New York.
- Gummesson, E. (1988), *Qualitative Methods in Management Research*, Chartwell-Bratt, Bromley, England.
- Hair, J. E., Anderson Rolph E., Tatham, R. L., & Black, W. C. (1995), *Multivariate Data Analysis with Readings*, Prentice Hall, New Jersey.
- Hakansson, H. (1982), *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, John Wiley & Sons, New York.
- Hamel, J., Dufour, S., & Fortin, D. (1993), *Case Study Methods*, Sage Publications, London.
- Hammersley, M. (1998), *The dilemmas of qualitative method: Herbert Blumer and the Chicago tradition*, Routledge, London; New York.

- Hirschman, E. C. & Holbrook, M. B. (1992), *Postmodern Consumer Research : The Study of Consumption As Text*, Sage Publications, London.
- Hunt, S. D. (1983), "General Theories and Fundamental Explananda of Marketing", *Journal of Marketing*, vol. 47, pp. 9-17.
- Hunt, S. D. (1984), "Should Marketing Adopt Relativism?," in *Scientific Method in Marketing*, P. F. Anderson & M. J. Ryan, eds., American Marketing Association, Chicago, pp. 30-34.
- Hunt, S. D. (1991), *Modern Marketing Theory: Critical Issues in the Philosophy of Marketing Science*, South-Western Publishing Company, Cincinnati, Ohio.
- Hunt, S. D. (1994), "On Rethinking Marketing: Our Discipline, Our Practice, Our Methods", *European Journal of Marketing*, vol. 28, 3, pp. 13-25.
- Hyman, H. (1944), "Do they tell the truth?", *Public Opinion Quarterly*, vol. 8, pp. 557-559.
- Kalwani, M. U. & Narayandas, N. (1995), "Long term manufacturer-supplier relationships: Do they pay off for supplier firms", *Journal of Marketing*, vol. 59, January, pp. 1-16.
- Kay, J. A. (1993), *Foundations of Corporate Success: How Business Strategies Add Value*, Oxford University Press, Oxford.
- Kay, N. M. (1992), "Markets, false hierarchies, and the evolution of modern corporation", *Journal of Economic Behaviour and Organisation*, vol. 17, pp. 315-333.
- Kay, N. M. (1997), *Pattern in Corporate Evolution*, Oxford University Press, New York.
- Kuhn, T. S. (1970), *The Structure of Scientific Revolutions*, Second edition, The University of Chicago Press, Chicago and London.

- Mathews, B. P. & Diamantopoulos, A. (1995), "An Analysis of Response Bias in Executives' Self-Reports", *Journal of Marketing Management*, vol. 11, pp. 835-846.
- McDaniel, S. W., Verille, P., & Madden, C. S. (1985), "The Threats to Marketing Research: An Empirical Appraisal", *Journal of Marketing Research*, vol. XXII, February, pp. 74-80.
- McNair, P. (1954), *The Case Method at the Harvard Business School*, McGraw Hill Book Company, New York.
- Merriam, S. B. (1988), *Case Study Research in Education: A Qualitative Approach*, Jossey-Bass Publishers, San Fransisco; London.
- Miles, M. B. (1979), "Qualitative Data as an Attractive Nuisance: The problem of Analysis", *Administrative Science Quarterly*, vol. 24, December, pp. 590-601.
- Miles, M. B. & Huberman, M. (1994), *Qualitative data analysis : an expanded sourcebook*, Second edition, Sage Publications, Thousand Oaks.
- Mitchell V.-W. & Brown, J. (1998), "Research Note: A Cost-Benefit Analysis of Letter Prenotification and Follow-up", *Journal of Marketing Management*, vol. 13, 8, pp. 853-866.
- Moran, P. & Ghoshal, S. (1996), "Theories of economic organization: The case for realism and balance", *Academy of Management Review*, vol. 21, 1, pp. 58-72.
- Myrdal, G. (1944), *An American Dilemma*, Harper and Row, New York.
- Myrdal, G. (1958), *Value in social theory*, Harper, New York.
- Myrdal, G. (1968), *Asian Drama*, Pantheon, New York.
- Myrdal, G. (1969), *Objectivity in Social Research*, Pantheon, New York.
- Nolan, M. & Grant, G. (1994), "Models, Theories and Concepts," in *Models, Theories and Concepts*, J. Smith, ed., Blackwell, London.

- Noordewier, T. G., John, G., & John, N. R. (1990), "Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships", *Journal of Marketing*, vol. 54, October, pp. 80-93.
- Oburai, P. & Baker, M. J. 1999 "Empirical Research into Collaborative Alliances in Industrial Markets: A Case for a Balanced Approach to Theory Building", 28th EMAC Conference, Berlin.
- Perry, C. (1998), "Processes of a case study methodology for postgraduate research in marketing", *European Journal of Marketing*, vol. 32, 9/10, pp. 785-802.
- Porter, M. E. (1980), *Competitive Strategy*, Free Press, New York.
- Porter, M. E. (1985), *Competitive Advantage*, Free Press, New York.
- Porter, M. E. (1990), *The Competitive Advantage of Nations*, Macmillan, New York.
- Rosser, B. J. (1992), "The dialogue between the economic and the ecologic theories of evolution", *Journal of Economic Behaviour and Organisation*, vol. 17, pp. 195-215.
- Russell, B. (1995), *Unpopular Essays*, Routledge, London.
- Russell, B. (1996), *History of Western Philosophy*, Routledge, London.
- Sutton, R. I. & Staw, B. M. (1995), "What Theory is Not", *Administrative Science Quarterly*, vol. 40, September, pp. 371-384.
- Tomaskovic-Devey, D., Leiter, J., & Thompson, S. (1994), "Organisational Survey Non-Response", *Administrative Science Quarterly*, vol. 39, pp. 439-457.
- Van Maanen, J. (1979), "Reclaiming Qualitative Methods for Organizational Research: A Preface", *Administrative Science Quarterly*, vol. 24, 4, pp. 520-526.
- Wallerstein, I. (1991), *Unthinking Social Science: The Limits of Nineteenth-Century Paradigms*, Polity Press, Cambridge, UK.

- Weick, K. E. (1995), "What Theory is not, Theorizing is", *Administrative Science Quarterly*, vol. 40, September, pp. 385-390.
- Weitzman, E. & Miles, M. B. (1995), *A Software Sourcebook: Computer Programs for Qualitative Data Analysis*, Sage Publications, Thousand Oaks, California.
- Wensley, R. (1991), "Marketing Strategy," in *The Marketing Book*, Second edition, M. J. Baker, ed., Butterworth-Heinemann Limited, Oxford, UK, pp. 29-48.
- Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*, Free Press, New York.
- Williamson, O. E. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, Free Press, New York.
- Williamson, O. E. (1996b), "Economic organization: The case for candour", *Academy of Management Review*, vol. 21, 1, pp. 48-57.
- Williamson, O. E. (1996a), *The Mechanisms of Governance*, The Free Press, New York.
- Yin, R. K. (1981), "The Case Study Crisis: Some Answers", *Administrative Science Quarterly*, vol. 26, 1, pp. 58-65.
- Yin, R. K. (1994), *Case Study Research: Design and Methods*, Second edition, Sage Publications.



THE
**UNIVERSITY OF
STRATHCLYDE**
IN GLASGOW

Chapter Six

Research Findings – A Summary of Key Factors in a Set of Six Case Studies of Major Firms

— THE —
DEPARTMENT OF
MARKETING
—

Chapter Six: Research Findings – A Summary of Key Factors in a Set of Six Case Studies of Major Firms

The issues to discuss in this chapter include:

1. Theory building case research objectives, plan and execution details.
2. Presentation of the summaries eleven case studies.

CHAPTER SIX: RESEARCH FINDINGS – A SUMMARY OF KEY FACTORS IN A SET OF SIX CASE STUDIES OF MAJOR FIRMS	131
1.0 INTRODUCTION AND RESEARCH METHODOLOGY.....	132
1.1 ACCESS AND RESEARCH PROCESS.....	132
1.2 RESEARCH OBJECTIVES	133
1.3 BROAD PROPOSITIONS TO BE EXPLORED	134
1.4 SEMI-STRUCTURED INTERVIEW SCHEDULE	134
1.5 RESEARCH PROCESS	136
2.0 UNIVERSITY PURCHASING: AN INSIGHT INTO THE HIGHER EDUCATION SECTOR.....	136
2.1 THE CONTEXT.....	137
2.2 STRATEGY: VALUE FOR MONEY	137
2.3 DEVOLVE AND INFLUENCE WITH VALUE-ADDED DIRECT INVOLVEMENT	138
2.4 EXTERNAL BENCHMARKING.....	139
2.5 INTERNAL SATISFACTION SURVEYS	139
2.6 COOPERATION AT THREE LEVELS: NATIONAL, REGIONAL CONSORTIUM AND CLUSTER LEVELS 139	
2.7 E-BUSINESS STRATEGY	140
2.8 SUMMARY	140
3.0 SCOTTISH OFFICE: GOVERNMENT PURCHASING	141
3.1 THE CONTEXT.....	141
3.2 WINNING THE HEARTS AND MINDS OF INTERNAL CUSTOMERS	141
3.3 PUBLIC SCRUTINY AND TIME PRESSURES	142
3.4 VARIETY AND COMPLEXITY OF PROCUREMENT	142
3.5 ONE KEY RELATIONSHIP	143
3.6 HIGH TURNOVER.....	144
3.7 E-COMMERCE STRATEGY	144
3.8 SUMMARY	144
4.0 COMPUTERS AND ELECTRONICS FIRM: I-COMP	145
4.1 OUTSOURCING: A MAJOR OPERATION	145
4.2 PROCUREMENT	145
4.2.1 <i>Purchasing function</i>	146
4.2.2 <i>Hub-based Logistics</i>	146
4.3 E-COMMERCE	146
5.0 NUCLEAR ELECTRICITY MAJOR: NEC	147
5.1 SCOTTISH OPERATIONS	147
5.2 COMMERCIAL AND PROCUREMENT OPERATION	147
5.3 FUTURE PROSPECTS FOR NUCLEAR INSTALLATIONS.....	149
6.0 UTILITIES: IT OPERATION AND OUTSOURCING.....	150
6.1 ISD AND OUTSOURCING.....	150

6.1.1	Service provision.....	151
6.2	CONTRACTS.....	151
6.3	FUTURE STRATEGY	151
7.0	OIL AND GAS INDUSTRY: PROCESS ENGINEERING CONSULTANCY SERVICES	
	152	
7.1	PROCESS ENGINEERING SERVICES.....	152
7.2	PROCUREMENT.....	153
7.3	INDUSTRY INITIATIVES: E-COMMERCE	153
7.4	TRUST, RISK AND PARTNERSHIPS.....	154
7.5	FUTURE	154
8.0	CONCLUSIONS.....	154

1.0 Introduction and research methodology

This chapter details research findings. A series of in-depth interviews were held with the senior purchasing executives of the following organisations. The range of sectors represented, and the varied nature of activities that these organisations are involved in lend to and serve to enhance the richness of both the context and firm- specific detail. Some of these organisations are categorised as belonging to the industry of the customers they serve. This is done for convenience sake and should not diminish the variety.

1.1 Access and research process

Gaining access and confidence of respondents is an issue that is under-explored in the management literature. Oburai and Baker (1999), Appendix 3 of the thesis, present some of the main issues concerning the level of respondents and quality of responses. As a part of research strategy, access was gained by making contact with the senior officials and office bearers of the local Chapter of the Chartered Institute of Purchasing & Supply (CIPS). The author attended several meeting of the Chapter and understood both the working of the Institute and acquaintance of several members. Informal discussions were held with a number of key members. Several lectures by guest speakers also helped the researcher in gaining an in-depth understanding of purchasing strategies and new developments. I also attended a conference organised by the University of Glasgow's Supply Chain Management Centre. Through the help of an academic trainer in the Strathclyde Graduate Business School, thesis supervisor and a lecturer in the Department of Marketing, names and addresses of key informants in all the above-mentioned sectors were noted. In a few cases, the access was

organised after written or telephonic requests were made by one of the people mentioned earlier. Further, the prior understanding of the field (see Oburai, Baker and Tagg, 1998 for full details and reportage (Appendix 1)) that the author had was a useful resource to draw on throughout the research process. This process of combining prior understanding and continual validation checks had the impact of increasing the quality of responses as well as ensuring access to suitable and knowledgeable executives.

Throughout the primary data collection and analysis phase, I had the benefit of discussing some of the key findings with senior academics both within the university and out with. This coupled with my attendance at several CIPS meetings has greatly enhanced both the external and internal validity of the research process and output.

The interviews were conducted during the period starting from November 1999 and ending March 2000. Christmas and New Year period was one intervening factor that extended the research process and hence most of the interviews were obtained in the first quarter of the year 2000. A semi-structured interview guide was employed for the purpose of gaining information. This allowed for a flexible and responsive approach, and accommodated for the variety that the multi-sector approach entailed. All due care was taken to abide by the spirit of generally known interview techniques and procedures. Where possible, the author visited and saw first hand manufacturing and other operations. The aim was to capture the dynamics of the context of the industry sectors. The approach adopted was to explore the processes of alliance and partnership formation and was in spirit exploratory in view of the main aim of theory building. As reported in the earlier chapter, the objectives of the research were as follows:

1.2 Research objectives

- To understand what processes and modes of alliance-organisation lead to the creation of value,
- To explore the implications of customer-supplier alliances and partnerships and how these lead to performance improvements for partnering firms, and
- To develop a theory of alliances.

In specific, the propositions to be explored were:

1.3 Broad propositions to be explored

Factors driving alliance formation: External factors rather than internal ones are the main drivers in competitive markets.

Alliances create value for partners. Relationships progress through different phases and bonds develop over time.

Value creation process-1: As the importance of exchange increases, so do investments and interaction.

Value creation process-2: Strategic benefits are derived only when operational gains have been achieved. The stage in which cost reductions and other relatively lower level gains are made is followed by a stage in which a quest for benefits of higher order is initiated.

Value creation process-3: Competence enhancement and knowledge exchange follow the institutionalisation of routines for co-ordinating inter-firm dealings.

Value creation process-4: True partnerships exist when value creation potential is of the strategic order.

The following semi-structured interview schedule was designed and employed:

1.4 Semi-structured interview schedule

INTRODUCTION

Good morning/afternoon Mr./Ms...

My name is Prathap Oburai. I am a doctoral researcher in the Department of marketing, University of Strathclyde.

Thank you very much for giving an appointment for interviewing you. I am interested in knowing about your strategies for handling suppliers in general, and then would like to explore in-depth your firm's relationship with a key supplier.

Theme 1: Outsourcing strategies of the firm

What proportion of end product is bought-in?

Selection

Have you a procedure for identifying/qualifying/selecting suppliers?

Products

How do you decide whether to make or buy?

Relative importance of factors

What are the most important factors in choosing a supplier?

Could we discuss these strategies in terms of a key supplier? Who? Why this supplier?

Theme 2: Relationship with a key supplier

Duration

How old is your relationship with this supplier?

What impacts the continuation of relationships?

How long do you expect this relation to continue?

Importance of exchange

What share of your production (volume and value) do you source from this supplier?

What investments have you made in developing this relation? Are these investments of use outside the given relationship?

Theme 3: Process of development of relationship

Changes over time

Has your relationship changed over time?

If so, in what way has it changed?

-Become a sole supplier

-Supplying many more products

-Our investment has increased (plants, machines, people, and processes)

-Involvement with new product development

Maintenance

How do you maintain your relationship?

Theme 4: Value creating processes

How have you benefited from this relationship?

Are the gains mutual?

What are the long-term benefits?

What are the disadvantages?

Has the value creation increased over time? If so what are the qualitative changes?

All of the above were employed for guidance purposes. These needed to be adapted to suit specific contexts.

1.5 Research process

The interviews were designed to explore the strategies of organisations with respect to their suppliers and the relationships that these firms have with their key suppliers. All interviews were recorded under permission. The information and data gathered in most cases were copious and would have permitted a write-up of full-length case studies. The interviewees were frank and forthcoming. The author had the opportunity to hear some of them twice, and the almost open access that was permitted by these executives was a vital factor in the understanding of the cases and contexts. In view of the sensitivity of information, all the findings are made anonymous as much as possible. This is also the express wish and a precondition of interviewees. In the view of the author, this is to an extent an important advantage in that it helps immediate and easy comparison among and between the cases. Too much richness and unique details are some factors that render qualitative cases difficult when it comes to distillation and generalisation that are essential ingredients of any theory building exercise. The findings presented below are summaries and are in the order of the listing of organisations as above.

2.0 University Purchasing: An insight into the higher education sector

One major Scottish university's head of purchasing was interviewed with a view to elicit information concerning the unit's strategies for handling suppliers. Universities are subject to public scrutiny. With increasing pressures on budgets and greater focus on performance, accountability and transparency, it becomes vital for educational institutions to improve continuously. Several of these demands and their unusual nature set these bodies apart from both private and other public bodies. This is explored below.

2.1 The context

Unlike in manufacturing firms, the demand for services is not easily forecast. Funding bodies generally stipulate deadlines for spending money. As the executive commented: 'You then have a problem as to how you can comply within the law because it is public money and there is a conflict between (1) public law, the liability of the university and (2) achieving value for money for the customer within the period of time. Because ESPRC will say, we need this money cleared... This is an issue we are actually taking up with the funding bodies. It's ridiculous. On the one hand you are saying can you get value for money but on the other hand if you have a lot of money would you get rid of it quickly. So then what we then have to try to do is to seek partnerships with companies that have participated in the tender and these are called framework agreements'.

The National Audit Office scrutinises the activities of Higher Education bodies among others. Higher education and research communities spend in excess of £2 billion annually. Public scrutiny on performance is intense. This percolates down and becomes an intrinsic part of the concerns of senior executives of Universities. Year-on-year improvements are expected, and statistics and strategies are sought and evaluated. Non-salary expenditure accounts for about 35%-40% of the university's turnover of £130 million. This is typical of universities that are research-oriented. This may however be just 25% in the case of some universities that are not research intensive.

User departments execute one-off requests and high value item in consultation with Central University Purchases (C.P.S.), or directly CPS themselves initiate action based on the intimation of requirements by user departments. The specific value limits are more than £50,000 for capital expenditure and £10,000 for others; e.g. mass spectrometers could cost as much as £250,000.

2.2 Strategy: value for money

Their strategy's overriding and recurring theme is 'value for money'. The implementation of the strategy has several and interrelated manifestations. Substantial

internal devolution and training of departmental representatives who are nominated to carry out purchasing activities is a major facet. Continuous training resulting in SVQ (Scottish vocational qualifications) levels is what balances and complements the 'system of devolved authority'. Level 4 is equivalent to becoming a Member of the Chartered Institute of Purchasing & Supply, and two of the nominees are doing this at the moment. The professional skills at the user-operator level reduce the need for monitoring from the central purchasing services.

2.3 Devolve and influence with value-added direct involvement

Central services operating with minimum levels of staff aims to reduce involvement in activities in which value addition is absent. Direct involvement is limited to major operations. Policies and procedures that are put in place regulate purchasing processes. Increasingly strategic in focus, its role is to influence and monitor rather than to execute.

In a post-Thatcher era, demands for accountability have placed Higher Education in an increasingly sensitive situation. In the last five years, the university have put in place framework agreements with several leading suppliers. For instance, they 'partner with four or five PC manufacturers including Dell, IBM, and Access'. These framework agreements are put in place and departmental representatives buy directly. Suppliers provide interactive websites and regular price updates. The policies that framework agreements put in place make it possible to devolve authority and empower departments to purchase flexibly. This also ensures that users needs are met speedily and with no bureaucratic delays. Periodic reviews with suppliers serve to maintain or improve service levels and prices.

In 1993-94, CPS was directly involved with purchases to a tune of only £2 million pounds; this has increased to more than £13 million by 1997-98. Indirect influence has grown from £3.5 million to almost £7 million. As yet, this means that CPS has no influence over £26 million of spend compared to the £46 million that was entirely non-influenced in 1993-94. However, substantial improvements are seen in the growth of CPS influence both direct and indirect.

2.4 External Benchmarking

Regular benchmarking exercises are conducted to compare performance levels across commodity groups with other universities, public bodies and even private or all-UK figures. Exceptions are investigated and necessary measures are undertaken as needed. Other analyses include sorting expenditures by value and supplier. It is reported that one-third of all suppliers account for more than 97% of the expenditure and 88% of the total invoices raised which number 78,000 a year. This however is also an effect of driving up sourcing from preferred suppliers. Such analyses highlight items purchased, sources and expenditure. This also leads to reducing costs of transactions by eliminating or consolidating low value orders.

2.5 Internal satisfaction surveys

Internal customers i.e. academic departments are surveyed to measure satisfaction levels. The last survey established that levels of usage of central purchasing unit's services are correlated to the satisfaction ratings.

2.6 Cooperation at three levels: national, regional consortium and cluster levels

Universities cooperate at the national level and have working parties for different commodity groups. The executive interviewed is on the working group for photocopiers. These groups work out action programmes with respect to suppliers and put in place coordinated purchasing guidelines. Oci, Xerox and Kodak are the major suppliers. The focal university has a special and partnership-like relation with Oci, and it appears that Xerox is not favoured due to its past tactics and high charges. 'Higher education should get for cost plus one penny' is one statement of the executive that captures the unit's expectations of suppliers' pricing strategies.

At the Scottish Universities Consortium level, similar coordination mechanisms are put in place for a range of commodity groups. Furniture supplies is one item considered at this level as well as from a wide range of other goods and services.

At the metropolitan level, the focal university is part of the “metropolitan cluster” consisting of the University of Glasgow, University of Strathclyde, Glasgow Caledonian University and Paisley Universities. This is an important cluster of cooperation wherein cluster members review all relevant professional services expenditure. Data is exchanged and strategies are worked out in consultation. Advertising in the local newspapers is one such item that is checked for consistency of rates charged by newspapers and plans for obtaining bulk discounts are worked out. The executive interviewed has been providing his advice and consultancy services to another university for the past two years. Such active collaboration and exchange of information appears to be a vital mechanism for bringing universities closer, as some of them already are attempting to attract research funds through joint bids etc.

2.7 E-business strategy

EU tenders are published on the web, as are all policies and purchasing procedures. Suppliers are also asked to have interactive web sites. Public procurement laws do not at the moment allow the placing of orders via the web. However, specifications and prices and availability etc may be readily determined and then incorporated into purchasing orders, which are to be routed through to the finance department. The central services have one of the best purchasing websites among universities and are attempting to move towards a paperless office backed by procurement information systems.

2.8 Summary

The university’s purchasing services are innovative in several respects and their strategy to influence internal and external members appear effective. Several key factors are highlighted above.

3.0 Scottish Office: Government purchasing

Government procurement may be one of the most complex tasks one comes across. This is explored at some length below.

3.1 *The context*

The director interviewed was of the opinion that public and private procurement have many similarities. Civil servants have four overriding values: Integrity and honesty, objectivity, political impartiality, and fairness. The need for transparency is an important aspect of public purchasing. The public and parliament scrutiny are a source of constant pressures on performance and procedural compliance. As the senior officer commented: 'I think we are driven by time and ministerial policy and by the need to comply with the law, and we seem to be in compliance with the law. We all operate under different constraints and different drivers'.

The procurement and commercial services division is part of the Scottish Executive and is in charge of policy framing, providing clarifications on legal aspects and a wide range of procurement. The division has influence over an annual budget of £ 750 million of which £450 million is procurement expenditure and the balance £300 million are in the form of grants.

3.2 *Winning the hearts and minds of internal customers*

One important task of the procurement and commercial services unit was to gain the confidence of the departments and agencies within the government. This was done by forming an advisory board comprising of senior personnel of big spending departments and getting this board to draft a procurement policy manual, which outlined procedures and processes to be adhered to. The document was only 10 pages long. However, the high visibility process ensured that all departmental heads have 'skin in the game' and that they wholeheartedly support the policies.

3.3 Public scrutiny and time pressures

Government procurement has to comply with EU directives and national legislation. Re-tendering is a routine and few contracts last longer than five years. Many last for far shorter periods of time. Time pressures and agenda set by ministers demand quick implementation often in the very presence of intense public eye. One such instance was the time when interim parliament facilities had to be set up. About 60-70 different contracts covering a range of supplies were awarded in a short time. Tenders were sought and implementation was pushed through. Another instance was when incineration facilities were set up in connection with the BSE crisis.

3.4 Variety and complexity of procurement

Public procurement has greater variety and complexity than private procurement. The following quote highlights this facet:

‘One of my chaps could be involved in a £30,000 or £40,000 procurement, that is far more complex than a production buyer because it’s a one-off. The rules change every single time, and the requirements change. That makes a huge difference. We have far more customers than somebody would have in the manufacturing side. Again, coming back to the point of the discussion, because you have so much variety, so many one-offs, so many different customers, again that’s a complexity in terms of a relationship with a supplier. You might deal with that supplier now and the project might last for 3 or even 6 months, then you might not deal with him again for 5 years. That’s not the way you would build strategic relationships. I accept that in many cases we need to look, and we have been looking, at supplier relationships and we are piloting some stuff just now, but it’s with people with whom we see a relationship lasting at least 5 years. If you look at the percentage of our expenditure, that’s with our top 20 suppliers, for example, in most places the top 20 suppliers probably cover either 50% or maybe 80% of your expenditure. The top 20 suppliers here, if you exclude construction stuff for a minute, probably don’t even cover more than 20% of our expenditure. So that’s a significant difference, but we are still looking at how we can improve our supplier relationships, and there’s a lot of work going on just now

which will be rolling out over the next year. We call it modernising government procurement, which is really what my major objective is for the next year or so’.

‘I think what it possibly forces you to do though is to be much more careful in the specification because if you don’t get the specification right then the relationship gets off on a bad footing, and you can’t rely on making a mistake and correcting it all the time. The other thing possibly that I see differently, is because we are such a diverse range of things to procure. Maybe our people have to be more proficient in the business of purely the procurement, in the specification and getting things right because they don’t have the product knowledge that you might expect to find in the private sector. That’s a disadvantage in many respects. But maybe it encourages a little more discipline on their part’.

To give a flavour of the range of tasks recently handled by the Procurement office:

- 2000 Census
- Border Railways feasibility study
- Building Erskine bridge toll facilities.
- Building of ships, aeroplanes
- Interim Parliament building
- IT services and hardware
- Music for the Parliament inauguration
- Government vehicles

However, all of this has to be done with only 30 qualified staff and another 30 or so support staff. Of the 30 qualified people, 12-14 members are buyers.

3.5 One key relationship

Ferguson’s of Glasgow built a ship for research purposes. The director said: ‘we worked very close with Ferguson’s. We had a project manager who almost lived with them for the 12 months or whatever the project took, so there was a very close relationship. Going back to what I said, very clear convergence of objectives. Ferguson’s wanted to deliver the ship on time because the contract demanded it and

there were penalty clauses. We needed the ship on time. Their reputation was on the line so they wanted to produce a product, so there was a very close relationship. So with these projects we do work very very closely but the difference I think is that the relationship was extremely focused and really didn't go much outwith the particular thing in mind'.

3.6 High turnover

The fact that law inhibits people makes it difficult for forming close relationships. Further, high turnover of employees who are attracted by higher pay in the private sector makes it difficult to keep competencies and any routines going for any length of time. In the three years that the interviewee was with the government, more than three-quarters of qualified employees left the services.

The unit is now recruiting new graduates with a view to retain them for longer. It is hoped that initial training costs will be defrayed over the longer duration for which these employees are retained. This is to be seen.

3.7 E-commerce strategy

There is a plan afoot to modernise procurement through the implementation of electronic trading and web-based procurement. It is intended to have more than 90% of procurement done over the net by 2001.

3.8 Summary

Public procurement is varied and complex. Time pressures are tremendous. Relationships are difficult to establish. Personnel turnover is very high and experience rarely accumulates. Services procurement is all to do with '*people not assets*'. In the face of massive and regular change of people and legal requirements, establishing closer and long standing relationships is not a common occurrence if totally infeasible.

4.0 Computers and electronics firm: I-comp

I-comp is a major global player in the computing field. Its Scottish manufacturing site is one of the four in the world. The others are in the US, Mexico and China. Historically, the Scottish site has served the markets in Europe, the Middle East and Africa.

4.1 Outsourcing: A major operation

I-comp's site in Scotland produces desktop computers, mobile computers or laptops and servers. Desktop computers category includes powerful machines of mid-range. The total output of the multinational company is around two million pieces a year. Desktop category accounts for 70 percent of the total production out of which 80% is produced by a local firm. These lower end computers are outsourced from the local company, which employs 1000 people and operates in a factory with a space of 300,000 square feet.

The subcontractor is situated very close to the main manufacturing plant and manufacture to the designs and processes specified and also use inputs that are provided by the multinational. It is said that all that the subcontractor has is the ability to manufacture to specifications. Although large volumes are involved, no financial ownership ties are present. This signifies a long-standing relationship as well as dependence. It was gathered that several other leading local suppliers grew with the focal firm over the past decade or more.

4.2 Procurement

The firm has global agreements covering the supply of high value components. Processors, power supply, memory and PCBs are some of the items covered by global agreements. The procurement responsibility is split by commodities, and each of the sites has its scope of commodities clearly delineated for which it takes the lead in drawing up global agreements with suppliers who have adequate capabilities to supply requirements across all sites. This makes it mandatory for suppliers to possess skills and resources that can be leveraged across continents. Local supplies are

typically controlled from respective sites. The Scottish subsidiary has about 30 main local suppliers.

4.2.1 Purchasing function

Purchasing function had 120 employees five years ago. This number has now come down to 70 members. Growth of operations and limited factory space are cited to be the main reasons for outsourcing of low-end manufacture. The growth in outsourcing has led to the staff being lured away by subcontractors, or simply were reassigned. Growth of electronic commerce and automatic order processing has also had a major impact on the purchasing function.

4.2.2 Hub-based Logistics

It is learnt that those suppliers covered by global agreements are required to set up local hubs within reasonable distance from the manufacturing sites in Scotland. 24 hours is the maximum specified time allowed to cover the distance that separates I-comp's factory and suppliers' hubs by road. Suppliers are expected to maintain 5-6 days requirements in stock, and generally deliver direct to the firm's manufacturing site and even to main subcontractor's sites as well. Logistics and timely deliveries are a main focus area for I-comp. The suppliers make arrangements to deliver components in some cases or have contracted with logistics firms for the same.

Most of the suppliers have set up sales and marketing offices in the UK thereby improving coordination with the site in Scotland.

4.3 E-commerce

I-comp is a major player driving the e-commerce innovation, diffusion and adoption. The e-commerce strategy has delivered considerable savings over the last few years. All suppliers are expected to adopt electronic trading and information systems. Web sites allow access to the information relevant to the respective supplier's operations. Orders and status of stock, and all other information may be read and exchanged electronically.

5.0 Nuclear electricity major: NEC

NEC produces a fifth of the total electricity requirements of the UK. With an annual turnover of £2 billion, the firm has major ambitions to become a leading international player in the field of electricity generation and sales. NEC operates eight nuclear power stations, with a combined capacity of 9600 MW and has over 5000 staff. Two of the sites are in Scotland. NEC has a market capitalisation of £4 billion.

Privatisation and deregulation are two factors that are dramatically changing the Electricity and Gas markets around the world. British firms have a head start over firms in other countries where the changes are being introduced only recently. NEC's avowed strategy is to pursue vertical integration both in the supply side and production side. It has recently acquired a supply business in Wales, and is also buying a coal-fired power station in Yorkshire to increase flexibility of production. Nuclear power generation cannot be easily varied to adjust to demands. NEC has also set up a joint venture in the US and is acquiring several nuclear power sites.

NEC's objectives are to continuously improve safety; maximise output; become the lowest cost generator; secure revenues; reward and invest in staff.

5.1 Scottish Operations

NEC's Scottish subsidiary (NEC-S) is the process of being integrated with the operation down south. Historically, the operations in Scotland were managed by an independent subsidiary. The integration has only just begun.

NEC-S has a combined capacity that is in excess of 2600 MW and has a staff of 1200-1300 employees. Apart from about 900 staff at the two nuclear power generation sites, the rest are situated in the two main administrative offices.

5.2 Commercial and procurement operation

Just over a year ago, NEC-S had over 3000 suppliers in its database. This number included all suppliers including those who supplied training services, and individuals who were paid for miscellaneous services and such. The rostrum of suppliers was really a payment register. A pruning exercise brought this number down to 1500. Even out of these 1500 suppliers, it is gathered that only about 200 or so suppliers are used regularly and are considered important. Some of these key suppliers provide work on projects that last 3, 5 or even in cases 10 years as determined by the nature of jobs being performed.

The power generated by NEC-S provides almost one-half of the requirements of Scotland. Nuclear power is a major source of electricity in the UK with almost one-third of the total requirements being met from nuclear generation.

NEC-S spends about £80 million a year on capital and revenue expenditure excluding fuel costs. This amount is fairly constant over years albeit with a slight downward trend. It has been gathered that an IT system worth £35 million has just been installed for streamlining operations. This sum is not included in the annual budget of £80 million. Safety, quality and excellence are key goals of the procurement function.

