Relationship management vs business transactions: Business interaction as design of business interaction

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Abstract

This paper describes and categorizes different types of business interactions and relations between such different business interactions. A model of business interaction divided into phases and levels is presented. A distinction is made between three levels of business interactions: 1) Relationship management (determination of reciprocal abilities), 2) relationship management (determination of long-term contracts) and 3) business transactions. The model presented is called the BAT model (Business Action Theory) and is based on communicative action theories as well as business relationship theories. Combined conceptual and empirical research has been performed. The empirical domain has been a network/supply chain in the SME wood industry.

Keywords: Business Action Theory, business interaction, business relationships
Background

Purchasing means interacting with suppliers. Many SMEs have long term relationships with their suppliers and customers. This means that purchasing in such settings often is not be restricted to casual business transactions. Purchasing is part of building relationships between suppliers and customers.

Purchasing will be different due to differences in products and business settings. There are differences between purchasing of standardised products vs purchasing of adapted products. There are also differences, as said above, between long term and casual business interactions. In many situations there is a need to "control" the supply of external resources by long term contracts. Purchasing involves normally negotiation between different business parties. Sometimes such negotiation discussions will not be restricted to products based on given organisational abilities. In some cases there can be influences made to a potential supplier to develop a new particular ability in order to fulfil the demands of a customer.

When investigating purchasing in SMEs and larger enterprises there is need to distinguish between different types of business interactions. There is also a need to relate these different types of interactions to each other. This means that there is need for conceptualisation and understanding.

Purpose and method

The purpose of this paper is to describe and categorize different types of business interactions and relations between such different business interactions. We will describe a model of business interaction divided into phases and levels. A distinction is made between three levels of business interactions: 1) Relationship management (determination of reciprocal abilities), 2) relationship management (determination of long-term agreements) and 3) business transactions. These three levels should be interpreted as three levels of purchasing.

We have performed a combined conceptual and empirical research, and our research approach has been clearly iterative/circular with a mix of an inductive and deductive approach (see e.g. Flick, 1998). The empirical domain has been a network/supply chain in the SME wood industry. We have performed in-depth case studies of several firms and their interaction in this business network with multiple empirical methods for data collection and analysis. The empirical material is based on 60 interviews, working seminars (e.g. with business- and process modelling activities), studies of documents, and studies of people’s use of IT-systems. The study is longitudinal, has started in 1998, and finish in 2001. During this period of time we have had an opportunity to get rather close to the actors in the firms. This access to the empirical field can be related to the fact that the studied firms all are SMEs. The fact that all firms are SMEs can be viewed as both positive and negative. The positive aspects are e.g. that it is rather easy to get in touch with “the right people”; performing certain activities in a firm and that interviewees usually take account of the whole situation of the firm. One negative aspect is that the interviewees, no matter what organisational role they have, usually have an evident lack of time dependent upon their involvement in daily production activities. Our access to the companies can also be related to our research approach that can be classified as action research (e.g. Argyris et al., 1985). Our approach consists of e.g. business diagnoses of goals, problems, and strengths etc. that has been discussed with actors in the companies. These results have been an input for business change and development, managed by actors at the companies themselves.
In this paper we will especially focus on a carpentry firm in the network. We will use the carpentry firm for illustration in its relation to two main suppliers (a sawmill and a paint and varnish firm) and to a main customer (a house-builder).

**Conceptualisation of business interaction: Business Action Theory**

As said above, we will present a model of business interaction in this paper. There are theoretical and empirical sources for development of this model. In this section we will elaborate the model and describe some of its theoretical basis. The next section will give some empirical illustration of the model based on the case study in the SME wood network. Our focus is on the *dyad*, the interaction between a supplier and a customer (Håkansson & Snehota, 1995; Gummesson, 1999). This interaction focus means also an orientation towards exchange and relationships (Johanson & Mattsson, 1994; Glynn & Lehtinen, 1995; Håkansson & Snehota, 1995). The customer firm and the supplier firm are considered as *actors*. The model is symmetric in the sense that it pays equal attention to the two business parties. It does not take the position of an active supplier trying to influence a passive customer, as is done in much marketing literature. We acknowledge both parties to be potentially active in the business interaction process (ibid). Our model is based on a pragmatic perspective on business interaction, emphasising actions and practice. We call this model and its theoretical basis: *Business Action Theory* (BAT). The model has been presented in several earlier publications; e.g. Goldkuhl (1996, 1998), Melin & Goldkuhl (1999) and Axelsson et al. (2000).