Site-T units were commissioned in 1988 and are expected to last till 2025, whereas site-H units should last till 2011. The two sites have specialist procurement teams that have non-overlapping areas of responsibilities. Site-H team's areas include civil and mechanical purchases and site-T is dedicated to the purchase of electrical and instrumentation items. A third team looks after all other commercial and administrative aspects and is works from one of the main offices. Purchasing and commercial services has in total 17 regular staff members and 3-4 agency staff working in 3 teams. The site teams have no more than three or four members. Nuclear Installations Inspectorate reports to the Health and Safety Executive and lays down guidelines for the operation of nuclear power sites. A great deal of maintenance and repair work is carried out and involves the usage of services of expert engineers and other people from both internal and external sources. Temporary staff is employed though agencies and this is reported to be a significant cost. Turbines installation and repair is a main expenditure area. However, it was understood that no single supplier

accounts for more than £5 million a year and this indicates a fair spread of expenditure among key suppliers.

One specialist firm supplies protective clothing worth £100,000 a year, and is learnt to have a special relation with NEC-S. Although the expenditure is not great, the crucial nature of supplied product underlies the relationship.

Most expenditure is on local suppliers. This includes a number of firms who have come to specialise and rely on nuclear power sites for work. NEC is required to float tenders for high value assignments. This is done both on the web and by publishing in the Official Journal of the European Communities.

5.3 *Future prospects for nuclear installations*

In more than a decade, NEC has not brought on stream any new capacity, nor is any new plan in the pipeline for investments. This does not augur well for the future of nuclear generation in the Scottish operations side of the energy business. However, this also implies steady or downward trend for the purchasing expenditure budget totals. Unless, major and dramatic changes are introduced, the current strategy that is built around vertical integration and foreign expansion may see the role of nuclear generation in Scotland maintained or reduced.

Expansion through joint ventures in international markets and acquiring supply side businesses and other more conventional power generation stations is seen as a way forward. The opportunities thrown open by the deregulation and increasingly closer integration of gas and electricity markets are other attractive alternatives.

Aggressive cost cutting in the face of heightened competition, changed markets and world environmental concerns is combined with a great emphasis on safety aspects of nuclear generation.

6.0 Utilities: IT operation and outsourcing

GP is a huge multination firm with a portfolio of diversified businesses. Power, gas and water are GP's utilities businesses. The Privatisation and deregulation are key environmental drivers that affect the operation of the firm. GP has recently acquired several other utilities firms' both in the UK and across the Atlantic. Growing competition across the generation, transmission, supply and distribution, and meter reading and billing phases is source of threat that GP has to manage. The internal and external environments are full of threats as well as opportunities.

6.1 *ISD and Outsourcing*

GP has outsourced a number of areas including catering, security and printing and publishing to name a few. Each business division is independent and has responsibility and control of their own purchasing operations. Information systems division (ISD) is unique in that it is a centralised operation with responsibilities spanning across divisions. ISD has 400 employees and develops software, maintains hardware, contracts and manages outsourcing agreements, procures a number of IT related items and provides service. ISD has about 100 suppliers with whom it has regular dealings.

As a utilities concern, GP has to tender for its major requirements and IT is no exception. IT is considered to be a crucial component in gaining competitive edge. Operation 1998 was an IT initiative valued at £70m. This was for developing applications software, and hardware. This project is of five-year duration and was jointly awarded to IBM and Oracle. Another supporting project of similar duration valued at £20m was awarded to three other firms. These three firms are Logica, CMG and CapGemimi. All of these initiatives are designed to enhance the IT strength needed to underpin new and growing range of businesses.

ISD is a huge IT support organisation that relied on internal customers and was a cost centre. Although it had outsourced some part of mainframe operation to ICL and IBM, it is now in the process of shifting all its responsibilities to IBM, which leases mainframe space and offers support services. This is a high value exercise with

several ramifications and is designed to harmonise billing systems of electricity, gas and water businesses. This also ends the long-standing relationship with ICL. The contract with IBM is of 5-year duration and cannot be extended beyond one or two more years. At the end of the term, bids will be sought and contracts be awarded to the most qualified party.

6.1.1 Service provision

Service provision in the IT sector, it was learnt, though a highly tailored task does not involve too many strong ties that inhibit movement from one supplier to the other. Portability is an inherent factor in the IT area. Incumbents might develop party-specific understanding and hence may have an edge over other bidders. This however does not preclude the employment and usage of alternative suppliers.

6.2 Contracts

ISD is very clear on its usage of contractual agreements and provisions. The core of its management of suppliers is very much about contracts. It was the opinion of the manager that relationships and trust are essential to the many partnerships that ISD have, yet the need for clear and flexible contractual documents cannot be exaggerated.

6.3 Future strategy

GP has since the interview set up a joint venture with an American multinational (Amul) that employs over 35,000 people. Amul was chosen from an extensive selection process that screened and short-listed 12 firms. Amul was chosen to be the partner. A close second was IBM. Amul also has a similar joint venture with Rolls Royce. The JV will absorb all the ISD operations and staff and some equipment. The rationales for the venture are several. Since deregulation a few years ago, ISD's development work has tailed off and the prospect of job losses was to be avoided. The accumulated expertise of ISD was thought as something that could be employed gainfully in several markets and industries. A number of new entrants into the utilities industries would need to access such skills, as do firms in countries that are in initial

stages of privatisation and deregulation of their respective utilities. Rapidly changing IT field needs constant links with firms in the core IT business. ISD was protected from market forces all along and would now prosper through its links with Amul. Total outsourcing of all IT operations might mean losing hard won skills and insights, and might leave GP at the total mercy of IT firms that are powerful and dominate the global field.

A 50:50 JV is an ideal solution to many of the above mentioned issues and a suitable vehicle for exploiting emerging market opportunities and leveraging resources. An American partner is thought to present fewer cultural hurdles for the venture.

Outsourcing and continued access to state-of-the-art skills and revenues all can go together this way.

7.0 Oil and gas industry: Process engineering consultancy services

KSMS is an international group owned by investors in Kuwait, Malaysia, Saudi Arabia, Sweden, and pension funds in the UK. The group's annual turnover is £550m.

7.1 Process Engineering Services

KSMS has a company in Central England. This firm, henceforth referred to as KSMS, has the capacity to engineer, design, procure, construct and install onshore engineering projects. Its core business is air separation. The mixture of oil, gas and sand is separated and gas is further decomposed into constituents such as oxygen, nitrogen etc.

The firm's turnover is about £80m of which £22-25m are expenses related to the procurement of capital equipment. Almost half of most projects' budgets are meant for capital equipment expenditure. However, firms prefer to procure these on their own and ask contractors to provide only design and installation services. Some contractors including KSMS do purchase on the behalf of end users but charge only a fee. For this reason, KSMS turnover does not entirely reflect its total purchases.

The oil and gas industry is cyclical, and had a severe downturn during the 1999-2000 period. Low oil prices that were close to \$10 a barrel meant that several projects were put on hold. With rising oil prices, the viability of projects grows and it is expected that business will see growth.

7.2 Procurement

KSMS had a number of redundancies and reduced its staff from 1500 to 250. Purchasing staff numbers were reduced from 30 to 8. This restructuring brings KSMS more in line with the way its major competitors are organised. Most of these firms employ a core staff and have more than 90% employed for projects' durations. Average purchasing man hour cost is estimated to be £39 and 55 hours are budgeted for an average order. The company has about 10 projects running at any time each of which may last for up to 20-28 months. Each project generally requires 60-200 orders with suppliers. Miscellaneous orders proportion is about 30% of all orders. This would mean that purchasing expenses per project are budgeted to be in the range of £200,000. However, it was noted that even a 5 or 10 percent reduction in the procurement expenditure (£5-10m) of a project would lead to accrual of value.

KSMS expects to continue to work with a nucleus of staff and supplement with agency staff as and when required. Agency staff is paid £27 per hour.

7.3 Industry initiatives: E-commerce

KSMS has fully electronic vendor qualification systems. Its website allows suppliers to submit qualification information and to get enlisted as their supplier. The Oil industry has a number of initiatives. One of them is First Point Assessment Limited (FPAL). FPAL provides a database of all contractors and suppliers to the oil industry and also has ratings and assessments of their performance. BP, Shell and a number of oil majors are also members of FPAL and these big operators plan to conduct at least 50% of their business using suppliers and contractors from this database. E-commerce is a growing phenomenon driven by a number of top players.

7.4 Trust, risk and partnerships

KSMS had nearly 2000 suppliers two years ago. This has now grown to 3000. This rise is driven by the firm's internationalisation of operation and consequent growth in the supply base that resulted with the inclusion of a number of non-EU vendors. It was gathered that firms abroad designate their own preferred suppliers for fulfilling capital equipment requirements.

The executive is of the opinion that oil majors and contractors push the risk down and profit at the expense of suppliers in lower tiers. Performance bonds and irrevocable legal guarantees are some examples cited. However, the literature that describes the firm's dealings with suppliers repeatedly mentions partnerships and trust.

KSMS is an engineering expertise and know-how driven firm. In the air separation business, the niche that the firm occupies may account for almost 10% of the world market. However, in relation to big contractors the firm is very small in the global contract and construction business.

KSMS licenses its technology and also has agreements as with a few technology firms. These are run in almost a joint venture like spirit. For example, KSMS is implementing a project in Egypt employing the technology supplied by a Canadian firm in Calgary.

7.5 Future

KSMS sees itself employing more JV like agreements with a number of firms in executing more and more international projects. Reducing staff numbers make the company to rely more on external contractors and staff. Purchasing function will be assuming a more strategic role.

8.0 Conclusions

This chapter presented summaries of key factors in a set of eleven organisations. The underlying idea was to explore each firm's supplier strategies, relationships and the impact of business context.

The next chapter concerns the analysis and discussion of the research findings and commonalties that link these varied organisations and also distinct factors that embody the uniqueness of each of these firms.



THE
**UNIVERSITY OF
STRATHCLYDE**
IN GLASGOW

Chapter Seven

Analysis of Research Findings and Discussion

— THE —
DEPARTMENT OF
MARKETING
—

Chapter Seven: Analysis of Research Findings and Discussion

The issues to discuss in this chapter include:

1. An exploration of the relationships that link the eleven varied organisations and the distinct factors that embody the uniqueness of the firms.
2. A derivation and conceptualisation of important theoretical dimensions.

CHAPTER SEVEN: ANALYSIS OF RESEARCH FINDINGS AND DISCUSSION.....	156
1.0 INTRODUCTION	156
2.0 UNIVERSITY PURCHASING: AN INSIGHT INTO THE HIGHER EDUCATION SECTOR'S LINKAGES.....	157
3.0 SCOTTISH OFFICE: GOVERNMENT PURCHASING IS ALL ABOUT "FLUX"	159
4.0 COMPUTERS AND ELECTRONICS FIRM - I-COMP: GLOBAL POWER AND NETWORK DOMINANCE	161
5.0 NUCLEAR ELECTRICITY MAJOR – NEC: A CORE OF STABILITY BECOMING RESPONSIVE IN THE FACE OF A CHANGING ENVIRONMENT	163
6.0 UTILITIES - IT OPERATION AND OUTSOURCING: CREATING VALUE OUTSIDE FIRM BOUNDARIES	164
7.0 OIL AND GAS INDUSTRY - PROCESS ENGINEERING CONSULTANCY SERVICES: CONNECTING GROWTH AND LINKAGES.....	166
8.0 CONCLUSIONS.....	168

1.0 Introduction

The aim of this chapter is to explore and highlight analytical dimensions that add to the richness and detail contained in the earlier chapter. The previous chapter explored each firm's supplier strategies, relationships and the impact of business context. The current chapter builds on the previously reported description of the six cases, and

explores relationships that link the varied organisations and also outlines the distinct factors that embody the uniqueness of each of the firms studied.

2.0 University Purchasing: An insight into the higher education sector's linkages

Joint purchasing at national, regional and local levels is an important influence on institutional performance. Explicit benchmarking and collective agreements are indicators of convergence of strategies. What used to be within each institution a fragmented, uncoordinated and multi-local activity conducted in an independent and diffused manner is now increasingly coming under the influence of central purchasing services and *extra-institutional* purview. Responsibilities for leading national and local level agreements for different commodities are shared among universities. Edinburgh university is leading the consortium's efforts on buying copiers, Strathclyde on IT consumables, Dundee and Aberdeen on stationery and so on.

Purchasing services now *influences* directly a far bigger proportion of the university's expenditure than ever before. This signals the growth and dissemination of professional purchasing as well as the implementation of superior strategies. Information systems and dissemination of data aid the process in a big way.

The seven crucial elements of strategy are (Annual report 1998):

- Improve training and skills development
- Benchmark to external standards of price and process performance
- Improve procurement management information systems
- Monitor and evaluate effectiveness of procurement performance
- Introduce and develop commodity coding
- Monitor dissemination of good practice and outcomes of strategy
- Maximise benefits to be obtained from the use and development of purchasing consortia

All the elements of the above strategy are dominated by performance measurement and improvement issues, which are greatly influenced by the joint and cooperative efforts of institutions at various levels.

Figure 7.1: Institutional links at metro cluster, regional consortia and national group levels



Source: Author

The above picture illustrates the enmeshed nature of links that envelop an educational institution's purchasing. This serves to underscore the *strategy space* i.e. enlarged action sphere and scope of higher educational bodies. Developing closer relations with suppliers is an ongoing effort that drives up the influence of professional purchasing and its effectiveness. This is greatly influenced by the network context illustrated above. Better resource management needs effective and coordinated actions and plans. Streamlined activities are disseminated across universities. Network competition and collaboration alter familiar scenarios. Fragmented efforts are giving way to collectively beneficial endeavours. The *leverage* obtained thereof is significant. When buyers collaborate and leverage collective strength, suppliers face a

changed scenario. This requires suppliers to fashion and put in place more innovative and modified marketing strategies.

Convergence of practices across educational bodies is an important manifestation of lateral cooperation. While these institutes compete on several fronts say in attracting students or for research funds etc, they do present a formidable collaborative front to suppliers of a wide range of commodities. The common aim of improving performance is promoted through the range of mutually beneficial efforts. Public procurement laws and tendering procedures do place a level of *restriction* on the discretion of buyers to develop relationships with suppliers. This is overcome in the innovative way universities have found avenues for collaboration. In this sense universities are **relationships** driven. The paucity of resources and environmental pressures on budgets appear to have been countered. Another element that could be seen at work is the changing of **routines**. Traditional purchasing has given way to devolved operations and the central purchasing services has taken on a more strategic role with reliance on relationship building routines.

3.0 Scottish Office: Government purchasing is all about “flux”

Diverse ranges of activities, customers and suppliers make public procurement relatively more complex than is the case with private procurement. Unique and non-recurring nature of demands in conjunction with the inherent intricacies of processes makes the variety too complex to be subjected to task standardisation and control mechanisms. Legal directives and public scrutiny are other important issues to contend with.

The following factors are seen as some of the important characteristics of public sector purchasing:

- Getting it right the first time: time constraints
- Value for money
- Cost and quality
- Being responsive to ministerial demands

- Changing customers and suppliers: huge numbers
- One-off requirements
- Finite duration of contracts
- Public nature of work
- Very formal and specifications-driven
- Lack of commodity/product knowledge
- Customers i.e. government departments are not used to dealing with external parties (they are not match-fit)
- Not for profit

High employee turnover is an issue that plagues the procurement operations. *Discontinuities* in the range and types of goods procured make it hard to gain any significant benefits of experience.

Changing customers, requirements, suppliers and purchasing staff all contribute to variety and complexity. This inherent uncertainty is to an extent an outcome of the procurement laws that mandate open tender process of selection of suppliers. Perhaps, unwittingly the very mechanisms designed to promote fairness in selection and enhance efficient and competitive markets may adversely impact the levels of *transaction costs* incurred.

The bargaining power that size offers may be more than offset by the inability of governments to accrue experiential knowledge and by the levels of transaction costs imposed by the need to have suppliers for limited duration.

Government purchasing may be best summarised by the characteristic, “flux”. It is difficult to see avenues that would significantly lower the flux in the system. The business of government and evolving but accepted norms preclude any attempts at integration or self-production as some economic or power theories would have us to consider. The avowed *commitment to market based dealings and the nature of demands* severely limits the discretion on the part of the procurement staff. This is the impact that is induced by the rigidity of **routines** as described in Chapter Four.

Routines are sticky when patterns are set, and limit manoeuvres and room for discretion.

Universities have overcome the *relative isolation* that they might have once suffered from through the route of inter-institutional collaboration. The nation state is itself a fairly new concept when measured against the backdrop of history. World level and regional level efforts at integration are mostly post-world war II innovations. By nature, nations are relatively few. Interstate cooperation at EU level is a theoretical possibility that offers governments an option that might help the consolidation attempts. A more realistic, promising and immediate strategy will involve joining hands with British universities or private firms that may have similar needs and objectives.

4.0 Computers and electronics firm - I-comp: Global power and network dominance

I-comp has outsourced a significant proportion of the assembly of lower end desktop computers. While no financial ties are in place, the extent of influence and control that I-comp has over its subcontractor is clear to see. Technology and processes that are employed by the prime subcontractor are determined by the firm, as are all the inputs. With inputs and conversion processes determined, the discretion of the subcontractor is greatly reduced. Capacity is all that the supplier offers. The extent to which this contributes to the competitive advantage of I-comp appears limited in scope. This is a paradox of outsourcing and network processes. Leveraging internal competencies through interfirm cooperation may not always lead to superior performance that is sustainable indefinitely. Continuous regeneration of skills and knowledge for the network as a whole does not always lead to build up of similar nature and levels of expertise build-up for all involved parties. Networks and alliances on the one hand allow division of labour, but on the other hand lead to asymmetric distribution of power and consequential dependencies. Networks do have informal hierarchies and command structures.

I-comp manufactures all the servers and high-end computers. The Scottish site has also the *mandate for research and development of a certain range of servers*. Overall sales have grown by almost 40% over previous levels and the entire operation has recovered from a loss situation.

I-comp is a multinational network by itself. As the main orchestrator, the firm retains *control over key levers* and does appropriate associated returns. Firms with global networks and resources shape and subordinate networks at lower levels. Historical strengths of I-comp allow it to dominate other networks and firms therein. Research and development underpin the firm's strategy and brand equity. Network management is a natural offshoot of I-comp's history and a crucial element that determines future prospects.

To the extent that the firm shapes networks, it also establishes the pattern of resource flows (1), relationships (2) and hence routines (3). These three elements are the pillars of strategy and form the *triad* of sources of distinctive skills and capabilities. As patterns and processes become specific to I-comp and its strategic purposes, involved parties may no longer be able to determine their own destiny. Nurturing and encouraging local initiatives is one prime remedy to this sort of development. The *slack* in the network may be the only real defence against elements that induce *atrophy and fragility*.

The global and local level interactions need to allow room for innovation at all levels. This is seen in the Scottish site's mandate for server development and manufacture. Indeed, the complex case also serves as an example of the *absence of global order* that exists all by itself and untouched by local developments. The Scottish site is in charge of sourcing certain components for all of I-comp's operations spread around the world. In this sense one may find that merely local actions lead to a global order and network processes. Strategy may well reside in details and *only* in details.

The electronics and computers multinational has tremendous **resources** and consequent power. I-comp can decide almost unilaterally the strategies of its suppliers and the aspects of relationships and routines that its counterparts adopt. Clearly, this is also a product of history. I-comp has been in business for a long time and has a set

culture and ways of dealing with its suppliers. While it would not be totally accurate to describe the relationships as adversarial and characterise the same as power-driven, it can be stated that the firm does have power and influence over its suppliers even if this is not always exercised. At the subsidiary level, purchasing function cannot initiate activities that are not sanctioned by its headquarters.

5.0 Nuclear electricity major – NEC: A core of stability becoming responsive in the face of a changing environment

NEC's growth and future prospects appear to be limited in view of the absence of any major plans aimed at augmenting the existing nuclear power generation capacity. Safety and environmental concerns are of paramount significance. Merger and integration of what were autonomous subsidiaries in Scotland and in England offers several opportunities for rationalisation and streamlining of purchasing and other functions. Acquisition of supply side businesses and generation plants that use alternative fuels serves to de-emphasise nuclear generation activities as it is seen at the moment.

The integrated and to an extent self contained nature of the nuclear utility firm's operations only offers restricted scope to develop *relations* with external firms and draw on their *resources*. This is the impact of industry and firm routine. As a generator-supplier of energy that is fundamental to the economy, NEC adds tremendous value and contributes in many ways. Other firms cannot easily match the nature and extent of these contributions. However, this very unique nature and the accompanying relative isolation tend to be severe constraints on growth and further success. This is a case of existing *routines* imposing inertia. The existing constraints could be seen not only at the corporate level but also at other lower levels and functional aspects. For example the purchasing function in the firm is not seen as *vital* as was the case in many of the other firms that were studied.

The highly technical and self-sustained character of value generation processes does not allow open participation by external entities and incorporation of easy changes to

the conduct of operations. Varying nuclear power generation levels is neither automatic nor easily done. The core of the firm is relatively immune and unresponsive to the external environment.

Strategy changes and implementation thereof as evidenced in the firm's diversification and expansion efforts are all about widening the sphere of influence and network building. Fundamental to the working firms is the combination of stability and change. Stable operation is much vaunted in literature. The case of the nuclear utility that is an exemplar of *core stability* raises important questions concerning absence of change and uncertainty. Managers need room for manoeuvre and discretion. Strategy is in the short term matching of resources to opportunities afforded by environment. Almost a perfect match leads to a *non-evolving* scenario that in essence denies further need for strategic management. The establishment of routine is a trap that imposes isolation and limits growth. *Flexibility and change as such are life lending* without which a firm's role in the wider economic systems diminishes in importance and may even degenerate into total insignificance.

As seen earlier universities and governments are evolving and changing through the development of both external and internal linkages that lead to increased efficiencies and effectiveness. Enhancing impact and performance warrants creative destruction of existing routines i.e. innovation. Routines, resources and relationships are interlinked and are of mutually enhancing character. Internal and external linkages affect both the *stock and flow* of these vital ingredients that underpin the success and survival of firms. Absence of relationships could lead to resource gaps and limit the development of routines that aim at enhancing survival and success prospects.

6.0 Utilities - IT Operation and Outsourcing: Creating value outside firm boundaries

GP is a multinational firm with a portfolio of diversified businesses. Power, gas and water are GP's utilities businesses. Privatisation and deregulation are key environmental drivers that affect the operations of the firm. Growing competition

across the generation, transmission, supply and distribution, and meter reading and billing phases is a major source of threat that GP has to manage. The internal and external environments are full of threats as well as opportunities.

Each of GP's business divisions is independent and has responsibility and control of their own purchasing operations. Information systems division (ISD) is unique in that it is a centralised operation with responsibilities spanning across divisions. ISD is a huge IT support organisation that relied on internal customers and was a cost centre. Although it had outsourced some part of mainframe operation to ICL and IBM, it is now in the process of shifting all its responsibilities to IBM, which leases mainframe space and offers support services. This is a high value exercise with several ramifications and is designed to harmonise billing systems of electricity, gas and water businesses. This also ends the long-standing relationship with ICL. The contract with IBM is of 5-year duration and cannot be extended beyond one or two more years. At the end of the term, bids will be sought and contracts be awarded to the most qualified party. *Portability* of software across different hardware and platforms is an inherently important factor in the IT area. Incumbents might develop party-specific understanding and hence may have an edge over other bidders.

GP has recently set up a joint venture with an American multinational (Amul) that employs over 35,000 people. The JV will absorb all the ISD operations and staff and some equipment. The rationales for the venture are several. Since deregulation a few years ago, ISD's development work has tailed off and the prospect of job losses was to be avoided. The accumulated expertise of ISD was thought of as something that could be employed gainfully in several markets and industries. A number of new entrants into the utilities industries would need to access such skills, as do firms in countries that are in initial stages of privatisation and deregulation of their respective utilities. Rapidly changing IT field needs constant links with firms in the core IT business. ISD was protected from market forces all along and would now prosper through its links with Amul. Total outsourcing of all IT operations might mean losing hard won skills and insights, and might leave GP at the total mercy of IT firms that are powerful and dominate the global field. A 50:50 JV is an ideal solution to many of the above-mentioned issues and a suitable vehicle for exploiting emerging market opportunities and leveraging resources. An American partner is thought to present

fewer cultural hurdles for the venture. Outsourcing and continued access to state-of-the-art skills and revenues all can go together this way.

Internal operation is being leveraged through the establishment of a JV relation with Amul. This is a change of strategy routine that came about after the deregulation of utility markets. The JV is a vehicle for linking up with the external environment and opportunities therein. In this sense the JV is a routine, a resource and above all a relational vehicle.

This case also suggests a *progression from simple purchasing to outsourcing to adding value in the external sphere.* Buying in value is only a beginning. Adding value outside the boundaries of a firm may well be a paradigm shift in practice and business theories. Several parallels may be drawn from the case study example discussed previously. Universities are linking up with external parties, as are the electronic firms. While a JV involves financial equity, real value addition comes from the *accumulated competencies* and their application. The equity signifies a set pattern for the distribution of residuals, but in itself the equity is not a source of competitive advantage or a distinctive ability. In this sense, equity based categorisations are misleading. Value appropriation mechanisms are not necessarily linked to value creation strategies. The route that GP has taken is to build a **relationship** to rewrite industry rules and set patterns and routines of business.

7.0 Oil and Gas Industry - Process Engineering Consultancy services: Connecting growth and linkages

KSMS engineer, design, procure, construct and install onshore engineering projects. The firm's core business is air separation. The firm's turnover is about £80m of which £22-25m are expenses related to the procurement of capital equipment. Almost half of most projects' budgets are meant for capital equipment expenditure. Some contractors including KSMS do purchase capital equipment on behalf of end users but charge only a fee. For this reason, KSMS turnover does not entirely reflect its total purchases. The oil and gas industry is cyclical, and had a severe downturn during the

1999-2000 period. Low oil prices that were close to \$10 a barrel meant that several projects were put on hold. With rising oil prices, the viability of projects grows and it is expected that business will see growth.

KSMS has fully electronic vendor qualification systems. Its website allows suppliers to submit qualification information and to get enlisted as their supplier. The oil industry has a number of initiatives. One of them is First Point Assessment Limited (FPAL). FPAL provides a database of all contractors and suppliers to the oil industry and also has ratings and assessments of their performance. BP, Shell and a number of *oil majors* are also members of FPAL and these *big operators* plan to conduct at least 50% of their business using suppliers and contractors from this database. E-commerce is a growing phenomenon *driven by a number of top players*. It was gathered that oil majors and *contractors push the risk down and profit at the expense of suppliers in lower tiers*. Performance bonds and irrevocable legal guarantees are some examples cited. The power of big players and their dominance is an unavoidable part of industry networks.

KSMS had nearly 2000 suppliers two years ago. This has now grown to 3000. This rise is driven by the firm's internationalisation of operation and consequent growth in the supply base that resulted with the inclusion of a number of non-EU vendors. It was gathered that firms abroad designate their own preferred suppliers for fulfilling capital equipment requirements.

KSMS is an *engineering expertise and know-how* driven firm. In the air separation business, the niche that the firm occupies may account for almost 10% of the world market. However, in relation to big contractors the firm is very small in the global contract and construction business. KSMS *licenses its technology and also has agreements* as with a few technology firms. These are run in almost a joint venture like spirit. For example, KSMS is implementing a project in Egypt employing the technology supplied by a Canadian firm in Calgary. KSMS sees itself employing more JV like agreements with a number of firms in executing more and more international projects. Reducing staff numbers make the company rely more on external contractors and staff. The purchasing function will be assuming a more strategic role in building external relationships.

The growth of the company is driven by its knowledge base. Application of the firm's know-how across nations is leading to an increase in the number of suppliers that the firm has relations with and employs for project work. While the uniqueness of its core skills and technology allow the firm great mobility and leverage, this also necessitates *pooling* suppliers' skills, equipment, and technology from other firms. Although it is the technological core that underpins the firm's working, network-building activities facilitate and enhance the application of core competence. Alliances and partnerships allow the company to combine resources and generate value. **Relationships** could well be argued to be the main *arteries and pathways* through which resources flow and let strategy routines be executed.

8.0 Conclusions

The earlier chapter presented summaries of key factors in a set of eleven organisations. The underlying idea was to explore each firm's supplier strategies, relationships and the impact of business context. The current chapter concerns the analysis and discussion of the research findings and relationships that link these varied organisations and also distinct factors that embody the uniqueness of each of these firms. The following table summarises the studied firms and variety of their inner workings. It can be gathered that universities and the utilities firm (GP) are moving towards relying predominantly on **relationships**. KSMS is also attempting to build **relationships** with a few chosen firms. NEC and the government purchasing are subject to regulations or to constraints imposed by the nature of the business they are in. Observing these set ways of doing business leads us to infer that **routines** dictate their conduct. This may not always be desirable or to the liking of concerned managerial staff and may even be considered to be a handicap. I-comp is a multinational that has huge **resources** at its command and this is the element that drives their strategy.

Table 7.1: A Summary of Case Examples, underlying factors and strategy characteristics

Serial Number	Case example and dominant element	MAIN DISTINGUISHING FACTORS	Characteristics of main value adding strategies
1	University: reliance on relationships	<ul style="list-style-type: none"> • Internal devolution and skill augmentation • Cooperation at multiple levels 	Consolidation of internal links; and extension and leverage of inter-university relations
2	Government purchasing: reliance on routines	<ul style="list-style-type: none"> • Task Variety and complexity • Winning internal customers and modernisation of practice 	Management of flux and continuous change
3	Computer industry giant - I-comp : reliance on resources	<ul style="list-style-type: none"> • Power and dominance over networks • Creation of global order and tapping local innovation 	Network shaping and management

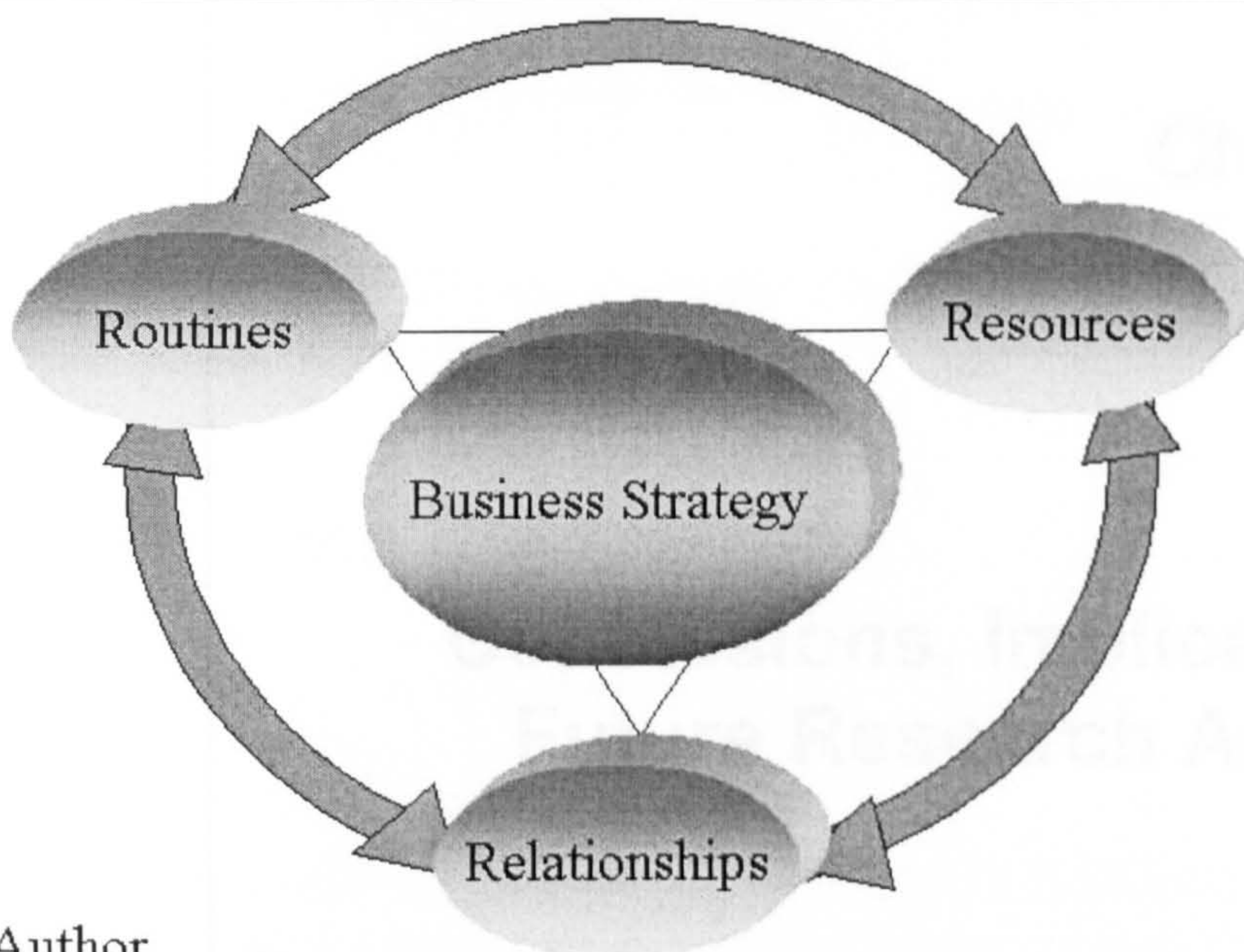
Serial Number	Case example	MAIN DISTINGUISHING FACTORS	Characteristics of main value adding strategies
4	Nuclear major – NEC : reliance on routines	<ul style="list-style-type: none"> • Core stability and isolation • Diversification to increase flexibility 	Multiplication of linkages and flexibility
5	Utilities firm - GP : reliance on relationships	<ul style="list-style-type: none"> • Accumulated expertise and external opportunities • Move beyond sourcing value 	Adding value in the external arena and building skills through learning
6	Process consultancy – KSMS: reliance on relationships	<ul style="list-style-type: none"> • Growth of linkages • Wider application of knowledge base 	Enlarging application through pooling skills and knowledge

Collaboration with other organisations is seen to be becoming increasingly important to firms. It is seen that being a subsidiary of global corporations with multinational presence is an asset. This virtue carries with it several liabilities. Developing closer relations with suppliers is a matter of *strategy*. After all suppliers, as argued before, are important but one of the many stakeholders of an entity. Availability of alternatives and the crucial nature of supplies are factors frequently cited in the management literature. The *organisational context and practices* are here seen to be almost as important, if not even more.

Theoretical perspectives derived from chapters two, three and four and the combination of insights from the previous and current chapters lead to the assembly and a unique synthesis of three cores viz. resources, relationships and routines that make up firms and their constituent subunits as well as different functions, and

likewise industries and economic systems. Alliances, partnerships, networks and clusters are mechanisms that facilitate the building processes that generate and modify these three cores, and in turn are supported by these basic ingredients. *Managerial arsenal and tools* are aimed at affecting the stock and flow of the 3Rs: Routines-Resources-Relationships. The 3Rs framework is presented below.

Figure 7.2: Three 'R's of Business Strategy



Source: Author

Contextual factors and managerial initiatives determine the *relative proportions* that make for a *recipe for competitive success*, which in turn determines outputs and outcomes of business strategies. The 3Rs framework also satisfies the key cumulativity criterion that all theory building exercises and scientific endeavours are subject to. This constitutes a major and fundamental contribution of the thesis in that it builds on and complements existing frameworks and theories in the sub-fields of marketing strategy and industrial and business-to-business marketing.

The next and final chapter provides conclusions, implications, and outlines a research agenda aimed at building the theoretical framework presented above.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

Chapter Eight

Conclusions, Implications, and Future Research Agenda and Avenues

THE
DEPARTMENT OF
MARKETING

Chapter Eight: Conclusions, Implications, and Future Research Agenda and Avenues

The issues to discuss in this chapter include:

1. An elaboration of the Routines-Relationships-Resources model and an exploration of the interrelationships of the 3Rs. Derivation and conceptualisation of theoretical dimensions of the three cores that constitute the framework.
2. Research propositions and potential applications of the model.
3. Implications, limitations and conclusions.

<u>CHAPTER EIGHT: CONCLUSIONS, IMPLICATIONS, AND FUTURE RESEARCH AGENDA AND AVENUES</u>	172
<u>1.0 INTRODUCTION</u>	173
<u>2.0 3RS FRAMEWORK</u>	173
2.1 <u>ROUTINES</u>	175
2.2 <u>RELATIONSHIPS</u>	176
2.3 <u>RESOURCES</u>	176
2.4 <u>IMPACT OF STRATEGIC DECISIONS ON 3RS</u>	177
<u>3.0 RETURNS: MEASURES OF RELATIONSHIP/FIRM PERFORMANCE AND EFFECTIVENESS</u>	180
3.1 <u>MULTIPLICITY OF AND ORDER OF OUTCOMES</u>	181
<u>4.0 AGENDA AND AVENUES: RESEARCH PROPOSITIONS AND APPLICATION OF THE 3RS MODEL</u>	182
4.1 <u>PROPOSITION 1: 3RS AS EXPLANANDA OF FIRM PERFORMANCE DIFFERENTIALS</u>	182
4.2 <u>PROPOSITION 2: ROUTINES - CHANGE AND IMPACT</u>	184
4.3 <u>RELATIONSHIPS STAGES AND ATTRIBUTES</u>	185
4.4 <u>PROPOSITION 3: RELATIONSHIPS ARE PATHWAYS TO RETURNS</u>	185
<u>5.0 PATH DIAGRAM OF RESEARCH PROPOSITIONS</u>	187
<u>6.0 IMPLICATIONS, LIMITATIONS AND CONCLUSIONS</u>	188
6.1 <u>THEORY OF THE FIRM AND BUSINESS RELATIONS</u>	188
6.2 <u>LIMITATIONS OF THE RESEARCH PROCESS AND FINDINGS</u>	189
6.3 <u>MANAGERIAL RELEVANCE: IMMEDIATE AND PERMANENT</u>	190
<u>7.0 REFERENCES</u>	190

1.0 Introduction

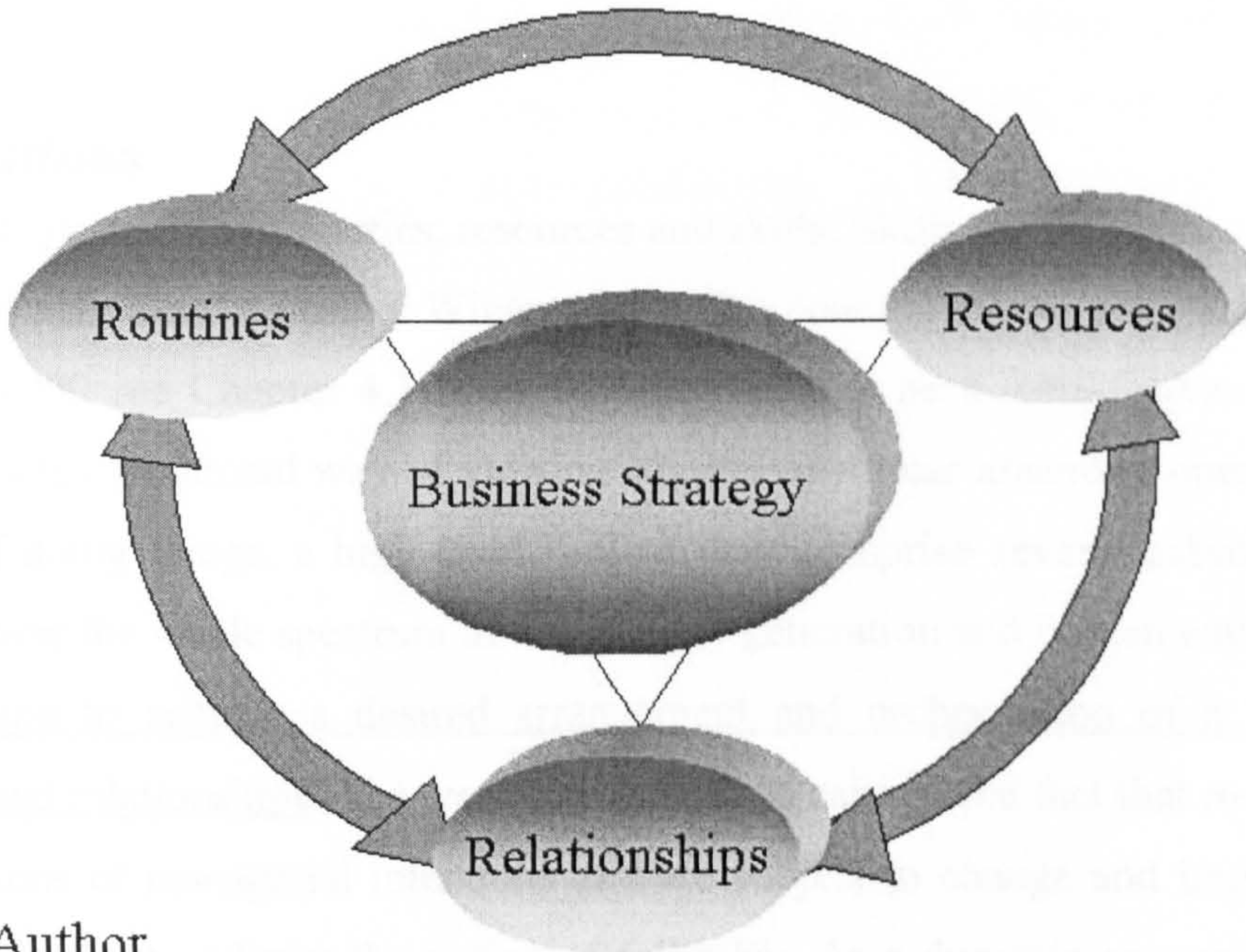
The aim of this chapter is to draw conclusions from the theoretical reviews in the earlier chapters, the exploratory survey findings and suggest a coherent set of related but broad propositions for future research. Accordingly, the second and third sections elaborate the 3Rs framework derived and presented in the previous chapter. This is followed by a presentation of a set of propositions that could be explored in greater depth through large-scale confirmatory surveys (sections 4.0 and 5.0). The exploratory research was limited to the field of purchasing and its impact. These limitations are outlined in the final section. However, the implications that can be drawn affect both the notion of firm as an entity and several constituent parts. This chapter takes a broader perspective and considers a number of strategic implications of the findings for different functional, corporate and inter-corporate levels. In particular an external focus and perspective is adopted, as was the case throughout the earlier chapters of the dissertation.

2.0 3Rs Framework

The 3Rs model is an independently derived framework and is a product of the **synthesis** of a wide-ranging number of theories from a number of related management disciplines (see Chapter 4 for detailed analysis). This model is analogous to the Actors-Activities-Resources (A-A-R) model of industrial networks (Hakansson & Johansson 1997). Network and business markets agenda and output are at the forefront of the process of challenging previously dominant notions of business strategy and offering alternatives (Hakansson & Snehota 1997). The AAR model does not appear to be sufficiently rooted in relation to existing body of literature and associated theories. **3Rs framework is elaborate in its detail and recent conceptual and empirical developments are integrated.** At the same time, the 3Rs model is parsimonious and has strong theoretical roots. The model challenges the basis of traditional views of strategy, which are evolving and developing. This model also is an improvement on the Architecture-Innovation-Reputation-Strategic Assets combination thought to underlie corporate success (Kay 1993). The four elements mentioned by John Kay are interlinked although not exhaustive

enough to include all the determinants of corporate performance. However, even the interlinkages are not made entirely explicit in Professor Kay's treatment. The 3Rs framework further is an improvement over the seminal sources-positions-performance (SPP) framework forwarded by Day and Wensley (1988). The SPP framework is linear and is rooted in the structure-conduct-performance paradigm detailed in Chapter Four in the section on market power and industry structure related writings.

Figure 8.1: Three 'R's of Business Strategy



Source: Author

Routines-Relationships-Resources (3Rs) is a **generic framework** that could be employed at different levels. The framework is reproduced below for ready reference, and it is important to note the two way influence that each of the three cores has on others in the *triad*. This is a significant way (Brown 1991) of capturing the mutually reinforcing and strengthening relations among the three cores. At its lowest level of usage, the 3Rs model could be employed as a *pedagogical tool and a descriptive mechanism*. At a higher level,

managers and academics alike could utilise the framework as a *diagnostic and audit* tool. At a third and final level, the previous two levels of usage could be further incorporated into the strategy formulation and implementation aspects of organisation. Managers may assess the level of each of the three elements of the 3Rs model the businesses they are concerned with have and may wish to modify one or more elements to gain rapid and sustainable competitive advantage. It is in this sense that the framework *has predictive and explanatory* power. Finally, the model is amenable to empirical verification and validation. As such, the model forms a key step in theory building process that this thesis aimed at. These details are dealt with in this chapter. The focus here is on establishing relationships and analysing their impact.

2.1 Routines

Routines are *patterns* of activities, resources and skills. Skills are programs i.e. a coherent sequence of activities (Nelson & Winter 1982). The concept of core competence (Prahalad & Hamel 1990 see Chapter 4.1) may be considered to be a *meta-routine*. Abstracting from the more operational way of viewing routine, say a car assembly operation or well set way of doing things, a high level routine may comprise several subroutines which together cover the whole spectrum of the strategy generation and implementation process. Routines aim to achieve a desired arrangement and orchestration of a collection of resources and relationships. The word aim is used to capture the fact that routines merely are reflections of managerial intentions and are subject to change and improvement. In this sense, routines embrace the notion of *fallibility*. As a dynamic concept, this holistic view allows for short-term rigidity in routines and embraces the notion of change and movement over longer terms. In the framework, Routines are treated as the primary components of strategies, and relationships and resources as secondary components. In the 3Rs model, routines are seen as “Primus Inter Pares” i.e. “*first among equals*”. Interpreted this way, there is a primary influence from routines to relationships and resource levels. Relationships are the pathways by which routines are implemented. Clearly, once formed relationships open up several avenues for strategic initiatives and create resources. Within a relationship, several subordinate routines may be initiated. All

of these, however, are outputs of relationships and hence additions to resources or routines.

2.2 Relationships

Because of the importance in their own right, relationships need to be treated as a separate multi-dimensional construct. Relationship characteristics are many and varied. Trust, communication, power, strategic advantage, transaction costs, satisfaction are some main ones.

The range of relationships includes both internal and external relationships. Internal relationships facilitate intra and inter-departmental/SBU level coordination and integration at corporate levels. Generation and dissemination of knowledge and leveraging of assets for the benefit of organisation as a whole are important aspects with respect to the internal organisation of firms (Bartlett & Ghoshal 1989).

External relationships with suppliers, channel members, customers and other stakeholders are means of combining, creating, modifying, exchanging and influencing resources and their usage patterns. In other words, relationships and their characteristics are decided and influenced by routines, and the levels and types of resources employed to create and sustain a relationship.

2.3 Resources

Resources are multi-dimensional and include both tangibles and intangibles (Hakansson & Snehota 1997). Performance and effectiveness of both knowledge driven industries and others are increasingly being determined by *intangibles* such as relationships, reputation, information and knowledge bases (Itami 1987; Nonaka & Takeuchi 1995; Quinn 1992). Resources are dynamic and diminish or grow with time, usage and investment. As Lusch and Harvey (1994) point out:

- ‘They can be tangible or intangible. For example the concept of total quality management has been one of the strongest competitive resources of the second half of the twentieth century.
- They are not inherently valuable; they become valuable when we know what to do with them. Mineral deposits were not resources until people learned how to recover and use them.
- They are not static but dynamic. An employee, for example, becomes more valuable with training.’

In the 3Rs framework, resource is devised and defined so as to encompass *physical, relational and intellectual* assets. Relationships are bundles of resources; and routines determine both the relationships and resources that form part of relationships and returns that are outputs of relationships. The outputs of relationships generate and modify resources as a result of the application of routines.

2.4 Impact of strategic decisions on 3Rs

Outsourcing, purchasing and marketing strategies etc. decisions and activities modify firm boundaries and vary routines, relationships and resources. Learning is an inherent outcome of many such strategic decisions that affects the level of skills and capabilities that form part of resource bundles that an organisation possesses.

The following two tables list illustrative examples of each of the 3Rs and provide a stepwise procedure for employing the 3Rs framework.

TABLE 8.1: ILLUSTRATIVE EXAMPLES OF 3RS

Routines	Relationships	Resources
<ul style="list-style-type: none"> • Major outsourcing and partnering decisions • Planning Alliances and partnerships to support major initiatives such as entry into new markets and/or use of new technologies • Designing the desired relationship attributes and required levels of resources to be employed 	<ul style="list-style-type: none"> • Finding partners • Implementation and management of the relationship 	<ul style="list-style-type: none"> • Active management of resource types, levels and values • Inputs: Deciding on the level of resources to be invested in a relationship • Outputs: Examining returns from relationships and changes in the level of resources

TABLE 8.2: ILLUSTRATIVE PROCEDURE FOR COMBINING 3RS

Step One: Routines: Strategic direction and analysis

The set of strategic decisions that introduce major changes in the relationship portfolio or the resource bundles of a firm. Decisions related to the type of relationship (resource) to be established, plan for developing a desired relationship (resource) profile, and analysis of impact on other relationships (resources).

- Is the overall process evolving in the light of marketplace changes?
- Do we plan to introduce major changes?
- Do we wish to establish a new alliance relationship?
- Why and how do you create and sustain a profitable relationship?
- Create a desired profile on the basis of answers to the above questions

Step Two: Relationships: Implementation, management and operational detail of relationships.

- Finding a partner and establishing alliance relationship.
- Managing the relationship and related attributes
- Providing feedback to routines

Step Three: Resources: Examining inputs and outputs, and active management of resources.

- What resources are required?
 - Deciding on the level of physical, managerial (relational and intellectual) investments to be made.
 - Modifying inputs as and when required to adjust relationship profiles
 - Examining outputs and changes in the level of resources employed
 - Providing feedback to routines
-

The following section highlights the need to link systematically inputs and outputs. Without such a clear linkage, it is difficult to measure the effectiveness of strategies. Returns from relationships are hard to measure but an attempt is made below to detail the issue and arrive at broad categories of measures that together form the returns. It is vital that strategists and alliance managers are able to link systematically inputs to all the outputs and outcomes detailed above.

3.0 Returns: Measures of relationship/firm performance and effectiveness

There exist a number of main financial indicators such as sales, sales growth, working capital ratios including inventory turnover, gross margins, net profit and profit growth, return on assets and equity, cash flow and net present value, and share price among others (Baker & Hart 1989).

As marketing assumes a more strategic role in firms, the number of indicators that are employed to measure the function's impact on firm's asset base and financial indicators will need to accommodate a wider range of measures than before. Being seen as a function that is primarily concerned with product-market space and results that translate into financial outcomes, marketing practice is evolving and emerging as a shaper of products, services and relationships with external parties that lead to the creation and growth of both *relational assets* such as brand and channel equity, corporate identity, reputation, market share, and customer satisfaction and loyalty, and *intellectual assets* such as knowledge of the marketplace, information and databases, and marketing skills and technology i.e. tacit skills involved in developing relations, alliances and partnerships (Srivastava, Shervani, & Fahey 1998). The Balanced scorecard (Kaplan & Norton 1992; Kaplan & Norton 1996) is a recent development that attempts to incorporate financial and non-financial measures. However, even this attempt does not capture the range of marketing activity and externally focused measures outlined above such as relational and intellectual assets. This is partly because most measures in the *enlarged set* are of an intangible nature and have long-term impact and implications. Mainly, this neglect is due to the inherent difficulty in measuring and capturing the range and depth of

the measures and relating them systematically to relevant levels of financial measures over appropriate time periods. Hence, marketing performance and investments are off-balance-sheet (Lusch & Harvey 1994).

External market resources allow internal resources and configuration to be leveraged and lead to the generation of marketplace impact that is reflected in financial and non-financial indicators and changes in the stock and flow of resources. For example, alliances, partnerships and relations may have a positive impact on sales, and customer satisfaction among others, which in turn lead to the building of brand equity, corporate identity and alliance skills base.

3.1 Multiplicity of and order of outcomes

Changes in strategies and routines can have significant impacts that affect the firm as a whole and its constituent subunits. Multiplicity of impact and its several different manifestations need to be detailed, examined, captured and understood to be able design routines and predict outcomes. For instance, outsourcing is a significantly more complex process when primary rather than peripheral activities are involved. This requires a decision process that envelops pre-outsourcing and post-outsourcing supplier management processes (Fan 2000). Fan's qualitative empirical work in the UK suggests that both these areas appeared to receive less attention than is warranted. Growth in outsourcing of a variety of activities and functions is reported by several sources. While theories of core competence recommend focus on core activities, in some industries the dynamic nature of competition could significantly alter over time the composition and relative proportion of core and non-core categories that make up organisations and industries. If key areas considered to have strategic impact are candidates for outsourcing, then it is likely that the decision process will require top management attention. Appropriate performance measurement approaches and associated sets of metrics (Fan 2000) could help managements to achieve desired results.

IT outsourcing provides a ready example. 'IT is central to business initiatives such as reengineering, knowledge management, the creation of electronic channels of distribution, and the development of digital business strategies' (DiRomualdo &

Gurbaxani 1998 p.67). Despite the fact that IT is a key area, a large number of firms continue to outsource key components that go to make up the IT function. The three strategic intents for IT outsourcing are 'cost reduction and service improvement, improved business performance, or the creation of commercial ventures (p.69)'.

Cost reductions; quality, service and delivery and other performance improvements are a few drivers cited to be the common motives underlying outsourcing decisions. These are what may be described as *first-order advantages*. *Second order advantages* are those that lead to business-wide performance improvements. *Third order advantages* are those that help a firm to reach new markets outside the firm.

The next section will elaborate on the 3Rs framework, and outlines a coherent set of propositions that are designed to explore the both the utility of the framework and its application across a range of situations and relationships.

The challenge in designing research process and propositions lies in overcoming the inherent difficulties involved in examining the individual characteristics of significant relationships and arriving at an aggregate measure that could be used as a composite indicator for a firm/SBU as a whole. Similar composite measures could be developed for resources and routines.

4.0 Agenda and avenues: Research propositions and application of the 3Rs model

4.1 Proposition 1: 3Rs as explananda of firm performance differentials

The combination of the 3Rs and their relative proportions may also be influenced by the nature of industry. Most relations can be explained through the application of the 3Rs model. As said in Chapter 2, customer-supplier relationship is essentially a subset of exchange linkages, and this view allows us to apply the generic framework to a wide range of relationships which may on the surface appear to be in unique classes of their

own. Indeed, it is the view of the author that this is exactly what allows room for the generation of principles that can be applied across contexts and situations. In other words, generalisation can only be arrived at through such a process of understanding the fundamental themes that connect apparently differing situations. The following example concerns franchising relations.

Franchising is a practice in industries as diverse as fast food, banking and Internet services. It is reported that three out of four new franchise systems fail within twelve years (Shane & Spell 1998). High initial franchise fees, and investments involved in establishing a new outlet are unlikely to be recovered over short time spans. Franchise systems need to grow quickly in order to avoid imitation by competitors, and also achieve efficient size and brand recognition. All franchise systems depend on replication of success formulae or what we could label as routines designed to reproduce 'superior profit generating operations in many locations' (p.44).

The Shane and Spell study suggested that successful systems have routines that are stable over time and are consistent across franchisees. Given the regulatory and contractual requirements, and financial investments that characterise a typical franchise relation, it is easy to see why it is important to get the *formula right the first time and replicate this routine* as closely as possible across locations, franchisees and over time. In service industries, routines and relationships are more significant to success than resources. Hence the following proposition that links industry to firm practices.

Proposition 1a: The combination and relative proportions of the 3Rs employed by firms are linked to the nature and type of industry that the firms are in.

Proposition 1b: The differential practices among competing firms concerning the manipulation of the 3Rs explain firm performance differentials.

4.2 Proposition 2: Routines - change and impact

Changed routines lead to changes in relationship portfolios and the level of resources employed.

Strategic decisions such as expansion and entry into international markets, outsourcing of a significant activity, incorporation of new technologies and establishing new important alliances can lead to the creation of new relationships, and enhance or diminish existing relationships. This changes the relationships portfolio and resources employed.

Proposition 2a: Changes in routines induce changes in the portfolio of relations of a firm. This is reflected in the number of relationships, and changes in their individual nature and contents.

Routine usage intensity and limits to returns: While the combination of the 3Rs is expected to influence returns that a firm can generate and appropriate, it is likely that returns may be related to the intensity of usage of resources, relationships and routines. Hence with time the law of diminishing returns will take effect. A number of Japanese manufacturers and whole industries, whose prowess, management practices and innovation were much praised in the literature (Dyer & Ouchi 1993), have started experiencing the effect of pushing their systems to limits (Cusumano 1994). The Japanese automobile industry's switch from mass production type to lean, responsive and flexible technologies and practices are no longer as effective as before. Their share of the world market is steady and in some cases declining. Suppliers are pushed to their limits and are under stress. Expansion forays into world markets and growth in overseas manufacturing facilities are some other factors, which have led Japanese transplants to modify or abandon routines employed in Japan. Imitation by competitors has also taken the edge off Japan, and Cusumano reports that there is now a relative parity among auto majors in the world. This implies that with age, inimitability of routines will decrease if we take imitation as a common tactic employed by individual firms or at the level of individual industries.

Proposition 2b: Uniqueness of routines i.e. the nature and extent of competitive imitation determines returns.

Proposition 2c: Environmental uncertainty (Ganesan 1994;Heide & John 1988) (turbulence, technological change and competitive activity) negatively impacts returns from the relationships portfolio unless the combination of the 3Rs is modified to reduce and counter the impact of environmental uncertainty.

4.3 Relationships stages and attributes

Relationships progress through different stages and require varying levels of attention and investments. Returns on relationships change as well, both benefits and costs. This is depicted in Figure 2 of Chapter Two. Ford (1980) was an early exposition on the relationship stages and progression. Another was the portfolio approach developed by Krapfel et al. (1991) and detailed in Chapter 2.

Interaction, dialogue (Gronroos 2000) and investment processes and other routines modify outputs and returns, and the nature of relationships themselves. Hence the changes in the nature of relationships are likely to be correlated to the generation of benefits, costs and relational assets such as trust, reputation, loyalty, and power. This could be investigated at the level of key relationships and at aggregate levels such as the supply/sourcing map for the firm as a whole.

4.4 Proposition 3: Relationships are pathways to returns

Changes in routines and resources are positively related to changes in the profiles (type and nature) of relationships.

Proposition 3a: Changes in interaction patterns (sub-routines) in a relationship modify the nature of the relationship and its actual and potential impact and returns.

For example, more communication and transaction specific investments may generate trust, close information gaps, reduce control, dependence and vulnerability concerns, and increase net current financial benefits and the level of relational and intellectual assets.

Proposition 3b: Changes in resources and investments are positively related to changes of relationship profile at the individual and aggregate levels of relationships.

The latter instance refers to a firm's portfolio of relationships. This has to be investigated and tested since changes at individual relationship levels may nullify each other and a portfolio as a whole may show no change.

Proposition 3c: Changes in the aggregate or portfolio level of relationships and resources are positively related to changes in financial and non-financial indicators (returns).

5.0 Path diagram of research propositions

The earlier section's propositions are presented below. The table makes it easy to read them all together and form a picture of the linkages that connect them.

TABLE 8.3: THE SET OF PROPOSITIONS FOR FUTURE RESEARCH

Proposition 1a: The combination and relative proportions of the 3Rs employed by firms are linked to the nature and type of industry that the firms are in.

Proposition 1b: The differential practices among competing firms concerning the manipulation of the 3Rs explain firm performance differentials.

Proposition 2a: Changes in routines induce changes in the portfolio of relations of a firm. This is reflected in the number of relationships, and changes in their individual nature and contents.

Proposition 2b: Uniqueness of routines i.e. the nature and extent of competitive imitation determines returns.

Proposition 2c: Environmental uncertainty (Ganesan 1994; Heide & John 1988) (turbulence, technological change and competitive activity) negatively impacts returns from the relationships portfolio unless the combination of the 3Rs is modified to reduce and counter the impact of environmental uncertainty.

3a: Changes in interaction patterns (sub-routines) in a relationship modify the nature of the relationship and its actual and potential impact and returns.

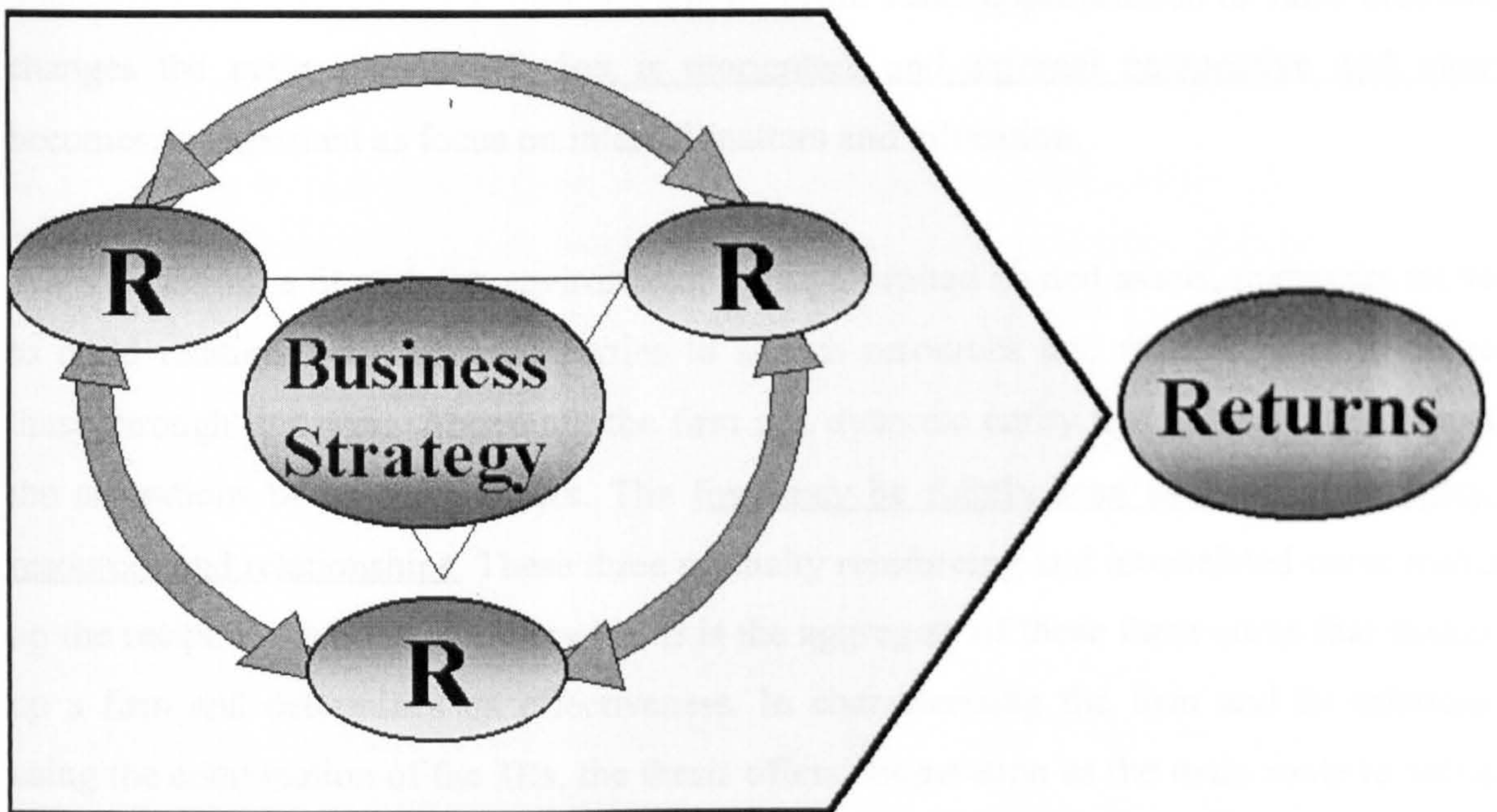
3b: Changes in resources and investments are positively related to changes of relationship profile at the individual and aggregate levels of relationships.

3c: Changes in the aggregate or portfolio level of relationships and resources are positively related to changes in financial and non-financial indicators (returns).

The following diagram depicts the relations among the propositions. The majority of past research efforts have focused on examining the key relations of firms. Key relations have great impact but findings related to these studies may not be fully applicable to all the relationships that constitute a firm. Qualitative studies that explore in detail the

propositions (see table above) in specific contexts through *longitudinal* and intense examination are required to validate the 3Rs model and underlying ideas.

Fig 8.2: Path diagram of research propositions



Source: Author

2

The final and concluding section deals with the theoretical and managerial implications of the research and findings. Limitations are also dealt with briefly.

6.0 Implications, limitations and conclusions

6.1 Theory of the firm and business relations

Classical and neo-classical notions in the field of economics have treated the firm as a production function and an entity that has no links to and/or influence on other firms. By attributing hyper-rationality and profit maximising attributes, firms in this characterisation are depicted to be single minded in their purpose and competitive in their orientation. In lieu of this, what we now have is a networked firm that cooperates and

competes, and one that actively manages to the extent possible its environment and has a variety of demands from its set of stakeholders. Cooperation can significantly enhance a firm's power and influence, and hence its strategy. Routines and value addition are no longer limited by firm boundaries. Interfirm gateways and doors replace firm walls, and hierarchical notions give way to network and relationship ideas. Porous and permeable boundaries allow resources to flow out and in. From value appropriation to value creation changes the main agenda. Mindset is reoriented, and external perspective and view becomes as important as focus on internal matters and allocation.

From achieving a fit with the environment through limited owned assets, managers move to build relations with external parties to stretch resources and multiply and leverage these through linkages. Above all, the firm is a dynamic entity that is evolving to meet the aspirations of its stakeholders. The firm may be rightly seen as a set of routines, resources and relationships. These three mutually reinforcing and interrelated cores make up the recipe for success or otherwise. It is the aggregate of these three cores that makes up a firm and determines its effectiveness. In characterising the firm and its relations using the combination of the 3Rs, the thesis offers cooperation as the main route to value creation. This contrasts sharply with competition-centric works.

6.2 Limitations of the research process and findings

The process that guided the research of the thesis is subject to some limitations. They are outlined below:

The present work aimed at generating a theoretically valid model and placed emphasis on integrating a wide range of theories. The fieldwork portion of the process is limited in scope and is exploratory in nature. More extensive and elaborate efforts will need to be undertaken to confirm both the general findings and the model presented.