**Business transactions**

Business interaction means that the customer and the supplier act towards each other. The customer performs actions directed towards the supplier and vice versa. A business transaction consists of a series of interactions (i.e. related interactive business acts). It is an *exchange* process (Johanson & Mattsson, 1994). The core of the business transaction is the exchange of value. A supplier transfers products (goods/services) to the customer. The customer pays for the products, i.e. the customer transfers money to the supplier. This type of value exchange cannot work of its own. It must be coordinated through business communication. The supplier and the customer must communicate in order to arrive at an agreement about the delivery and the payment.

Our conceptualisation of business communication is mainly inspired by speech act theory (Searle, 1969; Habermas, 1984). The main thesis of this theory is that speech, as well as other communication, is to be conceived as action. When communicating, a person is 1) *representing* something in an utterance or message, but he/she is also 2) *performing* something in relation to the recipient of the communication. This double character of speech (representing and performing) is emphasised in speech act theory. One simple example to illustrate this: An offer made by a supplier means 1) talking about something (products, prices, etc) but as an offer it also includes 2) making commitments and requests in relation to the customer. The performance of a communicative act, like an offer, means that certain social relationships are established between sender and recipient.

There exist different communicative acts in a business transaction. An offer is one example of such a communicative act. A business communicative act is part of a social interplay between supplier and customer. This means that different communicative acts are related to each other
and they can together form a pattern. The BAT model presented here is an attempt to conceptualise such a generic pattern of business interactions. We are in this matter inspired by another speech act based model: The Action Workflow approach (Denning & Medina-Mora, 1995), which describes a generic phase structure of business interaction. There are obvious similarities between Action Workflow and BAT, but there are also some important differences. A comparison between the two approaches and a critique of Action Workflow can be found in Goldkuhl (1996).

In BAT, we distinguish between two generic phases of the business communication preceding the exchange of value within a business transaction: 1) A proposal phase consisting of the supplier’s offers and the customer’s queries, demands and counterbids (i.e. a negotiation) and 2) a contractual phase where the business parties exchange commitments, i.e. the customer orders products and the supplier promises (confirms) to deliver. Both these phases involve usually interaction. The proposal phase means exchange of proposals and the contractual phase means exchange of commitments (i.e. establishment of an agreement). These commitments should be fulfilled during the exchange of value. The delivery and payment can thus be called the fulfilment phase. One can distinguish a fourth concluding phase after the fulfilment. This phase can be called assessment phase. The performances of the business parties must be reciprocally assessed. If some party is discontent, then this can be expressed sometimes as claims for a better fulfilment. There can be reclaim concerning the delivery of products stated by the customer and reclaims concerning the payment stated by the supplier.

In this model we define a business transaction to consist of four generic phases (all interactive in character):
1) proposal phase (exchange of proposals)
2) contractual phase (exchange of commitments)
3) fulfilment phase (exchange of value)
4) assessment phase (exchange of assessments)

Contractual relationship management: Governance of recurrent business transactions

Business transactions can be recurrent. If a supplier and a customer perform business transactions over a long period of time they establish deeper business relationship. Such relationships are described to consist of activity links, resource ties and actor bonds (Håkansson & Snehota, 1995). Mutual trust is evolving when interacting. When performing business recurrently a need for a long-term agreement can arise. A long-term agreement may have the function of defining and conditioning the business transactions. The establishment of a long-term contract consists in itself of business interactive actions. These interactions may consist of exchanges of proposals and commitments, i.e. there are similar actions as in the business transaction phases on this relationship management level. There is no fulfilment of commitments on this relationship management level. The fulfilment is always performed on the business transaction level. A long-term contract redefines the proposal and contractual phases of the business transactions. The transactional proposals and contracts are not excluded, but in most cases simplified. The transactional proposal/contract is reduced to a sub-order which is performed in accordance with the terms of the long-term contract.