The diversity of the business contexts examined does make it complex to derive guidelines specific to one or more industries. More in-depth and extensive studies that focus on one or two related business contexts could address this problem. Longitudinal

studies are necessary to examine the interrelatedness of the three cores that make up the 3Rs model.

Although it is likely that the complexity of the studied topic warrants qualitative examination, the same could be made more rigorous through the development of rigorous constructs for key elements and exploration of the same.

6.3 Managerial relevance: immediate and permanent

The 3Rs model is a vehicle for designing relationship strategies. It is a tool that could be used in a number of contexts and across industries. It could also be utilised as a diagnostic and analytical framework to examine existing relationships of firms. 3Rs model allows managers to innovate in the area of relationship design, implementation and audit.

Above all, usage requires not mechanical application but as stated above changes in attitudes. Cooperative ethos and external orientation are major perspective alterations that managers will want to adopt in their quest for value generation. This may be the lasting formula for success and prosperity.

7.0 References

- Baker, M. J. & Hart, S. 1989, *Marketing and Competitive Success* Philip Allan, Oxford, England.
- Bartlett, C. A. & Ghoshal, S. 1989, *Managing Across Borders: The Transnational Solution* Harvard Business School Press, Boston, MA.
- Brown, S. W. 1991, "Variations on a marketing enigma: the wheel of retailing theory", *Journal of Marketing Management*, vol. 7, no. 2, pp. 131-156.
- Cusumano, M. A. 1994, "The limits of "lean"", *Sloan Management Review* no. Summer, pp. 27-32.

- Day, G. S. & Wensley, R. 1988, "Assessing Advantage: A Framework for Diagnosing Competitive Superiority", *Journal of Marketing*, vol. 52,no. April, pp. 1-20.
- DiRomualdo, A. & Gurbaxani, V. 1998, "Strategic Intent for IT Outsourcing", *Sloan Management Review*, vol. 39,no. 4, pp. 67-80.
- Dyer, J. H. & Ouchi, W. G. 1993, "Japanese-style partnerships: Giving companies a competitive edge", *Sloan Management Review*, vol. 35,no. 1, pp. 51-64.
- Fan, Y. 2000, "Strategic outsourcing: evidence from British companies", *Marketing Intelligence & Planning*, vol. 18,no. 4, pp. 213-219.
- Ford, D. 1980, "The development of buyer-seller relationships in industrial markets", *European Journal of Marketing*, vol. 14,no. 5/6, pp. 339-353.
- Ganesan, S. 1994, "Determinants of long-term orientation in buyer-seller relationships", *Journal of Marketing*, vol. 58,no. April, pp. 1-19.
- Gronroos, C. 2000, "Creating a Relationship Dialogue: Communication, Interaction and Value", *The Marketing Review*, vol. 1,no. 1, pp. 5-14.
- Hakansson, H. & Johansson, J. 1997, "A Model of Industrial Networks," in *Understanding Business Networks: Interaction, Relationships and Networks*, Second edn, D. Ford, ed., The Dryden Press, London, pp. 129-135.
- Hakansson, H. & Snehota, I. 1997, "No Business is an Island: The Network Concept of Business Strategy," in *Understanding Business Networks: Interaction, Relationships and Networks*, D. Ford, ed., The Dryden Press, London, pp. 136-150.
- Heide, J. B. & John, G. 1988, "The role of dependence balancing in safeguarding transaction specific assets in conventional channels", *Journal of Marketing*, vol. 52,no. January, pp. 320-358.
- Itami, H. 1987, *Mobilising Invisible Assets* Harvard University Press, Cambridge, MA.

- Kaplan, R. S. & Norton, D. P. 1992, "The Balanced Scorecard - Measures That Drive Performance", *Harvard Business Review*no. January-February, pp. 71-79.
- Kaplan, R. S. & Norton, D. P. 1996, "Using The Balanced Scorecard as a Strategic Management System", *Harvard Business Review*no. January-February, pp. 75-85.
- Kay, J. A. 1993, *Foundations of Corporate Success: How Business Strategies Add Value* Oxford University Press, Oxford.
- Krapfel, R. J. E., Salmond, D. J., & Spekman, R. 1991, "A strategic approach to managing buyer-seller relationships", *European Journal of Marketing*, vol. 25,no. 9, pp. 22-37.
- Lusch, R. F. & Harvey, M. G. 1994, "Opinion: The case for an off-balance-sheet controller", *Sloan Management Review*, vol. 35,no. Winter, pp. 101-105.
- Nelson, R. R. & Winter, S. G. 1982, *An evolutionary theory of economic change* Harvard University Press, Cambridge, MA and London.
- Nonaka, I. & Takeuchi, H. 1995, *The Knowledge Creating Company: How Japanese Companies Create the Dynamics of Innovation* Oxford University Press, New York, Oxford.
- Prahalad, C. K. & Hamel, G. 1990, "The Core Competence of the Organisation", *Harvard Business Review*no. May-June.
- Quinn, J. B. 1992, *Intelligent Enterprise: A Knowledge and Service Based Paradigm for Industry* The Free Press, New York.
- Shane, S. & Spell, C. 1998, "Factors for New Franchise Success", *Sloan Management Review* pp. 43-50.
- Srivastava, R. K., Shervani, T. A., & Fahey, L. 1998, "Market-Based Assets and Shareholder Value: A Framework for Analysis", *Journal of Marketing*, vol. 62,no. January, pp. 2-18.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

THE
DEPARTMENT OF
MARKETING

Appendix I

“Perceived benefits and outcomes of customer-supplier alliances and partnerships: An empirical investigation of Scottish manufacturing industry” (co-authored with Michael J. Baker and Stephen Tagg), *Proceedings of the 27th Annual Conference of the European Marketing Academy*, May 1998, Stockholm School of Economics, Sweden

Perceived benefits and outcomes of customer-supplier alliances and partnerships: An empirical investigation of Scottish manufacturing industry

Prathap Oburai, Doctoral Researcher¹

Prof. Michael Baker, Professor of Marketing

Dr. Stephen Tagg, Lecturer in Marketing

Department of Marketing, University of Strathclyde,

Stenhouse Building, 173 Cathedral Street, Glasgow, G4 0RQ, UK

Keywords: Customer-supplier Alliances, Partnership Sourcing, Relationship Marketing, Scotland.

Subject categories: Business-to-Business Marketing, Organisational Buying, Relationship Marketing.

Abstract

An extensive literature review suggests that customer-supplier alliances and partnerships offer numerous advantages to firms and enable firms to develop and sustain competitive advantages. Based on a survey of a cross-section of companies based in Scotland, we outline benefits, disadvantages and actual outcomes, and interrelationships between the categories. The results of the survey obtained through quantitative analysis confirm some of the constructs that appear in the marketing literature and in addition yielded new insights about the influence of benefits on outcomes of alliances. Finally, we offer managerial implications concerning the implementation of alliances.

Area of study and context

The proliferation of alliances and partnerships is now an accepted fact of business, and current trends indicate further growth in number as well as scope of alliances. Alliances involving vertical relationships in the value chain, as between manufacturers and suppliers or

¹ Corresponding author. Tel.: +141-5482962; fax: +141-5522802. E-mail: prathap.oburai@strath.ac.uk

distributors, are being accorded greater attention as their significance is being more widely recognised. The concept, boundaryless organisation with a network of connections, is becoming increasingly visible in practice contributing to growth in alliances and reliance on partner networks.

The traditional supplier-buyer links were largely non-equity ties and these relations were often characterised by arms-length transactional orientation, and even an adversarial spirit. Buyer-Supplier transactions, involving outside specialist suppliers compete with the closeness, reliability, continuity and other advantages that entail in-house production. Although many Japanese firms have been deriving the benefits of closer cooperation with suppliers, it is only recently that companies in North America and in Europe are actively seeking to develop close cooperation with suppliers and build partnership association or networks. We forward the view that the trend for the future is clearly more outsourcing and less integration within an organisation, and that the erstwhile discrete and bipolar choices of build or buy are giving way to the formation of alliances involving close relations, and in some cases even equity investments.

Stuckey and White (1993) suggest that managers often “over-integrate because they fail to consider the rich array of quasi-integration strategies such as long-term contracts, joint ventures, strategic alliances, preferred-supplier partnerships, technology licenses, asset ownership and franchising which tend to involve lower capital costs and greater flexibility than vertical integration”. Several authors mention that the ability to form and successfully manage alliances for creating scale, scope and sequence advantages is important in an era marked by globalisation, increased competition and rapidly changing technological environment. Collaboration is suggested as the solution for success in the increasingly complex business context (Ohmae, 1985). In recent years, close inter-firm relationships at various stages of the value chain have become popular and a number of studies have been published highlighting the beneficial aspects of forging and maintaining close relationships (Anderson and Narus, 1990; Morgan and Hunt, 1994). Customer-supplier relations through partnership sourcing are seen as an important source for deriving various advantages that lead to the development of competitive advantage.

Partnership sourcing may be defined as an agreement between a buyer and a supplier that involves a commitment on a long-term contractual basis, and includes the sharing of

information, risks and rewards of the relationship (Baker and Srivastav, 1997). Partnership sourcing offers significant benefits and synergies for the parties involved. Baker and Srivastav (1997) argue that there exists a need to treat outsourcing alliances or partnership sourcing as means for deriving operational and possibly strategic competitive advantages. Based on an extensive review of literature, this paper examines the various perceived benefits and disadvantages, and their relation to improvements that accrued to firms on the basis of an empirical investigation carried out in Scotland with a view to contribute to theory development in the field of customer-supplier relations.

Benefits and advantages of alliances

Organisations can create highest value for customers and other stakeholders by selectively sharing and trading control, costs, capital, access to markets, information, and technology with competitors and suppliers alike (Bleeke and Ernst, 1991). The keys to success in alliances are complementary activities, well-matched functional strengths, and solid business rationale rather than self-improvement of partners. Several authors have written that 'managers prefer to manage what they own' (e.g., Spekman et. al., 1996). Cooperation increases interdependence and the need for sharing of control, which may not be to the liking of all firms. Alliances require that one firm takes into consideration the needs and requirements of another firm in plotting its own future. "As the ways to combine resources increase, the ability to command decreases" (Kanter, 1989). It may be important to recognise that alliances are a trade-off between requirement for resources and control associated with ownership.

Firms may decide to cooperate to exchange or pool resources for either higher or quicker value creation through joint innovation, to increase the organisational knowledge pool through learning, acquire new competencies or skills, access markets and customers, internationalise operations (Ohmae, 1985; Bleeke and Ernst, 1991), improve products and services, offer complementary products or services of partners such as system deals (Bronder and Pritzl, 1992), and shape industries (Porter, 1986).

Firms need to collaborate for a variety of reasons such as needs for resource exchange, sharing investment, reducing risks, gaining market access, pre-empting competitors, and shaping industry competition. Lewis (1995) asserts that relations with other firms extend the scale and scope virtually doubling an organisation's resources. The extended organisation is

increasingly seen as a path to future prosperity and a significant means for achieving the same is customer-supplier alliances. The reasons, motives, and benefits cited support the need for alliances and partnerships. An important and growing area of significance is customer-supplier alliances which is discussed next in detail.

Customer-supplier alliances

Customer-Supplier alliances offer high potential for companies. A typical firm, especially so when large organisations are considered, derives about one-half or more of its turnover from supplies sourced externally (Lewis, 1995; Baker and Srivastav, 1997). Baker and Srivastav (1997) put forward the view that cost reductions and other improvements that may be gained from customer-supplier alliances are more likely to contribute to a firm's profits than the uncertainty that is associated with effecting sales growth. These views further buttress our view of the need for closer and more integrated approach towards collaborators including suppliers.

Traditional customer-supplier alliances involved exchange of goods or services for a price. The focus was mostly on price of items paid for. Arm's-length transactions might work best in perfect market conditions. Perfect market conditions are existence of large number of companies signifying low barriers to entry and exit, absence of differentiated products, inability on the part of any of the firms to influence prices of goods, and non-existence of economies of scale. Imperfect market conditions coupled with occasional misrepresentation and deceptions interfere with the efficient working of markets (Williamson, 1975, 1985). The implication is that it may not be entirely prudent to rely solely on either market mechanisms or internalisation strategies to aid the working of an organisation. Gaining economies of scale and scope, and competitive advantage all by oneself is a difficult task. Excessive vertical integration may leave a firm in no position to be flexible in its responses to the innovations of competitive firms. Forging alliances with partners could help an organisation in terms of capital and human resources to focus on core areas of operation.

Adversarial relations that once characterised customer-supplier dealings are gradually giving way to partnership and trust. Lewis (1995) suggests that companies have paid attention to customer all along, whereas the other half of the competitive-resource equation, the supplier, has not received the focus that it so richly deserves. Integrating suppliers and leveraging their strengths for mutual benefit are areas that no company can easily ignore.

Customer-supplier alliances aim to achieve more than that expected from a transactional orientation. While market based dealings with suppliers may work well under perfect market conditions; such dealings may not work as well in real conditions. Alliances should aim to maximise benefits through close co-ordination and sharing of resources including technology. Though market based dealings aim to maximise efficiencies in most cases, absence of sharing of information and close links between customer and supplier is likely to lead to under-performance relative to strategic alliances and partnerships. The sharing of information and other forms of co-operation are the underlying pillars that support the strength and higher value creation potential of alliances. True Buyer-supplier relations are governed by mutual dependence, expectation of continued relations and trust. Collaboration and cooperation with other firms to maximise customer benefits is an appropriate route to corporate success when continued relationship is likely to lead to higher value creation as opposed to market based or internalisation strategies.

Some of the most successful Japanese style partnerships are characterised by fewer direct suppliers, customised investments by suppliers and forced competition (Dyer and Ouchi, 1993). Fewer direct suppliers allow focus on procurement of systems not individual components leading to cost reduction and quality improvements. Suppliers when given the opportunity and assurance of a stable, and long term relationship are likely to invest more in site-specific (closer to the location of customer), customer-specific equipment and in learning more about the operations and needs of customer. This is a growing phenomenon that needs to be taken note of by all companies. Increasingly firms are moving toward establishing solid relations but with a shrinking number of companies. A firm that does not substantially add value faces the danger of being left out in the cold.

Focusing on core competence

Sourcing supplies from other firms could benefit a company in many ways. Considering that resources for any firm are limited, it is necessary to collaborate with other firms. Modern business calls for focus on core areas wherein competitive advantages could be developed (Prahalad and Hamel, 1990). A firm needs to invest its resources in its area of core operations. Non-core areas could easily be outsourced or alliances with other firms could produce desired results. Even within core areas of operation, there could exist avenues for co-operation when going alone may either take too long, or when internal resources are simply inadequate. To be

first in the market place with new or improved products and services is an important advantage that firms cannot easily ignore. Focusing on core areas and collaborating with others who specialise in complementary fields allow a firm to simultaneously reap the benefits of economies of scale, and differentiated or extended product range. Alliances and partnerships could free scarce resources for core functions to be performed within the organisation rendering better focus on core areas. It is important to realise that others who have already built up expertise in that area could perform some functions better. Duplication of others' areas of expertise and reinventing the wheel are not likely to significantly contribute to a firm's growth and profitability. Although it is a paradoxical outcome in most situations, interdependence could well contribute to independence (Lewis, 1995). Going alone or relying on internal or organic growth is just one of the options. The range of options on the continuum, formed by total self-reliance on one end and reliance on external sources on the other end, is quite varied. A firm needs to consider all options and select the best option that could help it develop and sustain long term competencies in its core areas of operations.

Relational orientation

The field of marketing is witnessing a paradigm shift through embracement of the concept of inter-organisational cooperation and relationships (Morgan and Hunt, 1994). The role of marketing in the corporation is evolving from the traditional focus of selecting target markets and developing a marketing mix (Osland and Yaprak, 1993). According to Osland and Yaprak, some of the new roles include deciding when and how to partner with other firms to enhance distinctive competencies, and achieve higher market share, long term profitability and a better defined set of core competencies.

The concept of relational orientation as put forward by various writers is essential for the success of alliances. However, adoption of such an orientation may not be appropriate to all customer-supplier relations. Wray, Palmer and Bejou (1994) assert that increasing of relationalism may only be appropriate when purchases involve a high level of risk and relationship acts as a manager of risk exposure. They further suggest that relationship building may also be necessary “where a stream of benefits is produced and consumed over a period of time or where they can reduce transaction costs associated with repeated purchase routines”.

Noordewier, John and Nevin (1990) found empirical support for their premise that performance of purchasing could be enhanced by increasing the relational content of the

exchange structure when uncertainty is high. The study suggests that not all transactions and sourcing need to have relational elements. They concluded that increasing relational content when uncertainty is low has no effect on performance. Kumar (1996) conducted an empirical survey to measure the impact of trust and found that customer-supplier relations characterised by trust are mutually beneficial in terms of sales, profits, higher dedicated investments and adaptability to changing market conditions. The author however suggests that there are limits to the application of trust strategy, and that employing trust based relationships works best with those partners who are willing to play the trust game. It is likely that indiscriminate use of alliances may expose firms to exploitation by opportunistic partners.

Partnerships entail “mutual recognition and understanding that the success of one firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer market place” (Anderson and Narus, 1990). The main rationale of an alliance should be the market impact through the competitive advantage that it generates. Short-term cost reductions may lead to the generation of long term competencies.

Literature review for identifying constructs

Information exchange

The driving forces behind an alliance should be the top management of partners. The top executives should not only be convinced of the business rationale and commercial logic of an alliance, but they should also establish good personal relations to ensure that the alliance succeeds and overcomes any teething problems, conflicts and disagreements between operating managers and employees from different firms. While an alliance manager normally oversees day-to-day functioning of the alliances and is responsible for resolving issues and problems, the importance of top management’s role should not be underestimated. The role of political blessing and stakeholder involvement is crucial for the success of an alliance (Lorange and Roos, 1992). In fact, many authors have attributed the success of alliances to the chemistry or good interpersonal relations and regular exchange of information between partnering firms’ top executives (see Kanter, 1994; Ohmae, 1989, 1985 for a sample).

There are various accounts of failed alliances that focused too much on commercial issues at the expense of interpersonal issues. There appears to be a strong consensus in the literature that absence of interpersonal relations may negatively affect even alliances that have strong

commercial logic (Spekman et. al., 1996). It is also essential that alliance vision be understood throughout cooperating organisations so they participate and contribute to the success. This could be achieved through establishing contacts at multiple levels. Goods interpersonal relations and information exchange at not only top levels but also at multiple levels are a key to the success of an alliance.

Trust is considered an essential ingredient for success (Ford, 1980). Trust develops with more communication and cooperation (Anderson and Narus, 1990; Ohmae, 1985). Elaborate contracts and associated effort in drawing them and costs in enforcing are part of transaction costs related to exchange of goods (Williamson, 1975, 1985). Trust could obviate or reduce the need for contracts and considerable expense. Marketing theories suggest that satisfaction leads to loyalty, and commitment to alliance and its purpose. Trust is more likely to develop when one partner takes the initiative and exercises trusting behaviour (Osland and Yaprak, 1993; Gulati et al., 1994).

Information exchange is considered an important determinant of customer-supplier partnerships (Hakansson, 1982; Gadde and Hakansson, 1993). Metcalf, Frear and Krishnan (1992) found that exchange of information and interpersonal contacts produce a cooperative atmosphere between partners, which in turn influence adaptation. Interpersonal exchange generates attitudes of mutual trust and produces an atmosphere of cooperation which influence investments that generate higher sales, cost reductions, or new innovations. Their findings reinforce the need for coordinated set of communications at multiple levels, and formalised systems such as committees for regular meetings to exchange information, and frequency of contact. It was decided to measure this important attribute of information exchange as the variable is considered an important benefit that would contribute to the development of strong relationships.

Strength of relationship

Webster and Wind (1972) suggests that source loyalty may reduce costs associated with frequent changing of suppliers. The authors recognise that buying decisions might result in organisational satisfaction and possible source loyalty to vendors. Barclay (1992) posits that this could make acceptance of new vendors more difficult. Vendors once selected may expect to continue for a reasonable length of time and generally enjoy benefits of continuity. Expectations of long term cooperation and mutual trust enhance possibilities of favourable

decision in industrial purchasing (Laios and Xideas, 1994). Possible disadvantages might be higher expectations and dependence. Heide and John (1988) found that firms which were dependent on other companies due to their dedicated assets could reduce imbalance in dependence by establishing closer bonds with end-users, thereby locking in other companies such as suppliers and manufacturers. Heide and John also suggest that partner opportunism is reduced when organisational boundaries are interpenetrated. On the other hand, a firm's relation specific investments signal dependence and a tendency to maintain a relationship (Anderson and Narus, 1990). Ganesan (1994) suggests that long-term orientation of a relationship is a function of mutual dependence and trust. In turn relation-specific investments, uncertainty, reputation of partners, and satisfaction with outcomes influence mutual dependence and trust. Long-term orientation requires building of technological capabilities through sharing and investments in developing strengths. Monczka, Callanhan and Nichols (1995) found empirical support for their premise that overall satisfaction with a relationship and exchange of information were affected by cooperative behaviours, lower transaction costs, greater dependence, better quality, greater economic satisfaction, longer business relationship, more specific investments and joint programs.

Satisfaction with partnership is treated as a focal construct in various studies. Anderson and Narus (1990) contend that satisfaction is a 'not only a close proxy for perceived effectiveness, but also may be more predictive of future actions by partner firm managers'. This view is consistent with the views expressed elsewhere in marketing theory that satisfaction leads to repeat transactions and long-term relationship. Wray, Palmer and Bejou (1994) view relationship quality as a two-dimensional construct: consisting of satisfaction and trust. Their research found that the expertise of seller contributes to satisfaction of the customer and the duration of a relation leads to the generation of trust. Shamdasani and Sheth (1995) contend that examining member satisfaction and continuity decisions should receive focal attention as dissatisfaction with alliance relationship is cited in literature as one of the major reasons for the failure of alliances. The authors suggest that dissatisfaction is a product of both financial outcomes and relational outcomes. "While satisfaction reflects existing feelings about alliances based on evaluation of outcomes and experiences received in the past, continuity decisions reflect expectations of future cooperation" (Shamdasani and Sheth, 1995). Gentry (1996) identified that successful buyer-supplier have four partnership dimensions: long term commitments, open communications and information sharing, joint problem solving and continuous improvements, and shared risks and rewards. Constructs such as, economies of

scale, cost reduction potential, and innovation ability indicate the need for continuity in a partnership arrangement and hence are included as items designed to be investigated. As satisfaction with a relation and continuity decisions are strongly related to actual improvements and cost reductions gained, the same are considered important for investigation.

Alliance outcomes: Accrued improvements in efficiency and cost reductions

Strategic sourcing through alliances and partnerships is the process of creating value-adding supply relationships to provide a competitive advantage (Spekman et. al., 1994). Apart from contributing to cost control, sourcing also improves overall performance in quality, dependability, flexibility and innovation.

Narus and Anderson (1996) argue that cooperative arrangements, strategic alliances and partnerships leverage resources and share capabilities to improve the quality of service throughout their supply chains. As focus shifts from products to service, suppliers need to strengthen and increase their service levels substantially, or face the prospect of being left out due to the shrinking number of suppliers on the lists of manufacturers. Anderson, Hakansson, and Johansson (1994) suggest that firms that see themselves as “embedded in webs of capabilities can augment their own capabilities with those of other members and broaden their offerings”. A comprehensive list of benefits offered by Frankel, Whipple and Frayer (1996) suggests that following benefits accrue to alliances in general:

- Reduced cost through specialisation;
- Improved synergistic performance;
- Increased information to support joint planning;
- Enhanced customer service;
- Reduced risk and uncertainty;
- Shared creativity; and
- Competitive advantage.

Williamson (1985) contends that transaction costs are inefficiencies directly attributable to commerce between firms, and costs of creating contracts and monitoring of trading partners activities. Williamson maintained that minimisation or lowering of transaction costs is very important in the formation stages of a relationship. Alliances should focus not just on cost reductions but on developing true competitive advantages in terms of innovation leading to new products or higher value creation, customer satisfaction and in developing competitive advantages in the market place (Porter 1996). However, it is our view that operational gains

such as, cost reductions, improvements in quality and the like may help a partnership grow to include focus on other more strategic parameters (Baker and Srivastav, 1997).

Kalwani and Narayandas (1995) found that suppliers benefit through establishing long term relationships with customers. They suggest that suppliers in partnerships face price pressures and hence decreased gross margin levels. Customers who engage in partnerships are generally very demanding in expecting short-term price concessions and long term orientation simultaneously. The study, however, suggests that partnerships and long term alliances help suppliers to considerably reduce their selling and other administrative expenses resulting in increased profits and ROIs. Customer loyalty could benefit supplier firms through increased long-term profits, and improved efficiencies due to better understanding of customer needs. Overall, we favour the view that partnerships result in reduced inventories. This is especially so when information exchange is regular. Accordingly, inventory reduction on either side was identified as an item to be explored further. Apart from the inventory reduction, improvements actually gained by firms involved in partnership sourcing have been examined in a number of studies (Baker and Srivastav, 1997; Kalwani and Narayandas, 1995), and hence are included in the survey for measurement.

Potential drawbacks of alliances

Some potential drawbacks are the difficulties and risks involved in coordinating different firms, unequal gains, culture clashes, role ambiguities, possibilities of a partner allying with competitors, and chances of facing anti-trust charges (Culpan, 1993, pp. 27-28). Porter (1986) identifies three broad categories of costs associated with coalitions: coordination, erosion of competitive position and creation of adverse bargaining position. Jain (1987) mentions potential imbalance in benefits, imbalance in commitment and motivation, difficulties in arriving at agreement, communication problems, possible conflict between partners, and retaliation from government and competition as significant likely drawbacks. Undue reliance or dependence on others is a drawback too. Four items that capture possible drawbacks were designed as survey items.

Data Collection and Analysis

The survey was carried out by the Department of Marketing, University of Strathclyde, with a view to gauge the perceptions of a cross-section of companies located in Scotland toward partnership sourcing. Early in 1996, a group of purchasing executives participating in a part-

time postgraduate degree program prepared the questionnaire under the guidance of one of the authors. The contents of the questionnaire were based on literature survey, and the personal experiences of the executives who held senior purchase positions in various firms including multinationals. The study aimed at understanding the perceptions of firms engaged in partnership sourcing. After considering the representative nature of the firms in terms of size of turnover and nature of business, 600 companies were selected. The survey instrument was mailed to the 600 firms, and responses were received from 150 of them resulting in a response rate of 25%, an above average percentage for a mail survey. Apart from a number of multinationals located in Scotland, a number of small Scottish companies have also participated in the survey.

The survey was essentially a series of lists of benefits that are likely to accrue to firms, potential disadvantages, and actual improvements gained by firms that are involved in partnerships. All firms answered the first items concerning likely benefits and potential disadvantages, whereas those firms that were involved in partnerships answered the items regarding actual improvements that were obtained. The number of firms involved in partnerships was 127. For the purpose of this paper, data used pertain only to firms involved in partnerships who answered all questions including improvements gained. This reduced the total number of processable responses to 122 resulting in an effective response rate of just over 20%. This was done with a view to maintain consistency in approaches as only those firms could have answered the items regarding improvements gained.

The items measured and the seven variables they were designed to correspond to are indicated in Table 1. Reliability analysis as measured by Cronbach's alpha was performed for validation purposes and some items removed to generate reasonable alpha levels (≥ 0.5) (Hair et al., 1995). In the light of the fact that we consider the study as exploratory, the discarding may be justified.

Table 1: Measurement of Seven Variables (V1-V7)

Variables	Measure (on a scale of 1-not important to 4-very important)	Cronbach's Alpha
Strength of relationship(V1)	A 4-item measure of perceived benefits of customer-supplier alliance/partnership Long term business security Strong relationship Preferred source Smaller and better supplier base	.78
Sharing of information(V2)	A 5-item measure of perceived benefits of customer-supplier alliance/partnership Visibility of product life Visibility of customer's market direction Sharing/accessing technology Prior knowledge of needs Improved forecasting	.72
Cost reduction(V3)	A 4-item measure of perceived benefits of customer-supplier alliance/partnership Inventory reduction for customer Inventory reduction for customer and supplier Open costing base leading to cost reduction Improved logistics/supply chain	.80
Economies of scale(V4)	A 2-item measure of perceived benefits of customer-supplier alliance/partnership Economies of scale for supplier Economies of scale for customer	.77
Innovation ability(V5)	A 2-item measure of perceived benefits of customer-supplier alliance/partnership Ability to innovate and trial alternative processes/ideas Faster new product introduction	.69
Disadvantages of alliance(V7)	A 4-item measure of perceived disadvantages of customer-supplier alliance/partnership Disincentive to research alternative sources Over dependency Confidentiality concern Frustration due to delayed benefits	.56
Improvements and cost reductions(V6) (Reverse Scored)	A 3-item measure of actual improvements accrued due to customer-supplier alliance/partnership Quality conformance On time deliveries Cost savings	.67

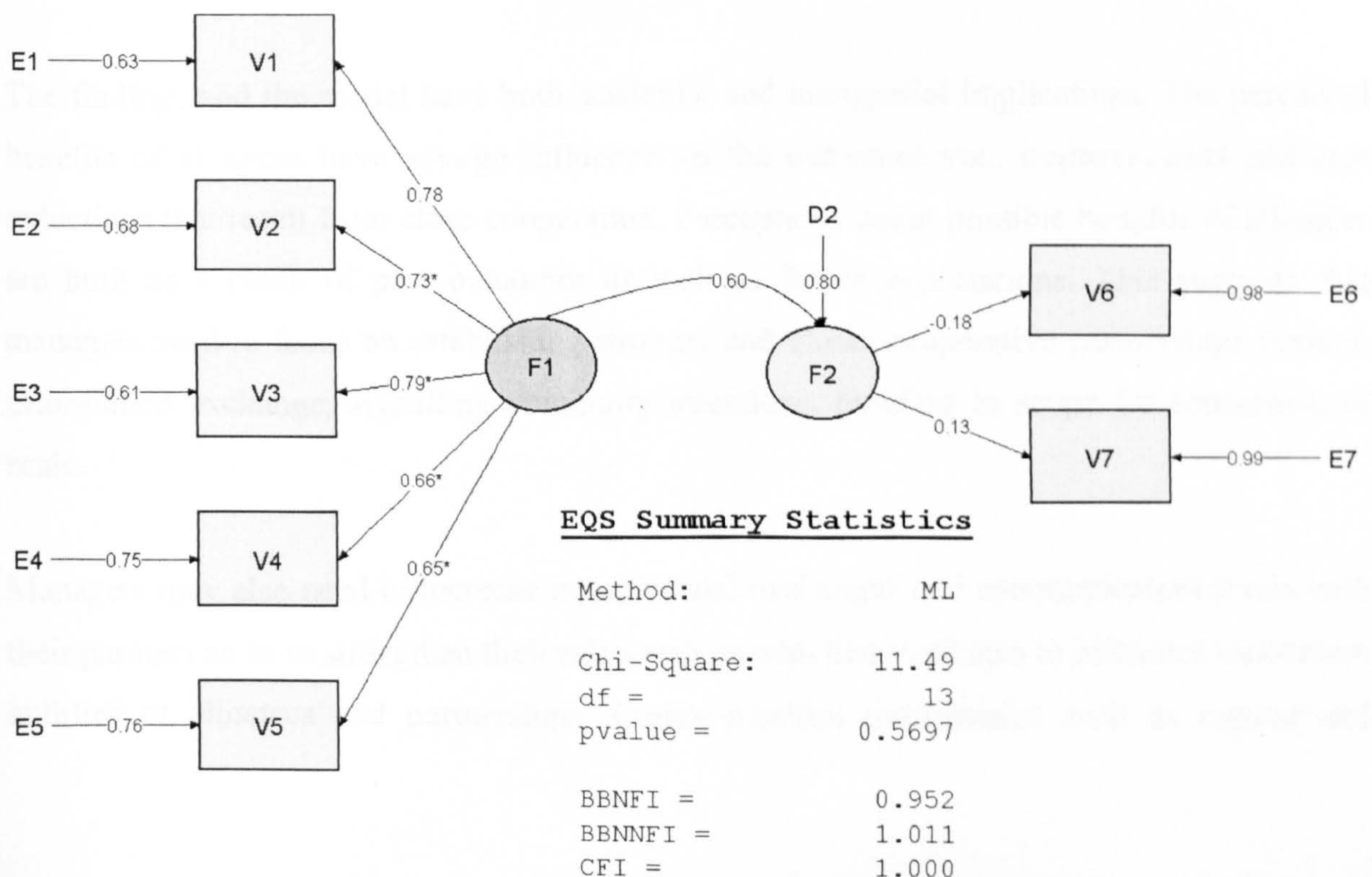
The summated scales composed of their respective items as indicated in Table 1, formed the seven variables out of which five represent the perceived benefits of alliances, and the remaining two the perceived disadvantages and actual improvements gained by respondents respectively. The seven variables, after being subjected to exploratory factor analysis by oblique rotation, yielded two factors: the first factor, Benefits of alliances and a second factor, Alliance Outcomes. The results of the exploratory factor analysis are indicated below in Table.2.

Table 2: Exploratory factor analysis

Variable	Alliance Benefits	Alliance Outcomes
Eigen value	3.11	1.03
Percent of variance	44.5	14.8
Sharing of information	.82	-.08
Cost reduction	.80	.13
Strength of relationship	.80	.09
Economies of scale	.78	-.16
Innovation ability	.72	.08
Disadvantages	-.13	.96
Improvements	.07	.31

For confirmatory purposes, an EQS model shown in Figure 1 was built (Bryne, 1994; Dunn et al, 1993). The variables V1-V7 in the figure correspond to constructs shown in Table.1. F1 is the first factor that represents Perceived Alliance Benefits, whereas F2 represents Alliance Outcomes.

Figure 1: Relationship between Perceived Alliance Benefits and Outcomes



Conclusions and managerial implications

The model shown in Figure 1 above tests how effective the factor model is at explaining the covariances between the seven scale scores constructed and detailed in Table 1. The standardised loadings for F1, the first factor (Perceived Alliance Benefits) are all above 0.65 and positive, whereas the loadings on F2, the second factor are low, below 0.13. The low correlations indicate the need for better measures and constructs. Perhaps, our constructs need to be broadened to include higher order benefits such as sales growth, and market share increases and, more precise disadvantages such as conflict (Moore, 1990; Katsikeas, 1992). The two constructs, actual improvements (V6 was reverse coded) and perceived disadvantages are positively related to the second factor, i.e., Alliance Outcomes.

The one-directional arrow between the two factors shows the equivalent of a regression coefficient (0.60) suggesting that there is appreciable influence of the perceived benefits of an alliance on the outcomes or improvements that could be gained from alliances and partnerships. The comparative fit index (CFI) of 1.0 indicates the appropriateness of the model, given the fact that the usable sample was of 122 cases.

Our analysis suggests that firms perceive benefits and disadvantages to move in tandem and in similar directions. This means that firms in alliances find it difficult to establish relationships with other firms. Alliances are resource-intensive and need relation-specific investments. Failures of alliances may prove costly due to sunk investments. This shows the need to choose and to be selective when entering into partnerships.

The findings and the model have both academic and managerial implications. The perceived benefits of alliances have a large influence on the outcomes viz., improvements and cost reductions that result from close cooperation. Perceptions about possible benefits of alliances are built as a result of past outcomes as well as future expectations. This suggests that managers need to focus on establishing stronger and closer cooperative partnerships through information exchange, signalling continuity intentions, building in scope for economies of scale.

Managers may also need to increase interpersonal exchanges and communication levels with their partners so as to strengthen their relationships with them and also to influence innovation abilities of alliances and partnerships. Communication mechanisms such as regular and

frequent meetings, as well as formal committees and multi-functional teams are some suggestions (Lewis, 1995). Communication is said to lead to cooperation and hence more trust and mutual dependence (Metcalf, Frear and Krishnan, 1992). Sharing of information is likely to positively influence innovation abilities of an alliance.

We believe that strength of relationship signifies both satisfaction and continuity intentions that influence long term orientation of partners. This view is different from the way traditional analysis has mostly been conducted by marketing theorists. Most articles focus on satisfaction and trust with relationship as focal variables, although some authors have looked at continuity intentions. Strength of relationship, by itself, presumably subsumes and mediates the ideas and effects contained in the constructs: satisfaction, trust, and continuity intentions.

Limitations of the study

The study has some important limitations. We consider reported results as a first stage of our extensive project currently being attempted within the institution. Although thought by the authors to be representative of Scottish industry, the small size of the sample precludes a more rigorous quantitative analysis. Also, sector specific as well as multi-country studies are likely to throw more light on the subject of our present study. We have formulated hypotheses based on the literature review provided in this paper. Ongoing research by the authors is attempting to verify the hypotheses in a limited fashion, it is hoped that the field and ideas described herein may also receive both acceptance of and efforts from the research community in the relevant sub-areas.

Contribution of the paper

In this paper we have attempted to provide an extensive survey of literature in the field of marketing and strategy. The field of customer-supplier alliances and partnerships according to the best knowledge of the authors is still in its nascence, and is in need of empirical investigations and quantitative surveys and theories. Our empirical analysis suggests that alliances have both benefits and disadvantages which move together. This clearly validates and endorses the need to be selective when forming alliances.

We have operationalised some of the constructs that measure benefits, disadvantages and outcomes of alliances. Further suggestions for improving the measurement are included. Given the executive as well as academic input that our survey utilised in its design, industry

orientation was imparted in the process of application of concepts and in their testing via empirical validation. The academic and executive involvement, we believe, enhances the applicability and relevance of the findings to practising managers. With a view to communicate the results in a non-technical manner to practising managers and reach a broader audience, which was one of the initial aims of the study, it is planned to publish descriptive statistics in a journal for practitioners.

Finally, we offered within the limitations of the study that are described a theoretical framework that reveals the interrelations between perceived benefits, disadvantages, and actual outcomes of alliances. It is hoped that other researchers may follow suit and develop more rigorous frameworks for the study and implementation of customer-supplier alliances and partnerships.

References

- Anderson, J.C., Hakansson, H., Johansson, J., 1994. Dyadic business relationships within a business network context. *Journal of Marketing* **58**, 1-15.
- Anderson, J.C., Narus, J.A., 1990. A model of distributor firms and manufacturing firm working partnerships. *Journal of Marketing* **54**, January, 42-58.
- Baker, M.J., Srivastav, A., 1997. Supplier Partnering, A Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom.
- Barclay, D.W., 1992. Organisational buying outcomes and their effects on subsequent decisions. *European Journal of Marketing* **26**, 4, 48-64.
- Bleeke, J., Ernst, D., 1991. The way to win in cross-border alliances. *Harvard Business Review* November-December, 127-135.
- Bryne, B.M., 1994. *Structural Equation Modelling with EQS and EQS/Windows: basic Concepts, Applications, and Programming*, Thousand Oaks: Sage Publications.
- Culpan, R., 1993. *Multinational Strategic Alliances*, Binghamton, New York: International Business Press.
- Dunn, G., Everitt, B., Pickles A., 1993. *Modelling Covariances and Latent Variables using EQS*, First edn. London; New York: Chapman and Hall.
- Dyer, J.H., Ouchi, W.G., 1993. Japanese-style partnerships: Giving companies a competitive edge. *Sloan Management Review* **35**, 1, 51-64.

- Ford, D., 1980. The development of buyer-seller relationships in industrial markets. *European Journal of Marketing* **14**, 5/6, 339-353.
- Frankel, R., Whipple, J.S., Frayer, D.J., 1996. Formal versus informal contracts : Achieving alliance success. *International Journal of Physical Distribution & Logistics Management* **26**, 3, 47-63.
- Gadde, L.-E., Hakansson, H., 1993. *Professional Purchasing*, ., London: Routledge.
- Ganesan, S., 1994. Determinants of long-term orientation in buyer-seller relationships. *Journal of Marketing* **58**, April, 1-19.
- Gentry, J.J., 1996. Carrier involvement in buyer-supplier strategic partnerships. *International Journal of Physical Distribution & Logistics Management* **26**, 3, 14-25.
- Gulati, R., Khanna, T., Nohria, N., 1994. Unilateral commitments and the importance of process in alliances. *Sloan Management Review* **35**, 3, 61-70.
- Hair, J.E., Anderson Rolph E., Tatham, R.L., Black, W.C., 1995. *Multivariate Data Analysis with Readings*, New Jersey: Prentice Hall.
- Hakansson, H., 1982. *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, New York: John Wiley & Sons.
- Heide, J., John, G., 1988. The role of dependence balancing in safeguarding transaction specific assets in conventional channels. *Journal of Marketing* **52**, January, 320-358.
- Jain S.C, 1987. Perspectives on international strategic alliances. In: Jain S.C, (Ed.) *Advances in International Marketing*, New York: JAI Press]
- Kalwani, M.U., Narayandas, N., 1995. Long term manufacturer-supplier relationships: Do they pay off for supplier firms. *Journal of Marketing* **59**, January, 1-16.
- Kanter, R.M., 1989. The new managerial work. *Harvard Business Review* November-December, 85-92.
- Kanter, R.M., 1994. Collaborative advantage. *Harvard Business Review* July-August, 96-108.
- Katsikeas, C.S., 1992. The Process of Conflict in Buyer-Seller Relationships at Domestic and International Levels: a Comparative Analysis. *Journal of Marketing Management* **8**, 365-381.
- Kumar, N., 1996. The power of trust in manufacturer-retailer relationships. *Harvard Business Review* November-December, 92-106.
- Laios, L., Xideas, E., 1994. An empirical investigation of institutional and industrial purchasing structure. *European Journal of Marketing* **28**, 4, 20-38.

- Lewis, J.D., 1995. *The Connected Corporation: How Leading Companies Win through Customer-Supplier Alliances*, New York: Free Press.
- Lorange, P., Roos, J., 1992. *Strategic Alliances: Formation, Evolution and Implementation*, Cambridge,MA: Blackwell.
- Metcalf, L.E., Frear, C.R., krishnan, R., 1992. Buyer-seller relationships: An application of the IMP interaction model. *Journal of Marketing* **26**, 2, 27-46.
- Monczka, R.M., Callahan, T.J., Nichols, E.L.J., 1995. Predictors of relationships among buying and supplying firms. *International Journal of Physical Distribution & Logistics Management* **25**, 10, 45-59.
- Moore, R.A., 1990. The Conflict Gap in International Channel Relationships. *Journal of Marketing Management* **6**, 3, 225-237.
- Morgan, R.M., Hunt, S.D., 1994. The commitment - trust theory of relationship marketing. *Journal of Marketing* **58**, July, 20-38.
- Narus, J.A., Anderson, J.C., 1996. Rethinking distribution. *Harvard Business Review* July-August, 112-120.
- Noordewier, T.G., John, G., John, N.R., 1990. Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships. *Journal of Marketing* **54**, October, 80-93.
- Ohmae, K., 1985. *The Triad Power: The Coming Shape of Competition*, New York: Free Press.
- Ohmae, K., 1989. The global logic of strategic alliances. *Harvard Business Review* March-April, 143-154.
- Osland, G.E., Yaprak, A., 1993. A process model on the formation of multinational strategic alliances. In: Culpan, R., (Ed.) *Multinational Strategic Alliances*, New York: International Business Press]
- Porter, M.E., 1986. *Competition in Global Industries*, Boston: Harvard Business Schools Press.
- Porter, M.E., 1996. What is strategy? *Harvard Business Review* November-December, 61-78.
- Prahalad, C.K., Hamel, G., 1990. The Core Competence of the Organisation. *Harvard Business Review* May-June,
- Shamdasani, P.N., Sheth, J.N., 1995. An experimental approach to investigating satisfaction and continuity in marketing alliances. *European Journal of Marketing* **29**, 4, 6-23.

- Spekman, R., Isabella, L.A., MacAvoy Tomas C., Forbes, T.I., 1996. Creating alliances which endure. *Long Range Planning* **29**, 3, 346-357.
- Spekman, R., Kamauff, J.W., Salmond, D.J., 1994. At last purchasing is becoming strategic. *Long Range Planning* **27**, 2, 76-84.
- Stuckey, J., White, D., 1993. When and when not to vertically integrate. *Sloan Management Review* **34**, 3, 71-83.
- Webster, F.E., Wind, Y., 1972. A general model for understanding organisational buying behaviour. *Journal of Marketing* **36**, April, 12-19.
- Williamson, O., 1975 *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press.
- Williamson, O., 1985. *The Economic Institutions of Capitalism*, New York: Free Press.
- Wray, B., Palmer, A., Bejou, D., 1994. Using neural network analysis to evaluate buyer-seller relationships. *European Journal of Marketing* **28**, 10, 32-48.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

THE
DEPARTMENT OF
MARKETING

Appendix II

“Empirical Research into Collaborative Alliances in Industrial Markets: A Case for A Balanced Approach to Theory Building” (co-authored with Michael J. Baker), *Proceedings of the 28th Annual Conference of the European Marketing Academy*, May 1999, Humboldt University Berlin, Germany

Empirical Research into Collaborative Alliances in Industrial Markets: A Case for A Balanced Approach to Theory Building

Prathap Oburai, Doctoral Researcher¹

Michael J. Baker, Professor of Marketing

Department of Marketing, University of Strathclyde.

Competitive Paper Submitted to EMAC'99 Conference, Berlin

Subject categories: Business-to-Business Marketing, Interdisciplinary Research, Marketing Research, Marketing Theory and Strategic Alliances.

Abstract

In the last decade, there have been a number of papers written by leading marketing scholars (Day 1992; Webster 1992; Hunt 1994; Thomas 1994; Doyle 1995; Baker 1995b) that have attempted to re-examine fundamentally the marketing agenda, and to set new research directions. The debate continues as evidenced by the number of special issues devoted by many journals (cf. Baker among others in AMJ, June 1998). The elements of introspection and reflection are a necessary part of the evolution of any discipline, and essential for the continued growth of a business discipline that has to contend with a changing business environment. In our view, what is urgently required is a matching commitment to changing the ways in which research is conducted. Marketing research has perhaps become set in its ways, and needs a fresh impetus if researchers in the field have to build, modify, and add to or even discard in some cases marketing theories that make up the existing edifice. It is in this spirit that we suggest that there is a need to revamp our methods and tools, and our approaches to building knowledge in the marketing field.

¹ Corresponding author: Department of Marketing, University of Strathclyde, Stenhouse Building, 173 Cathedral Street, Glasgow, G4 0RQ, UK Tel.: +141-5482962; fax: +141-5522802. E-mail: prathap.oburai@strath.ac.uk

Introduction

In this paper, we take a historical perspective and outline the development of various social science disciplines, and their antecedents. Our contention is that a genuine interdisciplinary approach to theory building is a way forward. Further, we argue that this can only be brought about through the embracement of a balanced approach that integrates and exploits the wide variety of qualitative methodologies that are on offer but are ignored more often than not. We also suggest some ways for improving relations with business executives who are crucial to the processes of marketing research in business markets. We start with the presentation of the huge waves of change that are engulfing the business world.

The Changing Shape of Business: Growth of Alliances and External Links

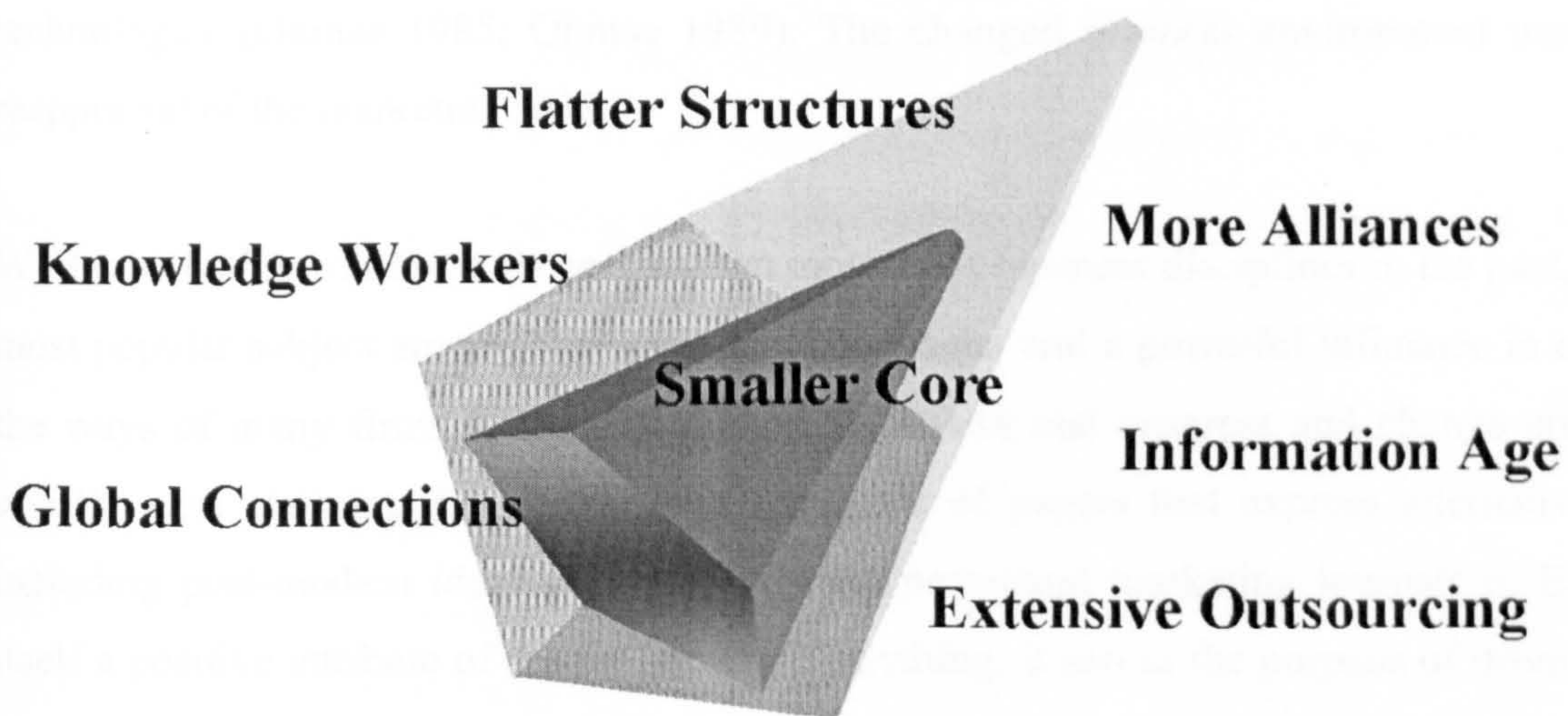
In recent times, we have seen extensive efforts at restructuring corporations. Elaborate vertical integration is virtually an endangered species, and that the Ford Corporation once extracted coal, generated power, owned ships, used no banks, and produced cars all by itself (Womack et al. 1990) appears to be an incredible feat to most of us. Such ventures would be infeasible today. Hierarchical administrative systems and culture marked the Fordist era. Top down decision-making and blown up structures were needed to accommodate a large number of unskilled workers (most of the vehicle assembly workers were immigrants and were trained for five minutes before being assigned to line jobs!). Fordist structures have given way to modern organisations that are flatter, have more educated employees and smaller cores in line with decentralisation and delegation that are possible with an increasingly knowledgeable workforce (Handy 1989). Modern firms have more external links once again by the virtue of not needing to produce everything in-house when quality supplies at reasonable prices are available. That Henry Ford did everything in-house was also due to the fact that in the early stage of technological development external supplies just were not available which is definitely not the case today. Some have termed the modern times as the Post-Fordist era in which possibilities for flexible specialisation abound as witnessed in industrial districts in Germany, Italy, Denmark and Pakistan and a number of other places (Sabel 1994).

So it appears that the renaissance of craft system of manufacturing and flexible specialisation are being enthusiastically welcomed and proactively adopted by many firms around the world. All these changes that organisations undergo are in some sense a reflection of the changing economic environment. Lester Thurow (1996) identifies 'five economic tectonic plates' that have greatly influenced recent times:

- ◆ The end of communism;
- ◆ A technological shift to an era dominated by man-made brainpower industries;
- ◆ A demography never before seen;
- ◆ A global economy;
- ◆ An era where there is no dominant economic, political, or military power.

Consequently, most firms looked at their core competencies (Prahalad and Hamel 1990) and decided to divest non-core areas of operations. The following figure depicts the changing corporation and highlights its main characteristics:

Figure 1: Changing Organisations



Source: Adapted from the ideas in Handy (1989) & Doyle (1995)

The fundamental point to note here is that large corporations have an inherent drawback in that few people identify themselves with them. With increased educational levels, widespread technology diffusion, well-developed infrastructure facilities, and proliferation of institutional systems such as banks, fragmentation of business and the growth of small business become inevitable. Today, small firms contribute a growing amount of value added in a number of

advanced economies, and add more jobs to the already significant employment levels they provide. The growth of micro and flatter firms has much to do with the fact that individuals are much more empowered today than in the last one hundred years.

To contend with more nimble, fleet footed and entrepreneurial firms, many corporations with old monolithic structures have pared themselves down. And shareholder value has acquired paramount value and managers no longer have facile situations in which they could build “empires” through mergers or acquisitions of unrelated businesses (Kay 1993). Hallowed corporate offices with umpteen secretarial staff are as rare as dinosaurs. Designations don’t hold the same rigid job contents as in yesteryear nor are the relations between various employees within firms as hierarchical. Tele-workers abound, as do small, specialised boutiques that offer to execute jobs, and projects quicker, cheaper, and better.

Extensive outsourcing is the norm rather than an exception (Quinn and Hilmer 1994), and alliances and links are increasingly a route to building and sustaining competitive advantage in a world characterised by globalisation, converging commonalties and rapidly changing technologies (Ohmae 1985; Ohmae 1989). The changed business environment mandates a reappraisal of the marketing field.

While marketing was more successful than most other business disciplines in the past, was the most popular subject among business school curricula, and a powerful influence in changing the ways of many firms, criticisms abound today and real progress and change are sought vocally with alarming frequency. That a number of papers that express alternative views including post-modern ideas appeared in many prominent marketing journals in Europe is itself a positive attribute of the profession. If anything, it serves the purpose of driving home the message that *no entity can afford to rest on its past laurels* in the constantly changing environment that we are all surrounded by.

Baker (1976) notes that ‘ The enigma of marketing is that it is one of man’s oldest activities and yet it is regarded as the most recent of the business disciplines’. In a recent paper (1994), Baker takes a comprehensive view of the developments in marketing and traces its roots and highlights the thoughts and views of a number of marketing scholars, and urges marketers to take note of earlier writings in the field to avoid reinventing the wheel(s). He makes the point that modern marketing started in Britain in 1759 i.e. at the beginning of the industrial

revolution period, and in Germany and US ca 1830 (Fullerton 1988). Further, Baker takes note of Marion's scathing view that 'there has been nothing new since the 1960s or even well before (p.166)' and calls for 'renaissance in marketing thinking and research' and 'a fundamental reappraisal of marketing thinking' in a thought-provoking paper entitled "Research Myopia: Recency, Relevance, Reinvention and Renaissance".

'Now is the time for all of us to revisit the marketing classics of the '1950s and 1960s for it was these that influenced and challenged the senior scholars at the top of our profession today. Now is also the time to reaffirm that marketing like architecture, engineering, and medicine is a synthetic discipline which draws upon contributions from many other disciplines and integrates these into a body of knowledge which is relevant to a craft or professional practice. Unlike many of the core disciplines, such as economics, psychology and sociology, on which it draws, marketing cannot afford to become enmeshed in a scientific rigour that requires one to control or assume away the complexity which is the real world of practice. As with architecture, engineering, and medicine the acid test should "does it work?" What we need are more basic principles and rules of thumb – what at Harvard Business School in my day were called "currently useful generalisations" (CUGs) – and fewer esoteric irrelevancies which are only fit to grace the pages of the *Journal of Obscurity*.'

Baker concludes 'Finally, in creating our vision of the future perhaps what we need most of all is greater awareness of our past. Business history and the works of the political economists of the eighteenth and nineteenth centuries should be a required reading for us all'. All in all, the scholars mentioned above and numerous others are unanimous in their message that the way forward in making marketing occupy the pre-eminent position business discipline that it held till recently is possible only if extensive theory development programmes are undertaken through innovative and cross-functional research.

Need for theory development using interdisciplinary approaches

There is a general consensus among marketing scholars that the field of marketing, its agendas, its methods, and philosophies are undergoing a dramatic change. As said earlier, in the last decade or so, there have been a number of attempts by various marketing scholars to fundamentally re-examine the role of marketing and its future (Webster 1992; Baker 1995b).

Webster notes that

'Theory development must be accompanied by aggressive programs of empirical research for understanding strategic marketing relationships more completely. Programs of clinical and survey research should be guided by strong theoretical frameworks from allied social science disciplines'(p.13).

Business literature has so far largely focused on the concept of competition (Porter 1980; 1985) and its effects (Culpan 1993), and it is only recently that the focus is shifting to collaboration and its benefits. Hunt bemoans the current status of marketing theory and practice and urges marketers to abandon focus on 'dysfunctional relationships' and to develop theories that explain cooperation (1994). In bringing to light the fact that 'no discipline has [yet] developed a general theory of co-operation', Hunt advocates the need to pursue empirical programs that allow the development of theories of collaboration.

Do we need a theory of cooperation or a theory of alliances, if so, does a theory about alliances widen the boundaries of the marketing field? Before we answer the question, we need to consider if the marketing field is one that has any boundaries at all, and if there exists a perceived or real need to push beyond those limits. Early literature in the field of marketing suggests almost no limits to the universal applicability of marketing concepts and their utility (Kotler and Levy 1969; Kotler 1972; Hunt 1976). Perhaps because of the very success it enjoyed, and incorporation of marketing principles into corporate strategies in many firms, the future role of marketing in business and its value creation potential are being increasingly questioned (Brady and Davis 1993).

In response to demands from both from within the academia and from business executives, marketing literature in the last two decades has increasingly reflected the need for building bonds with suppliers, consumers and other related constituents. Some of the sub-fields of the marketing function that have recently seen their popularity and acceptance grow are Relationship Marketing, the Network or Interaction Approach and Strategic Alliances and Partnerships. The emergence of these fields indicates a clear and marked stage of paradigmatic evolution, if not the advent of a totally new paradigm. Most writings now emphasise and endorse relationship-building approaches, undoubtedly as the consequence and result of the paradigm shift.

Although in recent times we have a reminder from McKenna (1991) through his often quoted and much admired article, "Marketing is everything" in the Harvard Business Review, not all businesses and managers consider that to be entirely true. The marketing function and its tasks are increasingly outsourced (Doyle 1995). Obviously marketing is not and cannot be everything if we view marketing as a "function", but if we accept that marketing is a "philosophy" then marketing is everything (Baker 1995a). In the last decade or so, there have

been a number of attempts by various marketing scholars to fundamentally re-examine the role of marketing and its future (Webster 1992; Baker 1995b; Knight and Doyle 1998). The processes of introspection and quest for shaping the future of marketing still continue.

The legitimacy of marketing and its role, all marketers believe, is fundamental to businesses. However, all fields have to see progress and the marketing field is perhaps one that is seeing encouraging changes to its research agenda, processes that lead to the generation of theories, and even to the existing theories and paradigms. This may be a process that is an unsettling prospect to marketing researchers and academics, but one that companies and corporations have long since experienced in terms of changing technologies, consumer demands, and competitive turbulence among other varied and important discontinuities. For most businesses survival is almost an everyday exercise. As an applied field, marketing owes much to businesses in general and its duties and obligations require it to supply solutions and strategies that help businesses to successfully undertake value-creating activities. This implies that the field of marketing and its processes have to evolve at least to some degree to stay in tune with the changing times. In this context it is relevant to note that Webster (1992) urges marketers to broaden the agenda of the marketing field. In particular he highlights the need for fully exploring inter-firm cooperation and its manifestations including strategic alliances and buyer-seller partnerships. To quote,

‘Increasingly, firms are paying specific attention to the question of firm scope and shape, as seen in the decision to enter into strategic alliances. In other words, the question of whether to depend on markets, long-term relationships, strategic alliances, or integrated multifunctional hierarchy is seen to require specific management analysis and judgement. The first order of business in the strategic puzzle, then, is to determine the firm's position in the value chain: What will it buy? What will it make? What will it sell? These decisions require careful assessment of the firm's distinctive competencies and a decision to focus on the things the firm does best. As mentioned previously, this is the question raised theoretically in 1937 by Ronald Coase, whose work received the Nobel Prize in Economics in 1991: When should the firm depend on outside suppliers and when should it perform activities and functions internally? Today's analysis permits consideration of a much more flexible set of organization forms--relationships and alliances of various kinds’(Webster 1992pp.10-11 references removed)

The twin concepts of exchange and relationships are central to the field of marketing (Houston et al. 1992). We are aware that not all exchanges and transactions require relationships and attention to the same degree. It is equally true that some relations are more

effective than others are. The adversarial approach pits one supplier against the other, and focuses largely on price tag, and other easily quantifiable parameters and metrics that lend themselves to easy measurement. This approach, often justified on many grounds and even demonstrated in most plausible terms to be an economically viable one, is notably a version of what could only be termed as absolute short-termism and a fixation with techniques. On the other hand, an indiscriminate approach to building relationships with all possible constituents is a route fraught with overwhelming risks and almost certain failure. The appropriate approach may be to establish and nurture alliances with those suppliers through whom a continuous stream of benefits is generated over a reasonable length of time to the mutual benefit of partners. Baker and Srivastav (1997) argue that alliances and partnerships must lead to strategic advantages, not operational improvements alone. Further, the authors explicitly outline the need for further research into the processes that lead to the creation of strategic relationships between firms.

In building theories, we are reminded of the need to be eclectic. Eclecticism's dangers are not be understated but its benefits often outweigh its dangers. Wharton Business School is one that is currently focusing on inter-disciplinary research (Bowman and Kogut 1995). It is seen that inter-disciplinary approaches to various business education and scientific fields are now strongly recommended and attempts have been under way for some time. In this context, Webster argues that

'The focus of the political economy and organizational behavior models seems to be more appropriate for a strategic view of the marketing function as distinct from the sales or demand stimulation function, for which the microeconomic paradigm is still more fitting. Whereas the microeconomic model centers on consumers and transactions, the political economy and organizational behavior models are more useful in analyzing relationships with industrial customers, suppliers, joint venture partners, resellers, and other stakeholders. It should help us to understand better the changing role of marketing in the corporation. The conceptual foundations of marketing must be enriched, blending economics, political science, and organizational behavior as well as appropriate frameworks from legal analysis, sociology, anthropology, and social psychology to enhance our understanding of the processes of negotiation, coordination, and cooperation that define marketing relationships. Just as we know that most marketing transactions take place in the context of longer term relationships, so we need models that focus on the relationships themselves, not just on the market changes that are the subject of the microeconomic paradigm.

Theory development must be accompanied by aggressive programs of empirical research for understanding strategic marketing relationships more completely. Programs of clinical and survey research should be guided by strong theoretical frameworks from allied social science disciplines. Top priority should be given to analysis of the forces and factors that cause firms to move along the continuum from transactions to long-term relationships to strategic alliances and, perhaps, back again' (Webster 1992p.13 underlining added)

However, as Wallerstein(1991) argues, the ringing endorsements of interdisciplinary approaches and calls may not actually change our approaches to research. To quote

'The lauding of the merits of interdisciplinary work in the social sciences has so far not significantly undermined the strengths of organizational apparatuses that shield the separate disciplines. Indeed, the contrary may be true: what has enhanced the claim of each discipline to represent a separately coherent level of analysis linked to appropriate methodologies is the constant assertion by practitioners of the various disciplines that each has something to learn from the other which it could not know by pursuing its own level of analysis with its specific methodologies, and that this "other" knowledge is pertinent and significant to the resolution of the intellectual problems on which each is working. Interdisciplinary work is in no sense an intellectual critique of the existing compartmentalization of social science, and lacks in any case the political clout to affect the existing institutional structures' (pp.239-40).

Therefore, it may be fair to infer from the above presented analysis that it is only through genuine interdisciplinary study, understanding, and research that we in the business fields can achieve success in building theories that have wider applicability and gain approval of other academics that Day talks about.

It is at this juncture that we feel that a historical account of the development of modern social sciences and its roots is beneficial in order to explore the ways in which we outline some ways in which we may attempt to change the course of marketing research. Herein are some reasons for a combined approach to research.

Birth of Modern Social Sciences and Reasons for Interdisciplinary Approaches

The Renaissance and the Age of Enlightenment had a huge impact on the ways of learning, in the way teaching was organised and its methods, and in the incorporation of new principles and beliefs into the accepted body of knowledge. All institutions have to have some elements

of continuity, and some of change. This ensures longevity and continuation of practices that led to success in the past; which makes it harder to discard proven and fruitful practices. However, resistance to change could result in delays in assimilating new ways, and eventually in ignoring new or modified philosophies. Change is normal and unless it is embraced wholeheartedly and in a proactive manner, it would engulf those who resist it.

That change is normal and even desirable is a great philosophical leap, one that has propelled since the 16th century the processes of invention and the utilisation of modern manufacturing principles, eventually culminating in the last few decades of the 18th century in what we today call the “industrial revolution.” The fact that Europe was recovering from a huge loss of population from the Black Death might have made efficient utilisation of labour and substitution by capital attractive propositions. Although the plague reached Britain later than in many parts of Europe, it took Britain more than 300 years and till the middle of the 17th century to recover from the epidemic (Snooks 1994).

Scholars including Wallerstein and Snooks agree that the real industrial revolution that occurred in Great Britain more or less between 1760-1830. The American and French revolutions took place in this time. The turmoil in France continued for much of the period after the French revolution, whereas Britain had no such burden and ushered in changes that proved beneficial and conducive to the already developing processes of the industrial revolution. Although it is said that Britain was ‘first among equals’(Snooks 1994) in winning the race of “industrial revolution,” subsequent events made Britain a global power with unparalleled reach and influence. General living standards in Britain and elsewhere in Europe soared greatly during this long periods of time in which improvements were brought about, and an industrial workforce created since the improvements in productivity in primary sectors such as agriculture made it necessary for people to find alternative employment. Indeed, it is said that the industrial revolution ‘represents a fundamental world social transformation comparable to the Neolithic or agricultural revolution of 5000-8000 years ago.’