A long-term contract defines usually recurrent business transactions. When we use the term contract, we do not necessary associate this with a written document. We consider it to be a generic reciprocal business act with mutual commitments. A contract can in some situations be established only by oral communication and hand-shaking. Proposal and contract phases
(on this relationship management level) may involve discussions on products and sub-order, delivery, payment and reclaim conditions. The features of the products are of course of great interest. Interaction between SMEs involve often management of tailor-made products. Specification of such products may be performed together by the customer and the supplier. The needs of the customer and the production abilities of the supplier are governing such negotiations. This means that both the customer and supplier must expose some of their business prerequisites to the other party. This kind of exposure can be seen as another generic phase of this contractual relationship management in addition to proposal and contract phases.

In this model we define a contractual relationship management to consist of three generic phases (all interactive in character):
1) business prerequisites phase (exchange of knowledge on business prerequisites)
2) proposal phase (exchange of proposals)
3) contractual phase (exchange of commitments)

These generic phases are all interactive in character, which means that both parties may perform business actions directed to the other party. There may also be iterations between the phases; especially phase 1 and 2 may be performed in a rather intertwined manner.

Relationship management of reciprocal abilities

In some cases discussions and negotiations between a customer and supplier will go beyond existing possibilities of supplier products. A customer may demand and propose products which implies a considerable new ability of the supplier. The focus will in such cases often be on investment in new technology.

Hedberg et al. (1997), in their work on imaginary organisations, introduce leadership notions like architect and theatrical director. A leadership organisation in an imaginary organisation (a virtual enterprise or a managed network of enterprises) will take the function of directing other enterprises to play roles according to its own business vision. These roles of architect and director can be used to clarify this type of relationship management. In this type of role an enterprise does not take the current abilities of business parties as given. A customer may e.g. try to influence a supplier to manufacture products with properties which lie outside the possibilities of existing production equipment. A supplier may e.g. try to influence a customer to change the order routines to be more adapted to the supplier. These kinds of adaptations are of course well-known in the literature of industrial marketing (e.g. Håkansson & Snehota, 1995).

We think it is important to conceptually distinguish between business interaction concerning influence on abilities and a long-term contracting. We have in our business interaction model differentiated between two levels of relationship management:
• determination of reciprocal abilities
• determination of long-term contracts

Determination of long-term contracts were described in the subsection above. Determination of reciprocal abilities may include activities of exposure of current abilities and proposing new abilities and agreeing on new abilities. This kind of negotiation involve configuring of the business interaction of business dyad. There might be shifts in the value chain of the two business parties. The interface between the customer and the supplier in terms of a product might be changed. There might be movements backwards or forward in the value chain.
There are differences between the two levels of relationship management, since they are concerned with partially different topics. There are however similarities between the different areas. We describe relationship management concerning reciprocal abilities consisting of following phases:

1) business prerequisites phase (establishing a common view on business prerequisites)
2) proposal phase (giving of proposals and establishing a common view on proposals)
3) agreement phase (declaration of commitments and establishing a common view on future transactional business interaction)

This type of relationship management might be more uni-directed than the other two areas of business interaction described above. In this situation there might be one active director (with power and initiative) trying to impose its business vision on other parties and influencing their abilities in order to be more adapted to the director. Even if there is a situation with more unbalanced interaction, this situation must of course be interactive anyway. There must be interactive business acts performed by both parties. The business interaction must involve establishment of some common knowledge in order to be successful. This can be seen from the above list of phases. The phase characterisations differ from contractual relationship management above where the exchange nature is apparent. In negotiations about abilities there may not be any such exchange of proposals etc. This kind of business communication may be, as said above, more uni-directed; one active party with initiative trying to influence the other one. Anyhow, when interacting a common view between the parties will arise.