It is our view that most writings have grossly underestimated the impact of the philosophical change that occurred during and after the period during which industrial revolution took place. And willingly world’s sovereign nations embraced the scientific ways that led to the industrial revolution; and modern universities were founded in this milieu of great transformation. In short, acceptance of ‘normality of change’ meant a cultural transformation and accordingly suitable structural changes were made to institutions. New ideologies took

root, agendas formed, and as a whole a great philosophical revolution was in the offing. 'Political agendas are only one part of what one needs to deal with "normal change." Since these agendas represented concrete proposals, they required concrete knowledge of current realities. What they needed, in short, was social science. For if one didn't know how the world worked, it was difficult to recommend what one might do to make to make it better (Wallerstein 1991 p.17-18).' Wallerstein notes (p.18-19) that

'Ideologies are more than mere *Weltanschauungen*; social science is more than mere social thought or social philosophy... Social science, as it came to be defined in the nineteenth century, was the empirical study of the social world with the intention of understanding "normal change" and thereby being able to affect it. Social science was not the product of solitary social thinkers but the creation of a collective body of persons within specific structures to achieve specific ends. It involved a major social investment, which was never previously the case with social thought (emphasis added).

The principal mode of institutionalizing social science was by differentiation within Europe's traditional university structure which, by 1789, was virtually moribund. The universities, which at that point in time were scarcely vital intellectual centres, were still largely organized in the traditional four faculties of theology, philosophy, law and medicine. There were, furthermore, relatively few universities. In the course of the nineteenth century, there occurred a significant creation of new chairs, largely within the faculty of philosophy, to a lesser extent within the faculty of law. These chairs had new names and some of them became the forerunners of what we today call "departments."

Formal universities were founded in Europe in the 13th century with the University of Paris (about 1210) and Oxford University (in 1284). Hunt (1991 p.227) echoes what has been said before:

'Although natural philosophy was taught in the universities, the curriculum was oriented primarily toward the humanities and the professions of law, politics, and medicine. Further the dominant method of inquiry was Scholasticism; that is knowledge was to be found in the proper interpretation of the writings of others, primarily the ancient Greeks. In fact, the modern notion of the university professor as a scholar engaging in original research that creates new knowledge if of very recent origin. The first universities to emphasize science and research were those in Germany in the early part of the 19th century, with the University of Berlin in 1810 being the forerunner. Only much later was the concept of the professor as researcher accepted in England. Oxford University granted its first Ph.D in 1919!'

Wallerstein further argues that 'As of 1850, there were no scholarly associations, as we know them today, grouping scholars in these fields. How could there be, since the fields were not yet considered to be clearly circumscribed social realities? Yet by 1914, national associations bearing these names existed in Europe and North America, and again by the 1960s this was true throughout the world. International associations bearing these names are only a twentieth-century creation. The same thing can be said of scholarly journals. In short, a

massive process of the institutionalization of separate so-called disciplines has taken place within the last century or so, but only since then (p.94-95).

To conclude Wallerstein's arguments (p.98), 'The institutionalization of these categories had a further implication for our collective research. The number of scholars expanded steadily and enormously. Training programs were created and the increased valuation of rules of precision in research became a natural corollary. But how does one become precise in nomothetic and idiographic research?

The path to precision of a universalizing science is quantification as a necessary step in the search for formulae which are linked in theorems. This puts a clear constraint on actual empirical research. From the initial requirement that research be as quantitative as possible, it is not far to go to a derived requirement that empirical enquiry should be conducted in loci for which quantifiable data exist, and the "harder" (that is, the more elaborate and more carefully compiled) the better... Thus we are pushed further and further into the immediate present, in particular, that of certain countries, and into smaller and smaller scope, a push that is reinforced by the natural differentiation occurring as a result of the expansion of the number of researchers.'

That scholars in business fields and in marketing are in some ways experiencing limits to growth and experimentation is a fact reflected in most writings. This we contend is an outgrowth of our heavy reliance on hypothetico-deductive quantitative approaches, which prevails at the expense of alternative methodologies for investigation of issues and theory development.

Empiricism and Theory Development

Aristotle's (384-322 BC) contributions to science are many, and varied. Even today, the classification of plants and animals are attributed to him. Behind all of these achievements lie a brain, and a research schema. His dominant paradigm for research, which will be unsurprisingly old wine for most of us in the field of marketing, is based on four principles: Observation, classification, and generalisation. This is what we call today as empiricism. John Locke is generally considered the father of modern empiricism (Hunt 1991; Wallerstein 1991; Russell 1995). Empiricism has its roots in observation and generalisation. Observation (which may be aided by experimentation) and generalisations form the basis of theory building exercises.

Theory may be described as 'a tightly organized set of interrelated, disprovable hypotheses derived from a minimum set of axioms, and normally one that has survived a certain amount

of rigorous empirical probing (Wallerstein 1991)(p.50)'. For Myrdal, a theory was 'no more than a set of correlated set of questions to the social reality under study (p.25) (Myrdal 1968)'.

The fact is that observation, explanation, prediction and understanding have long become central to research in most disciplines. That in the marketing field empirical tradition has taken strong roots and has been the mainstay of research is undeniable. However, in becoming more like natural sciences through employing predominantly quantitative/deductive approaches, we may be in the danger of ignoring the benefits and even failing to realise the full potential of the wide variety of research methodologies on offer. Social sciences may be in the trap of what Myrdal calls "naïve empiricism". This is what Baker (1994) terms as moving away from reality in pursuit of rigour for its own sake. As highlighted at the outset, our environment has changed dramatically in the years after the industrial revolution and more so since the advent of the information age that in a few cases yesterday's solutions may no longer be relevant to today's problems. As time progresses, it likely that the information revolution (Toffler calls this the "third wave") that we are experiencing will have no less impact as the last industrial revolution. Micro organisations with global links may become the order of the day, and one-man entities that rely solely on brainpower are increasingly becoming visible. Craft based and flexible specialisation within clusters of industrial firms such as those in Italy and in Silicon Valley is now appearing elsewhere as well.

Nolan and Grant (1994) suggest that theories should be judged by "their ability to describe, explain, predict the phenomena of interest". General theories ought to explain either all the phenomena within discrete domains of marketing, such as buyer behaviour, or all phenomena of what Hunt (1983) described the "four sets of fundamental marketing explanada". To list, these four are: (1) buyer behaviour directed at consummating exchanges; (2) seller behaviour directed at consummating exchanges; (3) the institutional framework; (4) and the impact on society of exchange.

Marketing theories have yet to reflect changed global realities, the end of the cold war, the growth of small and flexible entities, the pervasive influence of information age, and emergence of new markets including Poland, among many other discontinuities (Drucker 1968; Thurow 1996) that mark the current era. That more than one-tenth of the world's population is illiterate and many more endure poverty does not concern too many business firms or business scholars today (this is an issue largely addressed by social marketing

scholars but rarely if ever published in main journals). As we enter the next millennium, marketing scholars will face growing pressures that demand the production of more relevant and applied knowledge for solving business as well as social problems and in providing them with suitable knowledge to successfully face tomorrow's challenges.

That there exists a gap between theory and practice has been a matter of debate in social sciences in general, and in the field of marketing as well. Brownlie and Saren (1997) argue that the methodological pluralism is essential to understanding marketing as it exists in practice and to be able to portray a more accurate picture of it. They urge marketing researchers to 'move beyond naive literal interpretations of interview transcripts as an analytical strategy (p.158).' These authors also suggest usage of alternative techniques such as 'participant observation, discourse analysis, 'shadowing', self-completion diaries, and activity analysis (p.159).' In similar note, Hirschman and Holbrook (1992) highlighted the need to fully understand social and cultural issues that underlie and guide many activities that are the focus of the domain of consumer research. That marketers perhaps have in many cases eschewed the usage of rich and wide spectrum of techniques in favour of easy, low cost, and low involvement methods is what we attempt to highlight in the following section.

Dichotomous relationship is Chimera: Call for Balanced Approaches

Qualitative and quantitative methodologies are often portrayed and perceived in some circles as opposing and mutually exclusive methodologies, if not ideologies. However, most academics and practitioners know this to be a false dichotomy. While qualitative techniques can often provide holistic understanding, quantitative tools afford us deeper view of a chosen issue. Having said that, it is necessary to state that most of the research methods in use are an amalgam of the two traditions and perhaps it is only in experimental and laboratory settings that we could expect to find pure methods. The following table highlights some differences.

Table 1: Characteristics of Qualitative and Quantitative Research

Point of Comparison	Qualitative Research	Quantitative Research
Focus of Research	Quality (nature, essence)	Quantity (how much, how many)
Philosophical Roots	Phenomenology, symbolic interaction	Positivism, logical empiricism
Associated Phrases	Fieldwork, ethnographic, naturalistic, grounded, subjective	Experimental, empirical, statistical
Goal of Investigation	Understanding, description, discovery, hypothesis generating	Prediction, control, description, confirmation, hypothesis testing
Design Characteristics	Flexible, evolving, emergent	Predetermined, structured
Setting	Natural, familiar	Unfamiliar, artificial
Sample	Small, nonrandom, theoretical	Large, random, representative
Data Collection	Researcher as primary instrument, interviews, observations	Inanimate instruments (scales, tests, surveys, questionnaires, computers)
Mode of Analysis	Inductive (by researcher)	Deductive (by statistical methods)
Findings	Comprehensive, holistic, expansive	

Source: (Merriam 1988 p.18)

All research methods have their inherent strengths and weaknesses. However, it is important to note that it is integration of methodologies and balanced usage that helps in building new theories is our main argument.

Organisational populations differ on three main characteristics (Tomaskovic-Devey et al. 1994): capacity, the intrinsic knowledge of informant; authority, official sanction to act; and motivation, willingness to comply with requests to participate in surveys. Indeed as experience shows the complex interactions that mark business markets may be best understood by means of detailed case study approaches. This is the favoured form of the profoundly successful IMP group's approach that resulted in the accumulation of hundreds, if not thousands, of case studies. Case methods are among the oldest means employed by humankind in describing, exploring, and explaining various phenomena. Harvard Business School's success is derived, at least in part, from its case research approach, and associated pedagogical tools. Case research methods utilise a wide array of information and multiple sources. This is in our mind one of the most distinguishing characteristics of this method.

The case method is only one research mechanism. There are plenty of others including the ones suggested by Brownlie and Saren (1997). It is prudent choices that match the issue under scrutiny and tools that succeed in producing knowledge of value. However, no technique, however inexpensive it may seem in the short term, should alienate our informants. Many executives mention that they are weary of receiving and filling mailed survey forms. Nor do they believe they are benefiting from such exercises. It may be that we all need to build closer and more benefit-providing relations with the industry. That is applying principles of relationship building approaches with our business informants. This is possible with more usage of qualitative techniques and with more practically relevant issues being taken up for research.

Conclusion

In tracing the roots of modern social sciences and its tools, we highlighted the fact that the debates that we have seen in marketing are in some ways a reflection of what is generally the case in the field of social sciences. Changed environment is one of the main impetuses for the need to generate relevant and workable theories. It is our plea that building of theories and knowledge bases in marketing can come about through interdisciplinary understanding, and the usage of multiple methods of enquiry that build on each other. Also, research methods that

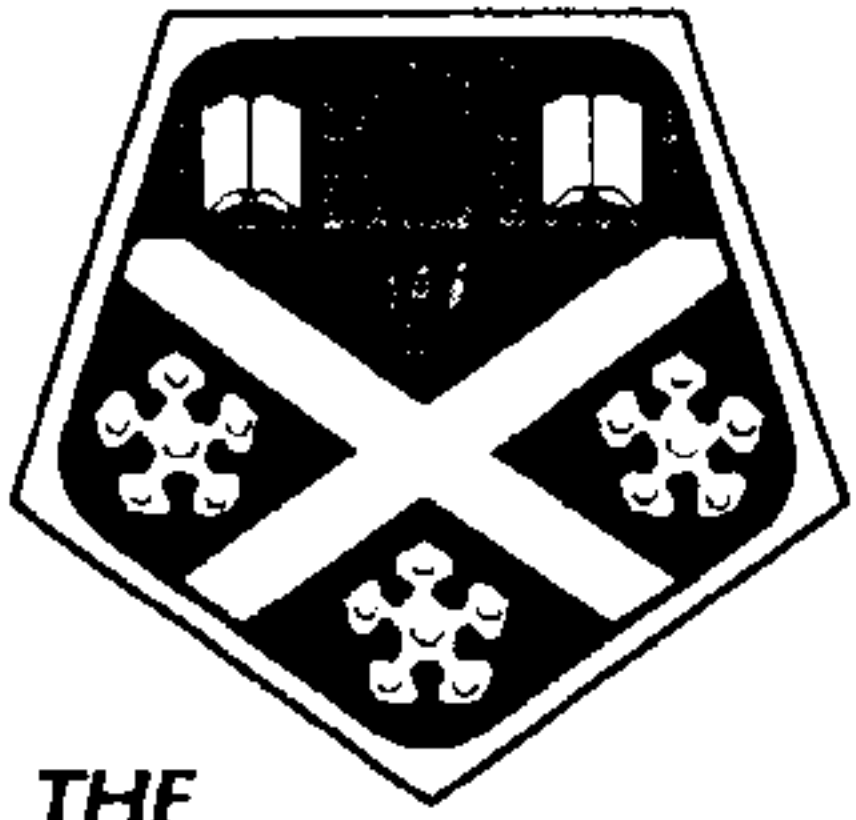
are conducted with a view to gain holistic perspectives of business markets and the ways in which they operate are needed urgently. That we seem to have alienated our most valuable source of information and value, the business executive, is undeniable. To redress the situation, we need more value-delivering approaches incorporated in marketing's research processes. One more time again: relationships and theories that explore collaborative aspects need to be brought into practice in building solid, mutually fulfilling, and harmonious bonds between the research community and the practitioner community. This is perhaps a precondition that has to be fulfilled before our efforts at producing theories of cooperation and others theories bear fruit.

Reference List

- Baker, M.J. (1976) *Marketing: Theory and Practice*, First Edition. London: Macmillan.
- Baker, M.J. (1994) *Research Myopia: Recency, Relevance, reinvention and Renaissance*, Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom.
- Baker, M.J. (1995a) 'Marketing - Philosophy or Function?', In: Baker, M.J., (Ed.) *Companion Encyclopedia of Marketing*, First Edition. pp. 3-22. London; New York: Routledge
- Baker, M.J. (1995b) 'The Future of Marketing', In: Baker, M.J., (Ed.) *Companion Encyclopedia of Marketing*, First Edition. pp. 1003-1018. London; New York: Routledge
- Baker, M.J. (1998) Marketing of the Future. *Australasian Marketing Journal (formerly Asia-Australia Marketing Journal)* 6 (1):5-11.
- Baker, M.J. and Srivastav, A. (1997) *Supplier Partnering*, A Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom.
- Bowman, E. and Kogut, B.M. (1995) *Redesigning the Firm*, New York: Oxford University Press.
- Brady, J. and Davis, I. (1993) 'Marketing 's Mid-life Crisis', *McKinsey Quarterly* 2, 17-28.
- Brownlie, D. and Saren, M. (1997) 'Beyond the one-dimensional marketing manager: The discourse of theory, practice and relevance', *International Journal of Research in Marketing* 14 , 147-161.
- Culpan, R. (1993) *Multinational Strategic Alliances*, Binghamton, New York: International Business Press.

- Day, G.S. (1992) 'Marketing's contribution to the strategy dialogue', *Journal of the Academy of Marketing Science* **20**, Fall, 323-330.
- Doyle, P. (1995) 'Marketing in the new millennium', *European Journal of Marketing* **29**, 13, 23-41.
- Drucker, P.F. (1968) *The Age of Discontinuity: Guidelines to our Changing Society*, New York and Evanston: Harper & Row Publishers.
- Fullerton, R.A. (1988) 'How Modern is Modern Marketing?', *Journal of Marketing* **52**, January, 108-125.
- Handy, C. (1989) *The Age of Unreason*, London: Arrow Books.
- Hirschman, E.C. and Holbrook, M.B. (1992) *Postmodern Consumer Research : The Study of Consumption As Text*, London: Sage Publications.
- Hunt, S.D. (1976) 'The Nature and Scope of Marketing', *Journal of Marketing* July, 17-28.
- Hunt, S.D. (1983) 'General Theories and Fundamental Explananda of Marketing', *Journal of Marketing* **47**, 9-17.
- Hunt, S.D. (1991) *Modern Marketing Theory: Critical Issues in the Philosophy of Marketing Science*, Cincinnati, Ohio: South-Western Publishing Company.
- Hunt, S.D. (1994) 'On Rethinking Marketing: Our Discipline, Our Practice, Our Methods', *European Journal of Marketing* **28**, 3, 13-25.
- Kay, J.A. (1993) *Foundations of Corporate Success: How Business Strategies Add Value*, Oxford: Oxford University Press.
- Knight, T. and Doyle, P. (1998) *The Role of Marketing*. United Kingdom: KPMG Management Consulting.
- Kotler, P. (1972) 'The Generic Concept of Marketing', *Journal of Marketing* **36**, 46-54.
- Kotler, P. and Levy, S.J. (1969) 'Broadening the Concept of Marketing', *Journal of Marketing* **33**, 10-15.
- McKenna, R. (1991) 'Marketing is Everything', *Harvard Business Review* **69**, 65-79.
- Merriam, S.B. (1988) *Case Study Research in Education: A Qualitative Approach*, San Francisco; London: Jossey-Bass Publishers.
- Myrdal, G. (1968) *Asian Drama*, New York: Pantheon.
- Nolan, M. and Grant, G. (1994) 'Models, Theories and Concepts', In: Smith, J., (Ed.) *Models, Theories and Concepts*, London: Blackwell
- Ohmae, K. (1985) *The Triad Power: The Coming Shape of Competition*, New York: Free Press.

- Ohmae, K. (1989) 'The global logic of strategic alliances', *Harvard Business Review* March-April, 143-154.
- Porter, M.E. (1980) *Competitive Strategy*, New York: Free Press.
- Porter, M.E. (1985) *Competitive Advantage*, New York: Free Press.
- Prahalad, C.K. and Hamel, G. (1990) 'The Core Competence of the Organisation', *Harvard Business Review* May-June,
- Quinn, J.B. and Hilmer, F.G. (1994) 'Strategic outsourcing', *Sloan Management Review* 35, 4, 43-55.
- Russell, B. (1995) *Unpopular Essays*, London: Routledge.
- Sabel, C.F. (1994) 'Flexible Specialisation and the Re-emergence of Regional Economies', In: Amin, A., (Ed.) *Post-Fordism: A Reader*, pp. 101-156. Oxford, UK: Blackwell Publishers
- Snooks, G.D. (1994) *Was the industrial revolution necessary?*, London; New York: Routledge.
- Thomas, M.J. (1994) 'Marketing - in Chaos or Transition?', *European Journal of Marketing* 28, 3, 55-62.
- Thurow, L.C. (1996) *The Future of Capitalism: How Today's Economic Forces Shape Tomorrow*, New York: Penguin Books.
- Tomaskovic-Devey, D., Leiter, J. and Thompson, S. (1994) 'Organisational Survey Non-Response', *Administrative Science Quarterly* 39, 439-457.
- Wallerstein, I. (1991) *Unthinking Social Science: The Limits of Nineteenth-Century Paradigms*, Cambridge, UK: Polity Press.
- Webster, F.E. (1992) 'The Changing Role of Marketing in the Corporation', *Journal of Marketing* 56, October, 1-17.
- Womack, J.P., Jones, D.T. and Roos, D. (1990) *The Machine That Changed the World*, New York: Rawson Associates.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

THE
DEPARTMENT OF
MARKETING

Appendix III

“100 years of Quest for A General
Theory of Marketing: The
Principle of Cumulativity” (co-
authored with Michael J. Baker),
*Proceedings of the Academy of
Marketing 28th Annual
Conference, July 1999, University
of Stirling, Scotland, United
Kingdom*

100 Years of Quest for A General Theory of Marketing:

The Principle of Cumulativity

Prathap Oburai and Professor Michael J. Baker

Department of Marketing, University of Strathclyde

Abstract

The process of building knowledge and theories in most scientific disciplines may be characterised as a predominantly gradual one that leads to progress in a cumulative fashion. If such is the nature of knowledge building, our efforts at building marketing theories may yield results quicker when we take advantage of the products of almost 100 years of past endeavours of marketing scholars. Hindsight could help us accelerate our academic endeavours in bearing fruit, and to avoid recurrence of mistakes. It is our view that a retrospective and historical approach offers an avenue that is likely to aid theory generation.

1.0 Introduction

In this paper we take a historical perspective in sketching in some detail the two millennia old quest for understanding nature, and the rise of modern sciences that led to the building of a great wealth of knowledge. While necessarily limiting and omitting most detail due to space limitations, our purpose in employing the historical approach is to highlight what we prefer to term as the “*Principle of Cumulativity*” (section 2.0) that pervades the processes of knowledge building in the fields of philosophy as well as modern sciences (sections 3.0 and

4.0). Thus we lead readers to our main thesis (section 5.0): that in the field of business studies in general and marketing in particular we need to evaluate carefully our *research tradition* with a view to build on what has gone on before and not re-invent the wheel (Baker 1994). As we approach the completion of 100 years of marketing and enter the new millennium, we feel that the impressive wealth of knowledge and our rich heritage (Fullerton 1988) are crucial building blocks that may assist in developing a general/central theory for our discipline. The final section is devoted to exploring avenues for theory generation and outlines some concluding remarks.

2.0 The Principle of Cumulativity

The Renaissance and the Age of Enlightenment had a huge impact on the ways of learning, in the way teaching was organised and its methods, and in the incorporation of new principles and beliefs into the accepted body of knowledge. Philosophical change was the force that led to the processes and resulted in their manifestation as “industrial revolution” which transformed the world (Oburai and Baker 1999). As a corollary, we add that its counterpart that is generally most under appreciated is the principle that led to the building of knowledge in both the scientific and philosophical fields, and in the development of appropriate methods/techniques for building, analysis and testing of theories. That principle we contend is the almost immutable and the cumulative nature of knowledge building processes that paved the way forward since ancient times. The two seemingly contradictory processes: on the one hand the variability of philosophical change, and on the other the permanency and constancy of Principle of Cumulativity that underlies knowledge building are but fundamentally interactive in nature. Longer timeframes and historical studies uncover elements of both continuity and discontinuity. Discontinuities (Drucker 1968) are often the focus of business

literature, but short time spans exaggerate some effects while masking others: it is just as easy to miss and not discern the elements of continuity which are for all to see when a longer timeframe is chosen. It is to the task of highlighting the cumulative nature of knowledge building that we now turn our focus to, and as stated before we attempt to sweep a long span of time.

3.0 Standing on the shoulders of giants: Plato to Newton

“If I have seen further it is by standing on the shoulders of giants” said Sir Isaac Newton in order to explain that all his achievements were only made possible by virtue of the work of earlier scientists. We travel much farther back in time to the age of Greek philosophers in order for us to be able to understand and evaluate the basis of Newton’s unparalleled success. As we do so, we draw parallels to some contemporary and disciplinary developments.

Birth of Modern Sciences and Empiricism

Aristotle’s contributions are many and varied, and rightly, he is credited among other things with having single-handedly invented and enunciated the principles and logic of deduction (through syllogism). Indeed, his contributions were so great as to have withstood the test of time for almost another two millennia and a substantial number survive even to this day. Until the 19th century, when the word “science” was coined, the study of nature and associated techniques was part of the discipline of philosophy. A fuller and a more detailed discussion concerning the growth of separate disciplines and traditions is furnished elsewhere (Oburai and Baker 1999) and needs no repetition here. Suffice it to say that there is clearly more than an element of truth in Russell’s (1995) argument that what was for the most part proven by philosophers became science and what was not resolved remained under the rubric of

philosophy. 'Every later age has drawn upon Aristotle, and stood upon his shoulders to see truth' (Durant 1954 p.72). The creation of science was facilitated when Aristotle 'merged Plato's method of knowledge-through-critical discussion with the empiricist method of careful observation' (Hunt 1991 p.222).

The most crucial missing element was "systematic experimentation" which had to wait till the 17th century for both Galileo (1564-1642) and Bacon (1561-1626) for its introduction. As against Plato, Bacon drew on the 'induction-deduction scientific procedure advocated by Aristotle' (Hunt 1991 p.233) in emphasising the importance of observation, organising of data and experimentation. Although he underestimated the importance of mathematics, the role of deduction in science and the indispensability of hypotheses, '[Bacon] valued his method as showing how to arrange the observational data upon which science must be based. We ought, he says, to be neither like spiders, which spin things out of their own insides, nor like ants, which merely collect, but like bees, which both collect and arrange.' (Russell 1996 p.528).

Russell (1996) asserts that Bacon will always have 'permanent importance as the founder of modern inductive method and the pioneer in the attempt at logical systematization of scientific procedure (p.526)' and that 'the whole basis of his philosophy was practical (p.527)'. The synthesis of induction, deduction, logic and maths culminated in science.

'Four features characterize the rise of modern science in the 17th century. First, there was a *rapid growth* in knowledge. The rapidity in the growth of knowledge justifies calling it a "revolutionary," rather than an "evolutionary" phenomenon. Second, the rapid growth in knowledge occurred across many different areas, including medicine, biology, anatomy, electricity, mechanics, and astronomy. Third, rather than natural philosophers (scientists) "starting from scratch" and building free-standing, complete philosophical systems, they took the works of other philosophers and built upon them. The *cumulative* nature their work was (in today's terms) both verificationist and falsificationist in nature. The work of Galileo built upon the efforts of Kepler and Copernicus (verificationist), and *refuted* the work of Ptolemy (falsificationist)....

The fourth feature characterizing the rise of modern science was its *method*. The "new philosophy" emphatically rejected the position that knowledge was to be restricted to the proper interpretation of the ancient canonical trio of Aristotle, Ptolemy and Galen. First, the new philosophy brought back the *knowledge-thorough-critical-discussion* criterion of Plato. Second, the new philosophy retained the strong emphasis on *logic* and *observation*, as expounded by Aristotle. Third, it resurrected the notion from Pythagoras that much of the external world can be expressed in terms of *mathematical relationships*. To the methods of Plato, Aristotle, and Pythagoras, the

methods of new philosophy added a new and key component: the belief in *experimentation*. Not only was the knowledge generated by the new philosopher-scientist to be logical, consistent with observation, and capable of passing the tests of critical discussion, but also, the truth-content of the knowledge should be capable of empirical testing through experimentation, as with Galileo' (Hunt 1991 p.224-225 emphasis in original)

The geocentric views of Aristotle and his 'doctrines that change and decay are confined to the sublunary sphere...and like everything else that Aristotle said on the scientific subjects, proved an obstacle to progress' (Russell 1996 p.515). Other sources indicate that many more factors intervened with the natural progression of science until the Renaissance and Enlightenment. Notwithstanding the errors in Aristotle's logic, in the 17th century, the scientific processes moved on relentlessly. Indeed no other times before or since has seen this pace of change. To list some major changes of the period:

'The telescope was invented in 1608, by a Dutchman named Lippershey, though it was Galileo who first made serious use of it for scientific purposes. Galileo also invented the thermometer – at least this seems most probable. His pupil Torricelli invented the barometer. Guericke (1602-86) invented the air pump. Clocks, though not new, were greatly improved in the seventeenth century, largely by the work of Galileo. Owing to these inventions, scientific measurement became immensely more exact and more extensive than it had been at any former time.

Next, there was important work in other sciences than astronomy and dynamics. Gilbert (1540-1603) published his great book on the magnet in 1600. Harvey (1578-1657) discovered the circulation of the blood, and published his discovery in 1628.... Robert Boyle (1627-91)... is now chiefly remembered on account of 'Boyle's Law'.... In the field of mathematics...Napier published his invention of logarithms in 1614. Co-ordinate geometry resulted from the work of several seventeenth-century mathematicians, among whom the greatest contribution was made by Descartes. The differential and and integral calculus was invented independently by Newton and Leibniz; it is the instrument for almost all higher mathematics' (Russell 1996 p.521-22).

'Newton (1642-1727) achieved the final and complete triumph for which Copernicus, Kepler, and Galileo had prepared the way.... His triumph was so complete that Newton was in danger of becoming another Aristotle, and imposing an insuperable barrier to progress' (Russell 1996 p.520-521). Fortunately, just another 200 years not 2000 as was the case in the earlier instance went by before Einstein's Theory of Relativity was promulgated in 1905 (Casti 1989 p.37). It is important for us to note in all of the above accounts the cumulative and progressive nature of science. 'We have good reason to believe that the general theory of relativity better describes the characteristics of the world than does Newtonian mechanics, which itself better describes the world than Galilean mechanics, which itself better describes the world than

Aristotelian mechanics' (Hunt 1991 p.337). However, it was not solely scientific and technical achievements that the period witnessed, far from it.

4.0 The Principle of Cumulativity in Social Sciences

The 17th century was perhaps even more important for the ideas of liberalism that contributed to the processes of Enlightenment. In the beginning of this period John Locke expounded on both the necessity and *principles of modern empiricism*. His ideas spread very quickly in Britain and France among other nations. The list of people who were greatly influenced includes Berkeley, Hume, Voltaire, Kant, and Marx (Russell 1996 p.617). Commerce and interstate dealings multiplied, and both the American and French revolutions took place, whereas Britain for the first time gained hegemony over a quarter of the world and was way ahead of other nations in reaping the combined benefits of industrial revolution and relative political stability. The political stability was ensured by the implementation of governance mechanisms devised by philosophers and the growing prosperity of common man. Building on both philosophical and scientific successes, almost in the fashion of what we know today as Maslow's Hierarchical stages, economists started taking the centre stage and their influence on Darwin is clear. For those readers who are interested in pursuing further, a wide ranging discussion of the links between economic and ecologic theories of evolution is provided in Rosser (1992).

'What Galileo and Newton were to the seventeenth century, Darwin was to the nineteenth century. Darwin's theory had two parts. On the one hand, there was the doctrine of evolution, which maintained that the different forms of life had developed gradually from a common ancestry. This doctrine which is now generally accepted, was not new. It had been maintained by Lamarck and by Darwin's grandfather Erasmus, not to mention Anaximander. Darwin supplied an immense mass of evidence for the doctrine, and in the second part of the theory believed himself to have discovered the cause of evolution. He thus gave to the doctrine a popularity and a scientific force which it had not previously possessed, but he by no means originated it' (Russell 1996 p. 696).

As with most theories and concepts over the diffusion and application of which originators have little control, general public usage of Darwin's ideas had far reaching influence and dramatic consequences. Although Darwin himself was a confirmed supporter of liberal ideas, his theory that in part emphasised congenital differences was not quite in line with traditional liberalism.

And 'what is interesting is Darwin's extension to the whole life of the economics that characterized the philosophical radicals. The motive force of evolution, according to him, is a kind of biological economics in a world of free competition. It was *Malthus's doctrine of population, extended to the world of animals and plants, that suggested to Darwin the struggle for existence and the survival of the fittest as the source of evolution*' There is, however, another aspect of liberalism which was greatly strengthened by the doctrine of evolution, namely the belief in progress. So long as the state of the world allowed optimism, evolution was welcomed by liberals, both on this ground and because it gave new arguments against orthodox theology. Marx himself, though his doctrines are pre-Darwinian, wished to dedicate his book to Darwin (emphasis added)' (Russell 1996 p.697-698).

In modern philosophy, we do gather the interlinkages among Russell, Wittgenstein, Popper, Lakatos, and Feyerabend (Casti 1989; Hunt 1991; Russell 1996). In some cases it was the teacher-pupil relationship that set most of the modern philosophy in motion. Although these philosophers' later lives and reputations were very divergent, the cumulative impact is evident.

While the field of economics developed in its theories and principles it relied heavily on past contributions. It is interesting to see that economics struggled for a long time before it got recognition it so richly deserved. Today, Nobel prizes are awarded to academics in the field but the rise of the field as charted by Coase (1994 p.78) is presented below:

'What Adam Smith did was to give economics its shape. The subjects he dealt with, the approach he used, even the order in which the various topics were treated can be found repeated in economics courses as they are given today. From one point of view, the last two hundred years of economics have been little more than a vast "mopping up operation" in which economists have filled in the gaps, corrected the errors, and refined the analysis of the *Wealth of Nations*' (emphasis added; this point about the impact of Adam Smith on the design of economics text books can be found elaborated in Kay (1997 p.102-103)).

John Kay demonstrates through the charting of the growth of the field of strategic management that the growth of strategy has suffered from its neglect of its roots in sociology

and economics, and that it would take some more time before the field achieves scientific status (Kay 1993p.362). If not the most, one of the most influential writings of 20th century in the field of business education are the writings of Harvard professor Michael E. Porter. His classic and widely quoted books focussing on competition and competitiveness have reshaped the spheres of business and managers' minds across the globe. Whatever may be the nature of opinions that we hold about the validity of his ideas (see Wensley (1991 p.43) for an evaluation of Porter's early works and Kay (1997 p.17)) for changes over time in Porter's perspectives), the factor that is less known but one that principally underlies his success is the fact that 'the essence of Michael Porter's influential writings on competition and competitive advantage (Porter 1980; Porter 1985; Porter 1990) is derived 'directly from the sub-field of economics known as "industrial organisation" or "industrial economics"' (Baker 1992 p.17).