Development of new abilities can, as said above, be initialised in a particular business dyad, but it can of course involve considerations which go beyond the actual dyad. Investment in new technology will improve the ability of the organisation, and such new ability may be used towards other business parties.

**Different levels of business interaction: A comprehensive model**

In this model of business interaction we distinguish between three levels:
- Relationship management of reciprocal abilities
- Contractual relationship management
- Business transactions

Each of these levels consists of different phases. Concrete interaction between the business parties takes place in each phase. Interaction means that each party directs actions towards the other party. Such business acts are interactively multifunctional. This means that a business act can function both as an incentive and a response. E.g. an offer from a supplier can be a response to a query from a customer. But it will also function as an incentive to the customer to make an order. The different interactive business actions form together a logic of business interaction. One purpose of Business Action Theory is to generically describe the business logic. The business transaction level is more fully described in Goldkuhl (1996; 1998). Contractual relationship management is described in Axelsson et al. (2000).

The three levels of business interaction and their different phases are depicted in figure 1. The relations between the three levels are also described. *Business transactions* can evolve over time. This means that the business parties continuously adapt to each others when performing business. If a customer and a supplier want to regulate their business transactions, they can
Figure 1 Business interaction on three levels (BAT model)
negotiate and possibly establish a long-term contract. In the BAT model this is called *contractual relationship management*. A long-term contract is a main result of this type of relationship management. But the result is not only a contract regulating the business transactions. The business interaction of contractual relationship management establishes changed and possibly deepened business relationships. On this level, the business parties are performing *meta* business interaction. This means a business interaction concerning business interaction on another level. The topic of the contractual relationship management is how to perform business transactions. The business interaction of contractual relationship management have the function of designing business transactions. The design of business transactions cannot however be performed by one party solely. The *design* of business transactions are performed in interaction between customer and supplier in a negotiation process. The two parties form together the business transaction based on their different abilities, interests and power in the negotiation process.

Sometimes a business party wants to change what is performed in the business transactions beyond the current abilities of the other party. If one business actor is not content with some part of the exchanges in business transaction, there may be an initiative for a development of the abilities of the other party. In the BAT model, we call this *relationship management of reciprocal abilities*. This type of relationship management should also be seen as a design of business interaction. It is - in the same way as contractual relationship management - a process of business interaction aiming at a design of other business interactions. This type of *meta* business interaction involves negotiating about what to perform in business transactions and who will perform which parts of different actions. The business interaction on this level will give frames for both business transactions and contractual relationship management.

All these phases and levels involve business interaction between the supplier and the customer. The relationship management concerning abilities will condition the other two levels. The contractual relationship management will condition the transactional level. Business interaction on the upper level(s) can thus be seen as design of the business interaction of the lower level(s).

**Empirical illustration**

The empirical illustration below takes the carpentry firm as a point of departure. First we will present some basic information of the different firms and the relations. After that a presentation of selected transactions and aspects of relations will be presented. The relation between the carpentry firm and the sawmill is in main focus. The empirical illustration is partially based on case studies presented in Axelsson et al. (2000) and Melin (2001).

**Studied organisational actors**

The *carpentry firm* manufactures a central component in the house-building process; the stairs. The first stairs was manufactured already in the 1930s and since then production has continued under various forms of organisation. 30 people are employed in the organisation today including five administrators and the two joint owners. Since a couple of years, the firm enjoys very good profitability. The carpentry firm’s business concept has remained the same since the beginning. The firm manufactures their product piece by piece, each product being unique. They have a number of product components that can be combined in various ways and the products are manufactured from wood of the customer’s choice.
The sawmill is a family-owned company, established in the early 1900s. The majority of the raw material comes from private forest owners. The business employs more than 30 people. The sawmill exists in a volatile and competitive market, where raw materials are scarce and prices increasing. Securing the supply of raw material of logs is in focus. The business relation with the carpentry firm was established in the early 1980s.