In this section, our aim was to demonstrate the cumulative nature of processes that growth of knowledge invariably entails. The next section deals with some issues concerning theory development in marketing.

5.0 Marketing Theory and Practice: Quest for General Theory

According to Francis Bacon, founder of the logic of deduction, **nothing is as practical as a good theory**. According to Baker (1992 p.18) 'The point about 'theory' is that it is usually distilled wisdom based upon observation and documentation of real world experience, i.e. it is what works in practice'. However, it may be that the two differ only in terms of formalisation; but once exchange and interaction between practice and academia takes place on a sustained basis, any lag that usually exists will only be a temporary one. We do know that the father of scientific management, Henry Taylor left Harvard to take up a common and labour intensive

job in a factory as a result of failing eyesight (Drucker 1993). Presto, his contributions are nonpareil, notwithstanding the criticisms regarding his role in minimising the role of common workers in manufacturing. Many strategy principles originated in General Electric (p.338) (Kay 1993). McKinsey consultants originally invented both the 7s framework and articulated the value chain concept. Baker had written and taught in "Creative Marketing Strategy" course about "value chain analysis" during his stay at Harvard in 1969-71 although it was Porter who refined and popularised it. The PIMS study is renowned for its close relations between academics and firms (Buzzell and Gale 1998). This has in part been so because the MBAs and others who work in these firms are themselves products of an educational system that is so rich and dynamic in its linkages to industry. Indeed, the futures of both academia and industry are inextricably linked.

Hunt argues that '[U]nfortunately, all too many marketing students and academicians have tended to bestow the term *theory* on locutions that are nothing more than obtuse armchair philosophy or mathematical mental gymnastics with little or no explanatory power.... it has been awash in nontheoretical constructions masquerading as theory.' He goes on to state that '...the notion that *theoretical* and *practical* are at opposite end of a continuum is nonsense. Any construction which purports to be a theory must be capable of explaining and predicting real-world phenomena. And the explanation and prediction of phenomena are eminently *practical* concerns' (Hunt 1991 p.151). We see similar views being expressed in other fields as well (Sutton and Staw 1995; Weick 1995; DiMaggio 1995).

Anderson proposes that 'an important goal of any area of enquiry with scientific pretensions is to insure that its knowledge base is widely dispersed through the greater society, so that this knowledge can be used to benefit society as a whole' (Anderson 1983 p.27). He further

proposed that the discipline should seek society's recognition through marketing "marketing science" for both altruistic and self-serving reasons. Hunt commends Anderson for his suggestion that "knowledge for knowledge sake" and "theory-driven research" are priorities. He states that 'marketing will be perceived as a science only when the umbilical cord tying the discipline to the marketing manager is severed' (1984). On the surface it appears as if Hunt contradicts himself in attempting to separate theory from practice. But we believe that his idea is to bring to light the fact that marketing has many constituencies among which the marketing manager is only one, even if one that is perhaps of great importance.

One organisational researcher lamented that 'methods are guiding our theory' and that 'programmed research is driving out the unprogrammed' (Van Maanen 1979). Our tools of analysis may have become sophisticated, but the need to triangulate and use appropriate and suitable enquiry techniques for theory building versus verification can never be emphasised enough (Oburai and Baker 1999). The debate and tension regarding naturalistic and anthropological as opposed to more quantitative empiricism will continue, but it appears that our power to probe deeper continues to rely largely on unaided human abilities. With the availability of modern instruments and computing techniques, it is now far easier than ever imagined to delve deeper into molecular and sub-atomic structures. What could not be penetrated using the human eye is now done using electronic eyes. While natural sciences have overcome many barriers using technology, methods of enquiry in social sciences still rely largely on self-report and verbal communication (Bonoma 1985; Hirschman and Holbrook 1992). This is clearly changing with the intensive usage of computers, incorporation of scanner and other electronically captured data/images, census databases etc.

It has been suggested that a general theory of marketing could be built through a process of integration of a 'number of micro or miniature theories which constitute an adequate explanation of some part or parts of the subject' (Baker 1976 p.19). Indeed the growth of our discipline has largely been based on what is called piecemeal approach that Locke, the founder of modern empiricism, would have approved of. Our *quest for general, grand, or central theories may simply be a goal that is worth striving for but one that unlikely to be fulfilled too quickly or too soon*. '.... the need for a theory of marketing arises from the recognition of the enormous complexity associated with exchange relationships and recognises that neither economics nor the behavioural sciences fully satisfies the need. If this is the case then it is not difficult to understand why progress towards a theory of marketing must of necessity be both painful and slow' (p.28).

In marketing, paradigms, research traditions, and *weltanschauungen* (comprehensive interpretation) are many and varied to such an extent that it is difficult to say that one or more ontological and epistemological views dominate. Indeed a case can be made that no single paradigm or anything that has even remote resemblance to it dominates in marketing. Recently, one distinguished professor, Michael Thomas, received an award for not having ever used the word "paradigm". While claims that throughout the 20th century formal marketing knowledge has grown immensely are likely to be conceded by marketing professionals, what is not yet witnessed is a move towards developing theories that have some semblance to grand/central theories that synthesise the great body of accumulated knowledge. The wealth of empirical data and generalisations that we have is immense. If anything, one hallmark that the marketing profession has is "room for diversity and pluralism" both in conceptual and methodological areas. Certainly, we see evidence of that in both the issues that are researched and methods that are adopted for enquiry. And so do we see the fruits of all

these disparate, some may like to say somewhat fragmented research efforts. Although most of the efforts are uncoordinated, it may be that marketing scholars' underlying values and assumptions are more similar in nature and different only in their degrees. Though we do not discount differences, what is important for us is to point out the fact that there exist many similarities among the varied research efforts. The similarities are what may help us generate central theories that may guide our research efforts. The sheer size and enormity of the task as we attempt to envelop, synthesise, and fuse together the products of separate and inherently heterogeneous traditions is simply too unnerving. However, as the present millennium draws to its end and another dawns on the horizon, it is appropriate to question ourselves whether we should attempt to develop overarching, all encompassing, grand theories and devise suitable strategies for realising the goals.

Our achievements as well as challenges are immense and equally significant are our discipline's contributions to other related fields. For example, in the field of strategy, not many other disciplines can claim a similar status to that of marketing. Our contributions in the past to strategy studies (Day 1992) were second to no other discipline's. Alderson's seminal works (1957a; 1957b) among others often go unacknowledged although heavily drawn upon (Hunt 1994).

What then is the real obstruction to building grand, central or general theories in marketing?

We quote Hunt and Edison (1995a) (references deleted):

'Baker chastises marketing scholarship on the grounds that "earlier path breaking and insightful contributions tend to be overlooked or ignored". Therefore for him "much of what passes for original work is a weak replication of seminal contributions published 30 or 40 years ago" and "by ignoring the past we will be frequently guilty of re-invention". We agree. An example of egregiously ignoring the past, we suggest, has been the marketing's treatment of the work of Wroe Alderson'.

'...Alderson [also] recognised that many of the deficiencies of neo-classical theory and made significant strides toward developing a rival theory of competition, which he called "competition for differential advantage". Yet his work lay fallow for three decades'

'Recently the comparative advantage theory of competition has been offered as an extension of Alderson's work and as a product worth our marketing efforts (Hunt and Morgan 1995b)'.

The utility of theories that afford only a uni-dimensional and partial perspective is necessarily limited in scope and this is the reason why both academics and practitioners are turning to approaches that treat firms as a value adding entity with great synergistic potential and a unique combination of resources that generate competencies. Efficiency and cost driven explanations, such as the transaction cost explanations (Williamson 1975; Williamson 1985; Williamson 1996b), however true and elegant, are but partial pictures (Kay 1992; Ghoshal and Moran 1996; Moran and Ghoshal 1996; Williamson 1996a). It is our view that practically relevant and workable theories may have to examine a given issue from multiple angles and integrate relevant theoretical perspectives to increase chances of success in explaining the realities that underlie the complex strategies of firms and industries and consequent impact on society at large. Hunt and Morgan's theory is one such attempt, and there appears to be a need for many more theories.

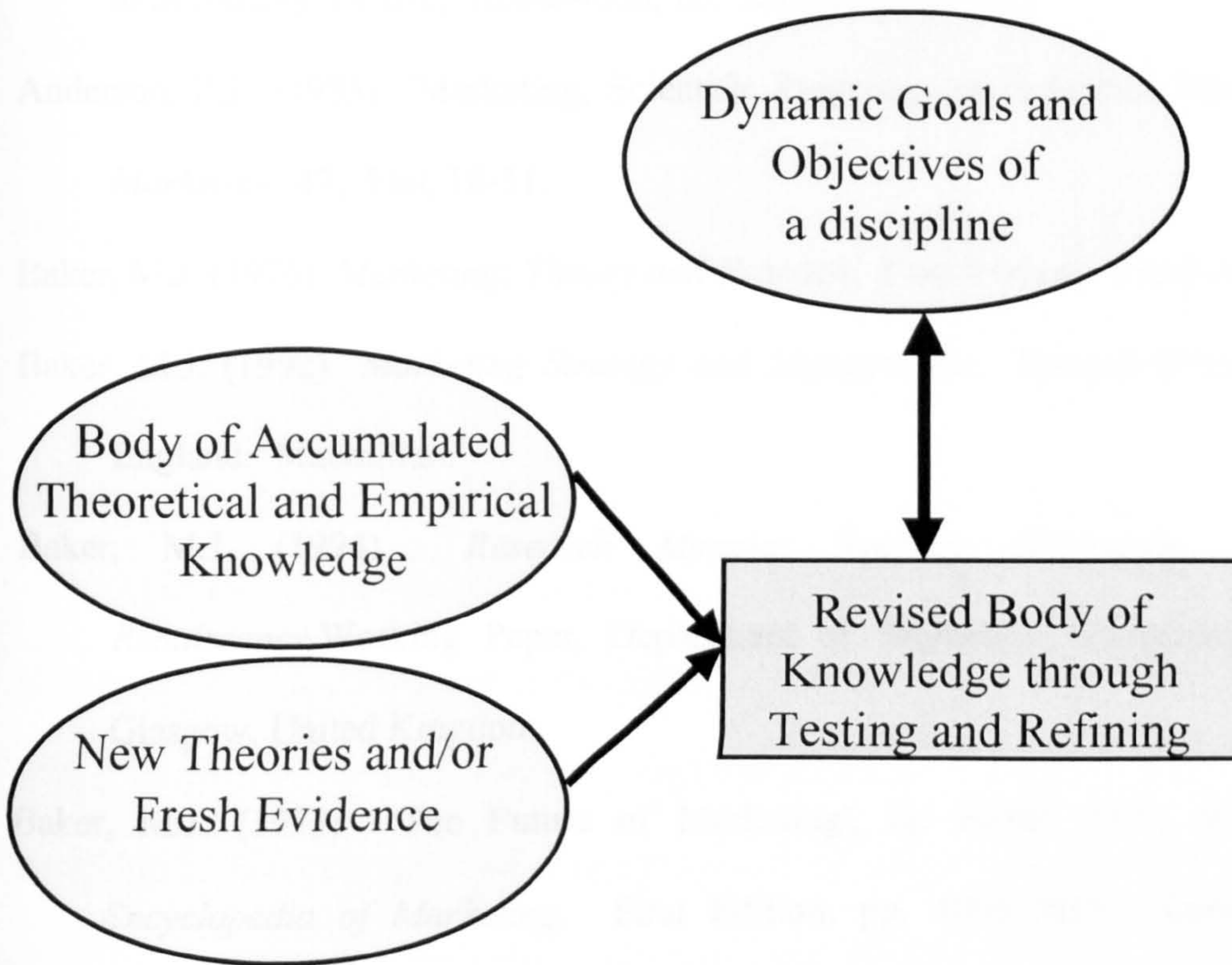
No single paper can do comprehensive justice in listing marketing academics' achievements and contributions considering the wide-ranging nature of enquiries that differ both in goals and methods. While salutary debates continue regarding our methods and philosophical bases thereof, what is certain is that the discipline seems closer to attaining its theoretical goals than ever before.

6.0 Conclusions

In the last decade, a number of papers written by leading marketing scholars (Day 1992; Webster 1992; Hunt 1994; Thomas 1994; Baker 1995; Doyle 1995) attempted to re-examine fundamentally the marketing agenda, and to set new research directions that focus on theory

building. Science is about continuous replenishment of knowledge bases and hindsight can only prove beneficial. The following diagram illustrates a rough schema of our arguments concerning goals and cumulative processes of growth of knowledge in scientific disciplines.

Figure 1: A Model of Knowledge Building Approach



In this paper, we attempted to show through our arguments the indispensable role of the “Principle of Cumulativity” and the value of judgement in interpreting received wisdom. Careful evaluation may reveal that some of the past contributions are relevant while some others are not, and that it is more than appropriate for us to discard some of the accumulation. It is through the tapping of our rich heritage that we could better serve the stakeholders of our profession and our constituents of whom the marketing manager and society at large are but two members. It is with a view to aid theory building basic research that we recommend historical research method that builds on the significant past contributions in marketing.

Reference List

- Alderson, W. (1957a) *Dynamic Marketing Behaviour*, Homewood, IL: Richard D. Irwin.
- Alderson, W. (1957b) *Marketing Behaviour and Executive Action: A Functionalist Approach to Marketing Theory*, Homewood, IL: Richard D. Irwin.
- Anderson, P.F. (1983) 'Marketing, Scientific Progress, and Scientific Method', *Journal of Marketing* **47**, Fall, 18-31.
- Baker, M.J. (1976) *Marketing: Theory and Practice*, First Edition. London: Macmillan.
- Baker, M.J. (1992) *Marketing Strategy and Management*, Second Edition. Basingstoke, England: Macmillan.
- Baker, M.J. (1994) *Research Myopia: Recency, Relevance, reinvention and Renaissance*, Working Paper, Department of Marketing, University of Strathclyde, Glasgow, United Kingdom.
- Baker, M.J. (1995) 'The Future of Marketing', In: Baker, M.J., (Ed.) *Companion Encyclopedia of Marketing*, First Edition. pp. 1003-1018. London; New York: Routledge
- Bonoma, T.V. (1985) 'Case Research in Marketing: Opportunities, Problems, and a Process', *Journal of Marketing Research* **XXII**, May, 199-208.
- Buzzell, R.D. and Gale, B.T. (1998) *The PIMS Principles: Linking Strategy to Performance*, New York: Free Press.
- Casti, J.L. (1989) *Paradigms Lost*, Reading, Great Britain: Cardinal.
- Coase, R.H. (1994) *Essays on Economics and Economists*, Chicago and London: The University of Chicago Press.
- Day, G.S. (1992) 'Marketing's contribution to the strategy dialogue', *Journal of the Academy of Marketing Science* **20**, Fall, 323-330.

- DiMaggio, P.J. (1995) 'Comments on "What Theory is Not"', *Administrative Science Quarterly* 40, September, 391-397.
- Doyle, P. (1995) 'Marketing in the new millennium', *European Journal of Marketing* 29, 13, 23-41.
- Drucker, P. (1993) *Post-Capitalist Society*, Oxford: Butterworth Heinemann.
- Drucker, P.F. (1968) *The Age of Discontinuity: Guidelines to our Changing Society*, New York and Evanston: Harper & Row Publishers.
- Durant, W. (1954) *The Story of Philosophy*, New York: Simon and Shuster.
- Fullerton, R.A. (1988) 'How Modern is Modern Marketing?', *Journal of Marketing* 52, January, 108-125.
- Ghoshal, S. and Moran, P. (1996) 'Bad for practice: A critique of the transaction cost theory', *Academy of Management Review* 21, 1, 13-47.
- Hirschman, E.C. and Holbrook, M.B. (1992) *Postmodern Consumer Research : The Study of Consumption As Text*, London: Sage Publications.
- Hunt, S.D. (1984) 'Should Marketing Adopt Relativism?', In: Anderson, P.F. and Ryan, M.J., (Eds.) *Scientific Method in Marketing*, pp. 30-34. Chicago: American Marketing Association
- Hunt, S.D. (1991) *Modern Marketing Theory: Critical Issues in the Philosophy of Marketing Science*, Cincinnati, Ohio: South-Western Publishing Company.
- Hunt, S.D. (1994) 'On Rethinking Marketing: Our Discipline, Our Practice, Our Methods', *European Journal of Marketing* 28, 3, 13-25.
- Hunt, S.D. and Edison, S. (1995a) 'On the Marketing of Marketing Knowledge', *Journal of Marketing Management* 11, 7 (Special Issue on The Commodification of Marketing Knowledge), 635-639.

- Hunt, S.D. and Morgan, R.M. (1995b) 'The comparative advantage theory of competition', *Journal of Marketing* **59**, April, 1-15.
- Kay, J.A. (1993) *Foundations of Corporate Success: How Business Strategies Add Value*, Oxford: Oxford University Press.
- Kay, N.M. (1992) 'Markets, false hierarchies, and the evolution of modern corporation', *Journal of Economic Behaviour and Organisation* **17**, 315-333.
- Kay, N.M. (1997) *Pattern in Corporate Evolution*, New York: Oxford University Press.
- Moran, P. and Ghoshal, S. (1996) 'Theories of economic organization: The case for realism and balance', *Academy of Management Review* **21**, 1, 58-72.
- Oburai, P. and Baker, M.J. (1999) Empirical Research into Collaborative Alliances in Industrial Markets: A Case for a Balanced Approach to Theory Building, Berlin: *28th EMAC Conference*.
- Porter, M.E. (1980) *Competitive Strategy*, New York: Free Press.
- Porter, M.E. (1985) *Competitive Advantage*, New York: Free Press.
- Porter, M.E. (1990) *The Competitive Advantage of Nations*, New York: Macmillan.
- Rosser, B.J. (1992) 'The dialogue between the economic and the ecologic theories of evolution', *Journal of Economic Behaviour and Organisation* **17**, 195-215.
- Russell, B. (1995) *Unpopular Essays*, London: Routledge.
- Russell, B. (1996) *History of Western Philosophy*, London: Routledge.
- Sutton, R.I. and Staw, B.M. (1995) 'What Theory is Not', *Administrative Science Quarterly* **40**, September, 371-384.
- Thomas, M.J. (1994) 'Marketing - in Chaos or Transition?', *European Journal of Marketing* **28**, 3, 55-62.
- Van Maanen, J. (1979) 'Reclaiming Qualitative Methods for Organizational Research: A Preface', *Administrative Science Quarterly* **24**, 4, 520-526.

- Webster, F.E. (1992) 'The Changing Role of Marketing in the Corporation', *Journal of Marketing* **56**, October, 1-17.
- Weick, K.E. (1995) 'What Theory is not, Theorizing is', *Administrative Science Quarterly* **40**, September, 385-390.
- Wensley, R. (1991) 'Marketing Strategy', In: Baker, M.J., (Ed.) *The Marketing Book*, Second Edition. pp. 29-48. Oxford, UK: Butterworth-Heinemann Limited
- Williamson, O.E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press.
- Williamson, O.E. (1985) *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York: Free Press.
- Williamson, O.E. (1996a) 'Economic organization: The case for candour', *Academy of Management Review* **21**, 1, 48-57.
- Williamson, O.E. (1996b) *The Mechanisms of Governance*, New York: The Free Press.



THE
UNIVERSITY OF
STRATHCLYDE
IN GLASGOW

THE
DEPARTMENT OF
MARKETING

Appendix IV

“Theory Building Case Research
in Industrial Markets: The
Evolution and Convergence of
Methodological and Philosophical
Perspectives” (co-authored with
Michael J. Baker), *Proceedings of
the 15th Annual IMP Conference,
September 1999, University
College Dublin, Ireland*



Theory Building Case Research in Industrial Markets: The Evolution and Convergence of Methodological and Philosophical Perspectives

Prathap Oburai, University of Strathclyde¹
Michael J. Baker, University of Strathclyde

Abstract

Changed agenda and paradigms require marketing's research methods and tools of enquiry to reflect fully the need to intensify theory-building programmes. We examine the evolution of the case research strategy in the context of industrial markets and argue that there is marked convergence of its underlying methodological and philosophical perspectives.

Introduction

As the 20th century draws to a close and the new millennium beckons, it is eminently clear that the marketing discipline is undergoing significant changes. The traditional stimulus-response or the marketing mix approach to mass marketing first conceived by McCarthy, has had influence of immense proportions on both the way the marketing function is perceived by practitioners, and also on the principles around which pedagogical methods are built. However, from the workings of and the realities in industrial and business-to-business markets, academics and practitioners have long since realised and theorised that enduring relationships do contribute to sustainable growth and profitability of corporations.

The marketing literature in the last two to three decades has increasingly reflected the need for building bonds with suppliers, consumers and other related constituents. Some of the sub-fields of the marketing function that have recently seen their popularity and acceptance grow are Relationship Marketing, the Network or Interaction Approach and Strategic Alliances and Partnerships. The emergence of these fields indicates a clear and marked stage of paradigmatic evolution, if not the advent of a totally new paradigm. Most writings now emphasise and endorse relationship-building approaches, undoubtedly as the consequence and result of the paradigm shift. Both the changed business environment and the need to proactively initiate and shape academia might in the future lead to further strategic adaptations.

In the last decade, a number of leading marketing scholars (Day 1992; Webster 1992; Hunt 1994; Thomas 1994; Doyle 1995; Baker 1995b) attempted to re-examine fundamentally the marketing agenda, and to set new research directions that focus on *theory building*. In our view, what is urgently required is a matching commitment to changing the ways in which research is conducted (Oburai and Baker 1999a). In this paper, we attempt to outline our arguments for adopting theory-building approaches

¹ Corresponding author: Department of Marketing, University of Strathclyde, Stenhouse Building, 173 Cathedral Street, Glasgow, G4 0RQ, UK Tel.: +141-5482962; fax: +141-5522802. E-mail: prathap.oburai@strath.ac.uk

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999



with a focus on *case research strategy*. The paper begins with an outline of a variety of empirical strategies in order to make a case for “case research”. Here we are fully conscious of not only the plethora of the available alternatives but also of their expanding nature. We move next to tracing the roots of the case research tradition, highlight its evolution to the current time period and attempt to demonstrate the converging nature of the methodological approaches in general and those of case research in particular. In the final section, we make some suggestions that may help organisational theorists.

Alternative Avenues for Enquiry in Industrial Markets

All research methods have their inherent strengths and weaknesses. Qualitative methods yield data that are ‘rich, full, earthy, holistic, “real”’; their face validity seems unimpeachable; they preserve chronological flow where that is important, and suffer minimally from retrospective distortion... Furthermore their collection requires minimal front-end instrumentation (Miles 1979 p.590).’ While the attractions are many, Miles also notes that ‘Qualitative data tend to overload the researcher badly at almost every point: the sheer range of phenomena to be observed, the recorded volume of notes, the time required for write-up, coding, and analysis can all be overwhelming. But the most serious and central difficulty in the use of qualitative data is that methods of analysis are not well formulated’(Miles 1979 p.590). Qualitative data analysis is now much more advanced with the availability of computer software and programmes (Miles and Huberman 1994; Weitzman and Miles 1995) that help ease the burden on the researcher, and make it feasible to record processes of analysis. On the other hand, quantitative data are generally considered to be more objective, the collection process easier, and analytical techniques more advanced and user-friendly.

Most research methods advocate the need to reduce bias and the need to maintain objectivity on the part of the researcher. This is one main reason why quantitative methods are favoured among numerous others. On the other hand, albeit in the qualitative tradition, there is an equally good number of methods that explicitly treats the researcher as an instrument or as an actor. The role of the researcher does not appear in many accounts of published material and texts. Perhaps, authors themselves edit it out as it is assumed that such accounts are considered more credible and scientific and objective. It has often been suggested that authors make their own roles more explicit and accounts more reflexive in order to let readers figure out the depth of subjectivity involved in the writings (Hammersley 1998).

Myrdal has explored the relationship between the researcher and the researched, scientist and the scientific object in depth (Myrdal 1944; Myrdal 1958; Myrdal 1969). He argued against naïve empiricism and said that biases cannot be erased either ‘simply by keeping to the facts and by refined methods of statistical treatment of data’ or by ‘the scientists stopping short of drawing practical conclusions’ (1944 p.1041). ‘[E]xplicit value premises should be found and stated’ and that such a technique could ‘expect both to mitigate biases and to lay a rational basis for the statement of the theoretical problems and the practical conclusions(1944 p.1045)’.

That humanistic (Hirschman and Holbrook 1992), idiographic, ethnographic and phenomenological (Donnellan 1995) studies can make vital contributions is readily recognised by all researchers. Hunt (1994) acknowledges that qualitative methods can potentially make contributions to marketing, he suggests that

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999



'both a systematic rethinking of the philosophical foundations of qualitative methods and a major change in rhetoric would contribute greatly to bringing about the acceptance of qualitative methods. As long as mainstream marketing academics believe that advocates of qualitative methods embrace relativism, constructionism, and subjectivism, mainstream marketers will – quite appropriately – be unreceptive to qualitative studies. As long as advocates of qualitative methods begin their analyses with the ritual of bashing what they misleadingly call “positivism” (i.e. science and/or quantitative methods), mainstream marketers will view such rhetoric as anti-reason, anti-evidence, anti-civility, and anti-science – in short, as untrustworthy. Progress requires both a civil, reasoned rhetoric and a rethought philosophy. (p.23)'

Qualitative and quantitative methodologies are often portrayed and perceived in some circles as opposing and mutually exclusive methodologies, if not ideologies. However, most academics and practitioners know this to be a false dichotomy. Systemic (holistic) and component (reductionist) level perspectives are 'both natural and complementary features of human cognition'(Kay 1997 p.99). While qualitative techniques can often provide holistic understanding, quantitative tools afford us deeper view of a chosen issue. However, it is important to note that it is integration of methodologies and balanced usage that helps in building new theories is our main argument.

Organisational Surveys: Some Issues

More than a decade ago, Bonoma (1985 p.202) argued that research methods in the field of marketing had three characteristics '(1) substantial methodological attention and self-study, ordinarily advocating quantitative or “objective” methodological innovations, (2) no qualitative studies of any sort and (3) considerable use of indirect measures of behavior (e.g., verbal reports) rather than direct assessments of the phenomena (e.g., purchases) under consideration.' This assessment was based on a study of a sample of articles from the Journal of Marketing Research over the period 1977-1982.

A cursory examination of empirical studies published in the US and to a limited extent in Europe reveals that the same characteristics could be discerned even today. That some marketing research techniques such as mail surveys and interviewing pose serious threats to the profession has long been recognised (Day 1975). Day listed three main issues: (1) excessive interviewing, (2) lack of consideration and abuse of respondents, and (3) the use of marketing research as a sales ploy. Among others excessive interviewing and repeated mailings to homes and offices still remain serious concerns that face us.

Over-sampling' (McDaniel et al. 1985) is all the more an issue if we take into account that it is the affluent sections and segments that are often the targets in consumer markets. Similarly, important and well-known firms are rarely, if ever, left out of any organisational survey. Indeed in the business field, no other firm has been written about as much or studied in depth as IBM. So, we are potentially alienating the very consumers and firms that are vital in many respects. Those who do not respond might be meted out special and focused treatment. As many marketing academics admit, in the case of mail-surveys, non-respondents are repeatedly contacted either by second wave of mailing or by telephone with a view to increase response rates and reduce non-response bias. Although McDaniel et al recommended (1) self-restraint on the part of researchers, (2) screening out by asking initial questions persons who have been

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999



interviewed too frequently, and (3) usage of non-interviewing techniques, it is evident that situation has deteriorated considerably since. For example, in the United Kingdom, the members of the Association of Market Survey Organisation (AMSO) are reported to have conducted 1,080,000 mail surveys in 1990, an increase of more than 300% compared to 1985 (Mitchell V.-W. and Brown 1998).

Organisational populations differ on three main characteristics (Tomaskovic-Devey et al. 1994): capacity, the intrinsic knowledge of the informant; authority, official sanction to act; and motivation, willingness to comply with requests to participate in surveys. It has hence been argued by many researchers that inducements, incentives, pre-notification using post-card or telephone, second mailing etc may produce different effects on informants and response rates. For example, all the mentioned tactics might produce no effect on response rate if respondents' limitations are on account of lack of knowledge or authority.

Or response rate may increase at the expense of quality of responses. It has long been known that responses to surveys are not always truthful (Hyman 1944). Managers may use 'truth staging effects' in order to impress academic researchers or may feel that they are obliged to provide socially desirable responses (Brownlie and Saren 1997). Busy schedules of senior managers don't allow too much time either and so are privacy matters (Aaker and Day 1990). Mathews and Diamantopoulos (1995) have surveyed product managers of an industrial firm with a large portfolio of products, and provide evidence concerning the existence of response bias among participants. Although the authors emphasise the limitations of the study and the sample size, they identified no 'correspondence between what the executives claim to be the case of what they did and the reality of the situation' (p.843).

A number of papers examined ways of improving responses to surveys, a method frequently used in surveys, and the results are mixed. Supposedly a low cost method, when adjusted for quality of data levels, and low responses, and more importantly the long term damage that the method may have on the industrial population, the huge advantages that are portrayed disappear. This should not be interpreted as a message that demands total abolition of surveys, but for self-restraint on the part of marketing researchers. No contact, low involvement methods may produce results of little value. One of the most successful programmes, the PIMS project, maintained contact with numerous client firms on a regular basis (Buzzell and Gale 1987).

In the field of business studies in general and in marketing in particular, Harvard Business School (HBS) is renowned for having used the case method extensively from the turn of the century. HBS published a collection of essays on the case method to commemorate the 50th anniversary of the institution (McNair 1954). Bartels argued that the case method was the school's 'principal contribution throughout the years to the development of marketing thought' (1951 p.11), and it was considered by marketing scholars as one of the most important research strategies in marketing (Converse 1945 p.20). Indeed as experience shows the complex interactions that mark business markets may be best understood by means of detailed case study approaches. This is the favoured form of the profoundly successful IMP group's approach that resulted in the accumulation of hundreds, if not thousands, of case studies.

Case research approach had been used widely in organisational research in Europe with great success (Hakansson 1982; Baker et al. 1986). Although in many instances case



Six Source of Evidence: Strengths and Weaknesses

Source of Evidence	Strengths	Weaknesses
Documentation	<ul style="list-style-type: none"> ◆ Stable – can be reviewed repeatedly ◆ Unobtrusive – not created as a result of the case study ◆ Exact – contains exact names, references, and details of an event ◆ Broad coverage – long span of time, many events, and many settings 	<ul style="list-style-type: none"> ◆ Retrievability – can be low ◆ Biased selectivity, if collection is incomplete ◆ Reporting bias – reflects (unknown) bias of author ◆ Access – may be deliberately blocked
Archival Records	<ul style="list-style-type: none"> ◆ [same as above for documentation] ◆ precise and quantitative 	<ul style="list-style-type: none"> [same as above for documentation] accessibility due to privacy reasons
Interviews	<ul style="list-style-type: none"> ◆ Targeted – focuses directly on case study topic ◆ Insightful – provides perceived causal inferences 	<ul style="list-style-type: none"> ◆ Bias due to poorly constructed questions ◆ Response bias ◆ Inaccuracies due to poor recall ◆ Reflexivity – interviewee gives what interviewer wants to hear
Direct Observations	<ul style="list-style-type: none"> ◆ Reality – covers events in real time ◆ Contextual – covers context of the event 	<ul style="list-style-type: none"> Time-consuming Selectivity – unless broad coverage Reflexivity – event may proceed differently because it is being observed Cost – hours needed by human observers
Participant Observation	<ul style="list-style-type: none"> ◆ [same as above for direct observations] ◆ insightful into interpersonal behaviour and motives 	<ul style="list-style-type: none"> ◆ [same as above for direct observations] ◆ bias due to investigator's manipulation of events
Physical Artifacts	<ul style="list-style-type: none"> ◆ Insightful into cultural features ◆ Insightful 	<ul style="list-style-type: none"> ◆ Selectivity ◆ Availability

Source: (Yin 1994) p.80



research methods are used in qualitative traditions, for example in the field of education (Merriam 1988), quantitative data and techniques could be incorporated into case research with equal facility. One of the most referred to texts on case research advocates a more scientific and quasi-experimental approach (Yin 1994). Case research can encompass a wide range of basic methods of data collection, incorporate information from a variety of sources and enrich our analysis of issues. The following table outlines a range of sources of information that can be incorporated when using case research.

Van Maanen states that qualitative techniques 'seek to describe, decode, translate, and otherwise come to terms with the meaning, *not the frequency*, of certain more or less naturally occurring phenomena in the social world' (1979 p.520 emphasis added). In similar vein, Bonoma adds that the 'goal of data collection in case research is not quantification or even enumeration, but rather (1) description, (2) classification (typology development), (3) theory development, and (4) limited theory testing'. Indeed he argues that our lack of understanding of some complex phenomena poses for research significant context and quantification limitations which are best overcome by theory building efforts. The next section focuses on the case research and its evolution.

Case Research: History and Evolution

Case methods are among the oldest means employed by humankind in describing, exploring, and explaining various phenomena. The earliest usage of the case study technique is attributed to Hippocrates who presented 14 classic case studies of disease some 2300 years ago (Bonoma 1985 p.1). In the field of sociology (Hamel et al. 1993) the case research approach is closely associated with the members of Frederic Le Play School of France and the Chicago School (George Mead, Herbert Blumer, Robert Redfield are some prominent members of the time). Malinowski employed the method extensively in founding the modern anthropological tradition. About 1935, the case study proponents of the Chicago School faced serious challenges from the advocates of statistical survey techniques, and the restoration of the method had to wait till the formation of a second Chicago School represented by Strauss, Glaser and Becker. In particular, it was the seminal contribution of Glaser and Strauss (1967) that revived interest in theory building research rather than efforts aimed at theory verification (cf. Glaser 1998).

Case research is an appropriate strategy that is 'well suited to aspects of marketing where there is a relatively thin theoretical base or complex observational task' and when the context of the object of study cannot easily be separated from the focal object (Bonoma 1985 p.203). Gummesson argues that the case study method allows in-depth and holistic understanding of multiple aspects of a phenomenon and the interrelationships between different aspects.

'Holism may be viewed as the opposite of *reductionism*. The latter consists of breaking down the object of study into small, well-defined parts. This approach goes all the way back to the seventeenth century and the view of Descartes and Newton that the whole is the sum of its parts. This leads to a large number of fragmented, well-defined studies of parts in the belief that they can be fitted together, like a jigsaw puzzle, to form a whole picture. According to the holistic view, however, the whole is not identical with the sum of its parts. Consequently the whole can be understood only by treating it the central object of the study' (1988 p.76-77).

There has been in the recent past a great acceleration in formalising case research strategy. Yin advocated a quasi-experimental version of case research. Indeed, his book remains the most influential one for case researchers. Yin argued that there is a

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999



'frequent confusion regarding types of evidence (e.g., qualitative data), types of data collection methods (e.g., ethnography), and research strategies (e.g., case studies)' (Yin 1981 p.58). Indeed, case research is a versatile strategy that has many distinguishing characteristics. Yin (1994 p.13) offers a technical definition of case study:

- case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.

Yin further states some of the data collection and analysis strategies that a case study enquiry deals with:

- Copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as a result
- Relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
- Benefits from the prior development of theoretical propositions to guide data collection analysis.

'An experiment, for instance, deliberately divorces a phenomenon from its context, so that attention can be focused on only a few variables (typically, the context is "controlled" by the laboratory environment). A history, by comparison, does deal with the entangled situation between phenomenon and context, but usually with *non*contemporary events. Finally, surveys can try to deal with phenomenon and context, but their ability to investigate the context is extremely limited. The survey designer, for instance, constantly struggles to limit the number of variables to be analyzed (and hence the number of questions that can be asked) to fall safely within the number of respondents that can be surveyed (Yin 1994 p.13).

Case studies are best equipped to deal with situations when a holistic perspective of both the context and object of study is required. Because of its rather unique ability to address complex phenomena, case research always has "too many variables (V)" compared to the number of observations (O) to be made (Yin 1981). This $V \gg O$ inequality (number of variables far exceeds number of data points) is precisely what makes the case study method singularly appropriate and most other methods including standard experimental and mail survey designs totally unsuitable. Mail surveys are suitable when the number of variables of interest is low in relation to the number of data points. In fact unless the number of variables is matched by several multiples of number of respondent cases, some techniques of analysis such as factor analysis simply cannot be applied with any degree of external validity (Hair et al. 1995). On the other hand experiments require laboratory like conditions that divorce a phenomenon from its context and control variables that are not of interest.

In the last two decades, there have been some significant methodological developments in the area of case research. The case research processes are by now *rather well* established (Glaser and Strauss 1967; Bonoma 1985; Gummesson 1988; Eisenhardt 1989; Yin 1994) and recent papers (Donnellan 1995; Perry 1998) draw together different strands of writings and provide detailed guidance on why, how, when and where to implement the research strategy. Indeed the case of methodological rigour has been made very clear in the new genre of writings (Eisenhardt 1991; Dyer and Wilkins 1991).

In general the acceptance of alternative research methodologies has been in ascendancy in the recent times owing to the greater methodological rigour displayed in both the adoption and implementation of these research strategies. In case research, scholars agree that the versatile nature of the tool allows both *theory building and theory testing*, although it is generally the former that it is known for. Yin (1994 p.30) was the first to make the distinction between the traditional “statistical generalisation” and “analytic generalisation”. Yin argues that the sampling logic is not appropriate with case studies and likens cases to experiments or surveys and suggests that in analytic generalisation, one draws theoretical inferences thereby obviating the intermediate step of drawing inferences to populations. The following diagram illustrates this process of theorising directly. Both Yin (1994) and Eisenhardt (Eisenhardt 1989) suggest that multiple cases can be compared to one another with a view to establish either “literal replication” or “theoretical replication” leading respectively to confirmation and disconfirmation of results. In effect the process of multiple cases could be used for both building and testing theories through the application of comparative logic.

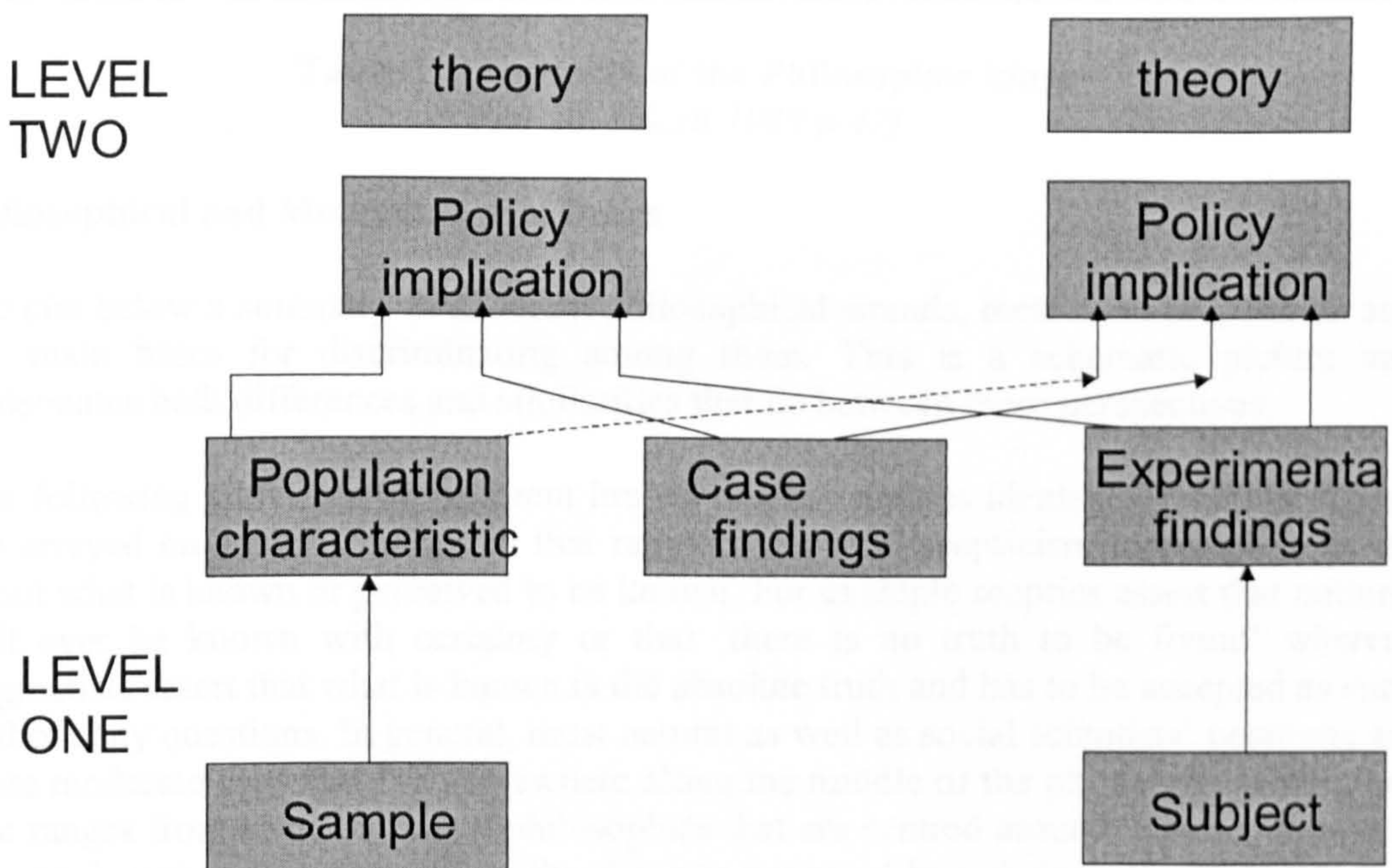


Figure 1: Making Inferences: Two Levels
Yin (1994) P.31

Easton’s analysis of some of the strategies used in case research throws light on the underlying methodological and philosophical perspectives. ‘Bonoma, for example suggests a stage model that has echoes of logical empiricism/falsificationism.... Yin’s preferred strategy is more deductive style [testing of hypothesis derived from theory developed beforehand.].... Mitchell’s position, for example, is essentially realist and logical empiricist.... Yin and Bonoma adopt similar positions when they use the empiricist’s criteria of validity and reliability to guide the way in that research is conducted.... If case research is represented as the creation and testing of theory in miniature, it cannot be immune from the epistemological problems that such activities attract in other forms of research’(1995 p.478-479 references deleted, emphasis added).

‘Realism = Objective reality exists. Instrumentalism = Reality is the readings noted on measuring instruments. Relativism = Reality is what the community says it is’ Casti
in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999



(1989 p.46). A more comprehensive discussion of the range of philosophies is provided in Easton (1995) and Hunt (Hunt 1991).

In the next section, we attempt to demonstrate the need to have pluralism at various levels of academic enquiry and its tools.

SCHOOL	REALITY BELIEF	METHOD	ARGUMENT
Wittgenstein I	Realism	Rationalist	Picture language
Wittgenstein II	Relativism	Irrationalist	Language rules
Logical positivists	Instrumentalism	Rationalist	Verification principle
Popper	Realism	Rationalist	Falsification
Lakatos	Relativism	Rationalist	Scientific Research Programs
Feyerabend	Relativism	Irrationalist	"anything goes"
Kuhn	Relativism	Rationalist	Paradigms

Table 2: The Battle of the Philosopher kings

Source: (Casti 1989 p.47)

Philosophical and Methodological Bases

We cite below a summary of different philosophical strands, their main proponents and the main bases for discriminating among them. This is a schematic picture and understates both differences and similarities that lie between these perspectives.

The following table lists 25 different brands of philosophies identified by Hunt. These are arrayed on a truth continuum that ranges from total scepticism to complete belief about what is known or perceived to be known. For example sceptics assert that nothing will ever be known with certainty or that 'there is no truth to be found' whereas dogmatists assert that what is known is the absolute truth and has to be accepted as such without any questions. In general, most natural as well as social scientists' positions are more moderate ones that fall somewhere along the middle of the philosophy continuum that ranges from some brands of philosophies that are centred around "denial" to others that are based on "acceptance" of the absolute nature of knowledge. We recognise that there are other classifications, for example, a recent research into alliances employs realism as in the positivism-empiricism-realism-idealism continuum (Lawrence and ul-Haq 1998).

In marketing there has been a long standing debate between realists and relativists. Bridging the gap between the advocates on either side is a challenging task. Perhaps it is not even necessary in the interest of preserving a diversity of opinions. Kavanagh (1994) suggests that the debate has run its natural course and that fresh impetus to this discussion needs transcending the boundaries of discussion. Although Hunt has conceded the need for methodological pluralism, Kavanagh makes a case for the same at the epistemological level leaving realism to be the predominate philosophy at the ontological level (Sarre 1987).

In the context of this paper, we have noted in the preceding section on case research the similarity between and among various writings. A common thread that can be seen to be



running across the range of papers that focus on case research is the emphasis on methodological rigour. One clear exception to be noted is in Gummesson's approach. While we cannot deny the need for rigour, it is to be noted that these writings focus more on the issues of sampling, data collection and analysis and less on theory building issues. While the formalisation and prescription in the former areas are necessary, they are far from sufficient in a rapidly changing academic and business scenario. Prescription might in some cases lower flexibility and one can readily discern that the formalisation process appears to utilise in its methodology and philosophy too many shades altogether recognisably drawn from familiar and linear logic and statistical techniques. While this helps in gaining more acceptance through the incorporation of demonstratedly more successful elements, what we miss out may perhaps be the most crucial aspects that aid and guide theory building. The next and penultimate section focuses on some issues that we feel are relevant to organisational theorists and researchers.

Dogmatic Skepticism (TRUTH)	Humean Skepticism (truth)	Fallibilism (truth)	Dogmatism (TRUTH)
Academic Skepticism	Logical positivism	Scientific realism	Vulgar absolutism
Solipsistic Skepticism	Logical Empiricism	Critical realism	Scientism
Relativism	Critical rationalism	Critical Pluralism	Fundamentalism
Idealism	Falsificationism	Naturalism	Theocracy
Subjectivism	Instrumentalism		Marxism
Consturctionism			Nazism
Deconstructionism			Fascism
Neo-Marxism			
Critical Theory			

Table 3: The Truth Continuum

Source: (Hunt 1992 p.100)

Theory Building in Industrial Markets: Some Suggestions

The development of theories that explain how industrial markets work and evolve has been an area of focus for some time. The 'new-found and widespread enthusiasm for relationship marketing in place of the marketing management model which has dominated our thinking for the past 30 years or more'(Baker 1995a) is a clear manifestation of this focus. Case research into industrial markets has evolved considerably. Probing deeper and better into organisations is a challenging task, and the resolution of the issues and problems (Parkinson 1979) involved with the approach remains largely in the purview and judgement of individual researchers.

Links between firms and within firms and the range of inter-organisational structures and processes that facilitate value creation are both complex and novel. For instance, Oburai and Baker outline a model of three 'I's that attempts to describe and explain strategic alliances and supplier partnerships. 'An alliance to be successful needs three main elements to be present. The maximisation of mutual benefits can be achieved through interaction between alliance entities, investments both physical ones in capital equipment and in developing mutual understanding, and by creating an atmosphere that

encourages and fosters innovation. The three ‘I’s of strategic alliances are inter-related and mutually reinforce each other in a virtuous cycle’(1999b).

The model is a generic one and to be able to explain the performance of a given firm or a set of firms, grounded theory has to be built based on intensive study that captures firm specific or idiosyncratic routines (Nelson and Winter 1982) as well as industry specific information (Wilson 1995) and context.

The context of an industrial firm and its linkages are sometimes as important if not more important in understanding a focal firm. For instance, Toyota is generally credited with having invented the Just-in-Time (JIT) methodology and indeed JIT is considered to be a major strategic advantage that many Japanese firms have. However, a longitudinal study (Schwartz and Fish 1998) indicates that such is not the case and that American automobile firms had employed JIT earlier in the 1920s. The supplier networks that exist in Japan (Nishiguchi 1994; Nishiguchi and Anderson 1995; Nishiguchi and Brookfield 1997) are very much driven by the ability to accurately predict demand and are substantially helped by the regulatory environment that mandates frequent purchase of cars (Womack et al. 1990; Nishiguchi and Brookfield 1997). While in Japan automobile firms are known to have discrete supplier networks, American firms have suppliers that are common across firms and with substantial overlap (Dyer et al. 1998). In the case of the former, closer relations and equity exchanges are driven by the need to invest in each other and as much by the competitive advantage that entails. This leads us to a suggestion that we like to make for prospective theory builders: Focus on industry specific issues and comparison across geographic territories is essential to building theories that aim to explain industrial markets. Longitudinal analysis may also help in increasing internal and external validity.

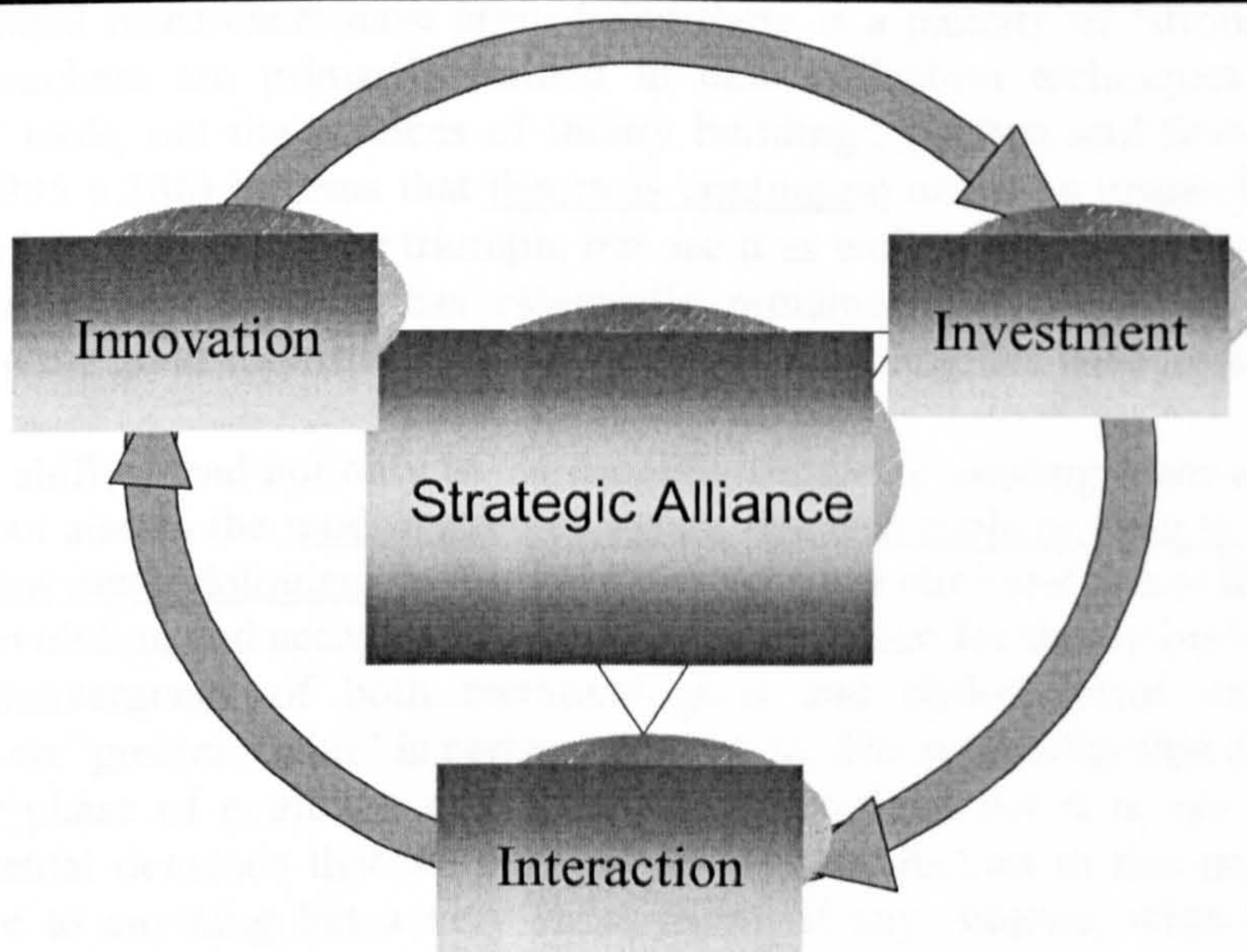


Figure 2: Three ‘I’s of strategic Alliances
Source: Oburai & Baker 1999

The utility of theories that afford only a uni-dimensional and partial perspective is necessarily limited in scope and this is the reason why both academics and practitioners



are turning to approaches that treat firms as a value adding entity with great synergistic potential and a unique combination of resources that generate competencies. Efficiency and cost driven explanations, such as the transaction cost explanations (Williamson 1975; Williamson 1985; Williamson 1996b), however true and elegant, are but partial pictures (Kay 1992; Ghoshal and Moran 1996; Moran and Ghoshal 1996; Williamson 1996a). It is our view that practically relevant and workable theories may have to examine a given issue from multiple angles and integrate relevant theoretical perspectives to increase chances of success in explaining the realities that underlie the workings of interfirm dealings in industrial markets. Strategic considerations and external influences shape firms slowly, surely and over long time periods. Indeed, there is a case to be made for inertia that characterises many dealings. Any effort that aims to differentiate truly performance enhancing relations (Noordewier et al. 1990) from merely short term effects (Kalwani and Narayandas 1995), will have to undertake to incorporate both qualitative and quantitative dimensions some of which are more amenable to measurement and others less so. The case research strategy has the ability to incorporate such disparate and diverse sources of information as well as flexibility to allow the researcher to *improvise and innovate* in employing the same for theory building purposes. Resulting cases are likely to be illustrative and improve both discussion and refinement leading to further research.

Conclusions and Final Remarks

“Science is a journey and the existing is not its destination”. In this light new data are never discomfoting, they never “destroy” existing theory, they expand and improve it’ (Gummesson 1988 p.79). ‘Most empirical studies lead from theory to data. Yet, the accumulation of knowledge involves a continual cycling between theory and data’ (Eisenhardt 1989 p.549) which requires enhanced theory building programmes. Several organisational researchers have argued that there is a paucity of ‘strong theorists’ and that ‘researchers are primarily trained in data collection techniques and the latest analytical tools, not the nuances of theory building’. (Sutton and Staw 1995 p. 378). Weick (1995 p.386) informs that theory is continuum and asks researchers not to save ‘theory to label their ultimate triumph, but use it as well to label their interim struggles’. Altogether, theory building has essentially remained an idiosyncratic procedure as opposed to the great sophistication that verification techniques have acquired.

Paradigm shift(s) lead not only to *the reconfiguration of existing ideas and additions of theories* but also to the modification of extant research tools or even to the adoption of entirely new methodologies. In this light, we put forth our view that at this stage of case research evolution and acceptance as a viable mechanism for theory building/testing, the marked convergence of both *methodological and philosophical* views that place emphasis on “greater rigour” is perhaps premature. The possibility that convergence is a necessary phase of evolution can indeed be entertained but it is our contention that environmental demands that we outlined in the introduction to this paper are not too favourable to anything but a very short phase, if any. Indeed, what theory building needs is a boost through meta-theoretical developments that outline and *formalise techniques that both provide easier, quicker and more accurate routes* for arriving at empirically testable theories. As a preliminary attempt, we outlined in this paper some suggestions that may aid and accelerate theorists’ efforts.



Reference List

- Aaker, D.A. and Day, G.S. (1990) *Marketing Research*, New York: Wiley.
- Baker, M.J. (1995a) 'A Comment on: The Commodification of Marketing Knowledge', *Journal of Marketing Management* **11**, Special Issue on The Commodification of Marketing Knowledge, 629-634.
- Baker, M.J. (1995b) 'The Future of Marketing', In: Baker, M.J., (Ed.) *Companion Encyclopedia of Marketing*, First Edition. pp. 1003-1018. London; New York: Routledge
- Baker, M.J., Parkinson, S.T. and Moller, K. (1986) *Organizational Buying Behaviour: Purchasing and Marketing Management Implications*, London: The Macmillan Press Limited.
- Bartels, R. (1951) 'Influences on the Development of Marketing Thought, 1900-1923', *Journal of Marketing* **16**, 1, 1-17.
- Bonoma, T.V. (1985) 'Case Research in Marketing: Opportunities, Problems, and a Process', *Journal of Marketing Research* **XXII**, May, 199-208.
- Brownlie, D. and Saren, M. (1997) 'Beyond the one-dimensional marketing manager: The discourse of theory, practice and relevance', *International Journal of Research in Marketing* **14**, 147-161.
- Buzzell, R.D. and Gale, B.T. (1987) *The PIMS Principles: Linking Strategy to Performance*, New York: The Free Press.
- Casti, J.L. (1989) *Paradigms Lost*, Reading, Great Britain: Cardinal.
- Converse, P. (1945) 'The Development of the Science of Marketing', *Journal of Marketing* **10**, July, 14-23.
- Day, G.S. (1975) 'The Threats to Marketing Research', *Journal of Marketing Research* **12**, May, 462-467.
- Day, G.S. (1992) 'Marketing's contribution to the strategy dialogue', *Journal of the Academy of Marketing Science* **20**, Fall, 323-330.
- Donnellan, E. (1995) 'Changing Perspectives on Research Methodology in Marketing', *Irish Marketing Review* **8**, 81-90.
- Doyle, P. (1995) 'Marketing in the new millennium', *European Journal of Marketing* **29**, 13, 23-41.
- Dyer, G.W. and Wilkins, A.L. (1991) 'Better Stories, Not Better Constructs, To Generate Better Theory: A Rejoinder to Eisenhardt', *Academy of Management Review* **16**, 3, 613-619.



- Dyer, J.H., Cho, D.S. and Chu, W. (1998) 'Strategic Supplier Segmentation: The Next "Best Practice" in Supply Chain Management', *California Management Review* 40, 2, 57-77.
- Easton, G. (1995) 'Methodology and Industrial Networks', In: Moller, K. and Wilson, D.T., (Eds.) *Business Marketing: An Interaction and Network Perspective*, pp. 411-492. Boston Dordrecht London: Kluwer Academic Publishers
- Eisenhardt, K.M. (1989) 'Building Theories from Case Study Research', *Academy of Management Review* 14, 4, 532-550.
- Eisenhardt, K.M. (1991) 'Better Stories and Better Constructs: The Case for Rigor and Comparative Logic', *Academy of Management Review* 16, 3, 620-627.
- Ghoshal, S. and Moran, P. (1996) 'Bad for practice: A critique of the transaction cost theory', *Academy of Management Review* 21, 1, 13-47.
- Glaser, B.B. (1998) *Doing Grounded Theory: Issues and Discussions*, Mill Valey, CA, USA: Sociology Press.
- Glaser, B. and Strauss, A. (1967) *The Discovery of Grounded Theory: Strategies of Qualitative Research*, New York: Aldine.
- Gummesson, E. (1988) *Qualitative Methods in Management Research*, Bromley, England: Chartwell-Bratt.
- Hair, J.E., Anderson Rolph E., Tatham, R.L. and Black, W.C. (1995) *Multivariate Data Analysis with Readings*, New Jersey: Prentice Hall.
- Hakansson, H. (1982) *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, New York: John Wiley & Sons.
- Hamel, J., Dufour, S. and Fortin, D. (1993) *Case Study Methods*, London: Sage Publications.
- Hammersley, M. (1998) *The dilemmas of qualitative method: Herbert Blumer and the Chicago tradition*, London; New York: Routledge.
- Hirschman, E.C. and Holbrook, M.B. (1992) *Postmodern Consumer Research : The Study of Consumption As Text*, London: Sage Publications.
- Hunt, S.D. (1991) *Modern Marketing Theory: Critical Issues in the Philosophy of Marketing Science*, Cincinnati, Ohio: South-Western Publishing Company.
- Hunt, S.D. (1992) 'For Reason and Realism in Marketing', *Journal of Marketing* 56, April, 89-102.
- Hunt, S.D. (1994) 'On Rethinking Marketing: Our Discipline, Our Practice, Our Methods', *European Journal of Marketing* 28, 3, 13-25.
- Hyman, H. (1944) 'Do they tell the truth?', *Public Opinion Quarterly* 8, 557-559.
in McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15th Annual IMP Conference*, University College, Dublin 1999



- Kalwani, M.U. and Narayandas, N. (1995) 'Long term manufacturer-supplier relationships: Do they pay off for supplier firms', *Journal of Marketing* **59**, January, 1-16.
- Kavanagh, D. (1994) 'Hunt versus Anderson: Round 16', *European Journal of Marketing* **28**, 3, 26-41.
- Kay, N.M. (1992) 'Markets, false hierarchies, and the evolution of modern corporation', *Journal of Economic Behaviour and Organisation* **17**, 315-333.
- Kay, N.M. (1997) *Pattern in Corporate Evolution*, New York: Oxford University Press.
- Lawrence, P. and ul-Haq, R. (1998) 'Qualitative research into strategic alliances', *Qualitative Market Research: An International Journal* **1**, 1, 15-24.
- Mathews, B.P. and Diamantopoulos, A. (1995) 'An Analysis of Response Bias in Executives' Self-Reports', *Journal of Marketing Management* **11**, 835-846.
- McDaniel, S.W., Verille, P. and Madden, C.S. (1985) 'The Threats to Marketing Research: An Empirical Appraisal', *Journal of Marketing Research* **XXII**, February, 74-80.
- McNair, P. (1954) *The Case Method at the Harvard Business School*, New York: McGraw Hill Book Company.
- Merriam, S.B. (1988) *Case Study Research in Education: A Qualitative Approach*, San Francisco; London: Jossey-Bass Publishers.
- Miles, M.B. (1979) 'Qualitative Data as an Attractive Nuisance: The problem of Analysis', *Administrative Science Quarterly* **24**, December, 590-601.
- Miles, M.B. and Huberman, M. (1994) *Qualitative data analysis : an expanded sourcebook*, Second Edition. Thousand Oaks: Sage Publications.
- Mitchell V.-W. and Brown, J. (1998) 'Research Note: A Cost-Benefit Analysis of Letter Prenotification and Follow-up', *Journal of Marketing Management* **13**, 8, 853-866.
- Moran, P. and Ghoshal, S. (1996) 'Theories of economic organization: The case for realism and balance', *Academy of Management Review* **21**, 1, 58-72.
- Myrdal, G. (1944) *An American Dilemma*, New York: Harper and Row.
- Myrdal, G. (1958) *Value in social theory*, New York: Harper.
- Myrdal, G. (1969) *Objectivity in Social Research*, New York: Pantheon.
- Nelson, R.R. and Winter, S.G. (1982) *An evolutionary theory of economic change*, Belknap Press of Harvard University Press.
- in McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15th Annual IMP Conference*, University College, Dublin 1999



- Nishiguchi, T. (1994) *Strategic Industrial Sourcing*, New York: Oxford University Press.
- Nishiguchi, T. and Anderson, E. (1995) 'Supplier and Buyer Networks', In: Bowman, E. and Kogut, B., (Eds.) *Redesigning the Firm*, New York: Oxford University Press
- Nishiguchi, T. and Brookfield, J. (1997) 'The Evolution of Japanese Subcontracting', *Sloan Management Review* 39, 2, 89-101.
- Noordewier, T.G., John, G. and John, N.R. (1990) 'Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships', *Journal of Marketing* 54, October, 80-93.
- Oburai, P. and Baker, M.J. (1999a) Empirical Research into Collaborative Alliances in Industrial Markets: A Case for a Balanced Approach to Theory Building, Berlin: 28th EMAC Conference.
- Oburai, P. and Baker, M.J. (1999b) 'Strategic alliances and supplier partnerships', In: Baker, M.J., (Ed.) *The IEBM Encyclopedia of Marketing*, Second Edition. London: International Thomson Business Press
- Parkinson, S.T. (1979) Industrial Market Research - The Case Study Approach, 198-213, In: Baker, M.J., (Ed.) *New Direction in Marketing and Research: Annual Seminar of the Marketing Education Group of the United Kingdom, 9th-12th July 1979, at the Bristol Regional Management Centre*:
- Perry, C. (1998) 'Processes of a case study methodology for postgraduate research in marketing', *European Journal of Marketing* 32, 9/10, 785-802.
- Sarre, P. (1987) 'Realism in Practice', *Area* 19, 1, 3-10.
- Schwartz, M. and Fish, A. (1998) 'Just-in-Time inventories in Old Detroit', *Business History* 40, 3, 48-71.
- Sutton, R.I. and Staw, B.M. (1995) 'What Theory is Not', *Administrative Science Quarterly* 40, September, 371-384.
- Thomas, M.J. (1994) 'Marketing - in Chaos or Transition?', *European Journal of Marketing* 28, 3, 55-62.
- Tomaskovic-Devey, D., Leiter, J. and Thompson, S. (1994) 'Organisational Survey Non-Response', *Administrative Science Quarterly* 39, 439-457.
- Van Maanen, J. (1979) 'Reclaiming Qualitative Methods for Organizational Research: A Preface', *Administrative Science Quarterly* 24, 4, 520-526.
- Webster, F.E. (1992) 'The Changing Role of Marketing in the Corporation', *Journal of Marketing* 56, October, 1-17.



- Weick, K.E. (1995) 'What Theory is not, Theorizing is', *Administrative Science Quarterly* **40**, September, 385-390.
- Weitzman, E. and Miles, M.B. (1995) *A Software Sourcebook: Computer Programs for Qualitative Data Analysis*, Thousand Oaks, California: Sage Publications.
- Williamson, O.E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press.
- Williamson, O.E. (1985) *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York: Free Press.
- Williamson, O.E. (1996a) 'Economic organization: The case for candour', *Academy of Management Review* **21**, 1, 48-57.
- Williamson, O.E. (1996b) *The Mechanisms of Governance*, New York: The Free Press.
- Wilson, D.T. (1995) 'An Integrated Model of Buyer-Seller Relationships', *Journal of the Academy of Marketing Science* **23**, 4, 335-345.
- Womack, J.P., Jones, D.T. and Roos, D. (1990) *The Machine That Changed the World*, New York: Rawson Associates.
- Yin, R.K. (1981) 'The Case Study Crisis: Some Answers', *Administrative Science Quarterly* **26**, 1, 58-65.
- Yin, R.K. (1994) *Case Study Research: Design and Methods*, Second Edition. Sage Publications.