The paint and varnish firm is physically located in the carpentry firm’s own premises. They almost exclusively work with the products of the carpentry firm (approx. 90 percent of their annual turnover in 1999 is made up orders from the carpentry firm). Two brothers, who have social and geographical bonds with the owners of the carpentry firms, own the paint and varnish firm. The carpentry firm has a large influence on the paint and varnish firm’s operations. The business relation with the carpentry firm was established in the early 1990s.

The house-building firm was established in 1962. This is a high-level export company, and Germany is an important market. The company manufactures approx. 200 houses per year. The head office is located in southern parts of Sweden and the firm has around 65 employees. The company is since 1999 in a very rapidly growing phase. The firm’s aim is to offer customised wooden houses, of a high quality and with an environmentally friendly appearance. The business relation with the carpentry firm was established in 1995.

Relations and transactions

The business transactions taking place between the carpentry firm and the sawmill is both simple and sophisticated (based on e.g. mutual trust, and familiarity). The carpentry firm order products (sub-orders) from the sawmill by using fax or telephone. Their order consists of a fax (ordered products marked with crosses) that already has been exposed by the sawmill based on the outcome of certain products. The fax sent by the sawmill is a “window” (ability to supply) of their separate stock kept for the carpentry firm. This exclusive stock is separated both in the physical store and in a dedicated information system. This makes it possible for the sawmill to make a proposal depending on this stock. This view of the stock is specific for the carpentry firm and is not shown to other customers. Besides this fax-mediated communication, the sawmill also contacts the carpentry firm by telephone to inform about future production plans in order to meet up-coming demands. The carpentry firm also contacts the sawmill in order to demand products outside the “stock fax”. Sometimes there are daily communication between people at the carpentry firm and the sawmill (Axelsson et al., 2000).

Deliveries of products is made by truck from the sawmill to the carpentry firm - sometimes there are whole trucks loaded with products to the carpentry firm and sometimes only parts of them. The frequency of delivery depends on the demand and supply of certain products. Products can be delivered several times per week.

The overall relation is managed, defined and conditioned through a long-term contract. A long-term agreement is made between the sawmill and the carpentry firm twice a year, from which the frequently orders (mentioned above) are made. The agreement is made between the managing director at the sawmill and one of the owners of the carpentry firm (who is also responsible for purchasing). The agreement can be classified as a rather informal negotiation based on sales market statistics from the last six months, prognoses for the coming six months and raw material prices. There are no exact amounts of demanded goods specified in the long-term agreement, but the carpentry firm usually buys everything that the sawmill can produce within the demanded qualities. The two parties have a rather open discussion concerning their

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internal business prerequisites related to the negotiation, based on their long lasting business relation.

The carpentry firm has taken several actions in order to influence the production, products and the position of the sawmill in the analysed network (confer the role of an architect and theatrical director). These actions can be classified as relationship management concerning reciprocal abilities. Some examples of relationship managing actions taken by one of the co-owners at the carpentry firm are: requests for investments in production equipment in order to perform production of products with a higher level of refinement (directed to the sawmill). This higher level of refinement is a development of a new ability for the sawmill (previously performed by the carpentry firm and a third part). The relationship management actions performed by the carpentry firm is a part of an outsourcing strategy, driven by, among other things, the lack of their internal production and their willingness to invest. The carpentry firm clearly wishes to focus on their core competence: to make stairs (Melin, 2001).

Transactions between the carpentry firm and the paint and varnish firm consists of e.g. the fact that the paint and varnish firm “inherits” the production planning from the carpentry firm and adjust their operation fully to the carpentry firm’s demand (and their fluctuations in volume, as well as in delivery time). The mutual adjustment in daily production and transactions is often done in visual contact (“face-to-face”) between operative personnel in the two firms. Order and delivery activities are very much like an internal production process (and sometimes actors seems to forget that they are employed by to different legal firms, according to the production manager at the carpentry firm). The physical distance between the two firms are very short; just two doors separates the two workshops.

In the relation between the carpentry firm and the paint and varnish firm, the former actor is dominant. In spite of this the carpentry firm is dependent on the external actors core ability to paint. The production manager (the co-owner of the firm mentioned above) at the carpentry firm often directs the change of value and the business transactions between the two parties. Relationship management (long-term agreements) exists between the two firms based upon the principle of the handshake (mutual trust). No agreements between the two firms, except agreed prices of products, are written down. The paint and varnish firm has recently invested in a modern machinery of production (with an environmental friendly paint) and high capacity. The ability to satisfy (adapt to) the carpentry firm’s needs has increased dependent on this action. One future initiative from the carpentry firm in order to follow up production status even in the (external) paint and varnish process is to install a terminal (connected to their IT-system for handling order, stock and invoice). This potential implementation is one example of an attempt from the carpentry firm to get more information from the fulfilment process (phase) (Melin, 2001).

The business transactions between the carpentry firm and the house-builder are concentrated to salesmen at the carpentry firm and the managing constructor, constructors and a purchaser at the house-builder. If we take a look at the business transactions, the managing constructor at the house-builder communicates (via fax) the firms’ medium-term product demand to the salesman at the carpentry firm. Based on this information the salesman can plan future production. The managing constructor then, if needed, delivers a deviation from this prognosis. The different constructors then suborders specific, tailor made, stairs from the carpentry firm. The price of the units is regulated by a long-term agreement, negotiated by a purchaser at the house-builder and the salesman.
Actions from the carpentry firm taken in order to manage relations with customers are for example requests to the house-builder to use a common system for computer aided design (CAD). The common CAD-system (already used by the carpentry firm today) gives the two interacting partners a possibility to describe the exchanged product in a common and efficient way (with standardised formats etc.). The use of a common CAD-system also implicates that the house-builder in the future will perform some of the actions previously made by the carpentry firm. The ability to perform initial definitions of a product will in other words also be held by the house-builder. This potential change affects the overall order process and consists of a reallocation of activities and resources between the two firms.

The relation between the carpentry firm and the house-builder does not have the carpentry firm as a dominant and directing actor as in the two former business relations above. The power is more symmetrically distributed, and the relation is managed through mutual actions. Even this relation is, on a more general level, characterized by reciprocity, long-term ambitions and mutual trust.

Conclusions

Business Action Theory has been developed with a double purpose:
1) as a theoretical conceptualisation of business interaction contributing to the scientific understanding of such phenomena and
2) as a pragmatic analytic instrument to be used in evaluation and change of business processes.

In the case study described in this paper, we have used BAT as one important analytic tool for diagnosing the inter-organisational business processes of the studied business network. Business interaction models of different parts of the network have been worked out based on BAT. These models have contributed both to the practical understanding among the business participants about their business processes and to the empirical analysis made by the researchers. This twofold purpose of the BAT model and its usage follows an action science approach (Argyris et al., 1985). This means also that we claim that BAT as a model of business interaction is not limited to SME settings.

The emphasis on communicative action (in BAT) should be understood in the light of the authors' interest in information systems development. In order to understand and design information systems as a support in business processes, there is a need to describe such systems as integral parts of business processes. The communicative action language of BAT can be used to describe both the actions of information systems and the actions performed by human actors (Goldkuhl & Ågerfalk, 2000). BAT has been used as a vehicle to understand and evaluate information systems in relation to business processes (e.g. Melin & Goldkuhl, 1999).

There are other phase models of business interaction. Ahlström (2000) presents one such model and gives an overview of different models. The communicative action ground behind BAT seems to distinguish our approach from those others. The different characters of the business actions and their corresponding exchanges function as sharp criteria for the phase division.

We claim that our work is, at least partially, congruent with research in the area of industrial marketing and purchase (e.g. Håkansson & Snehota, 1995). Some comparisons are made in
Goldkuhl (1998) and Axelsson et al. (2000). We contribute to this research with an explicit communicative action basis and an ambition to create generic phase models of business interaction. In this paper we have had an dyad focus. As can be seen from the empirical material there is a potential of this approach to be raised to a network level. We have especially focused on the carpentry firm and its participation in different business dyads. Putting the different dyadic analyses together, this knowledge can form a basis for a more thorough network analysis.

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