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# How to change contacts into beneficial relationships – results of empirical research

**Relationships are formed between entities conducting business as an effect of repeated interactions. Although crucial to the business, the notion of relationships is often not entirely understood, due to the fact that relationships are not limited to formal relations between companies.**

In practice of running business, relationships are seen as a remedy for the lack of opportunities for the development of the company, ensuring the expansion and success of the business. This, in turn, promotes the belief in the need to establish numerous contacts, which then have to transform into relationships being the source of many benefits. But in practice the transformation of contacts into relationships is not so simple. Hence, two research questions arise, the answer to which will be given by this article. First, what in practice of doing business is needed to transform a contact into a beneficial relationship? Second, are numerous contacts, i.e. so-called “connections” sufficient to achieve sustainable success in building business relationships?

This paper will present the results of the research conducted among 419 companies of different sizes in Poland. The research “The global and local dimension of business networks” was carried out from November 2014 to June 2015. The structure of the analysed companies cor-

responds to the general structure of companies in Poland – 87 percent of them are small and medium-sized companies (the remaining 13 percent are large entities) and 74 percent are private entities with national capital. In the survey, we asked the representatives of management of companies about the characteristics and benefits of relationships connecting their companies with their most important key customers and key suppliers. This enabled indication of the essential conditions necessary for the creation of beneficial relationships.

## The essence of relationships between companies

A relationship is a phenomenon that is formed during a long time and is developed through repeated interactions between entities [Easton, 1992]. Thus, a relationship is defined as an interdependent process of continuous interaction and exchange between at least two entities within a business network [Holmund, Törnroos, 1997] or as a mutual orientation of two companies towards each other, which means that the companies are prepared to work together and expect such actions from each other [Johanson, Mattsson, 1987]. During the process of development of a relationship, the entities *create strong and wide, social, economic, service, and technological bonds, in order to reduce total costs over time, and to increase*

*the added value, thus achieving mutual benefits* [Anderson, Narus, 1991].

An important characteristic of relationships is the fact that they need a longer time to be formed. The emergence of a relationship takes time and effort on the part of both entities [Forsgren, et al., 2015, Håkansson, Ford, 2002, Szymura-Tyc, 2015]. A long-term nature can be described as a reciprocal expectation on the part of entities that the relationship will continue [Ratajczak-Mrozek, 2009], although unexpected events can always lead to its break. Another typical features describing the real relationships, as opposed to usual contacts, include trust, commitment, and also loyalty [Leszczyński, 2014, Morgan, Hunt, 1994, Farrelly, Quester, 2003]. These features are related to the concept of the quality of a relationship, taking into account that from the perspective of the company, not every relationship is equally important.

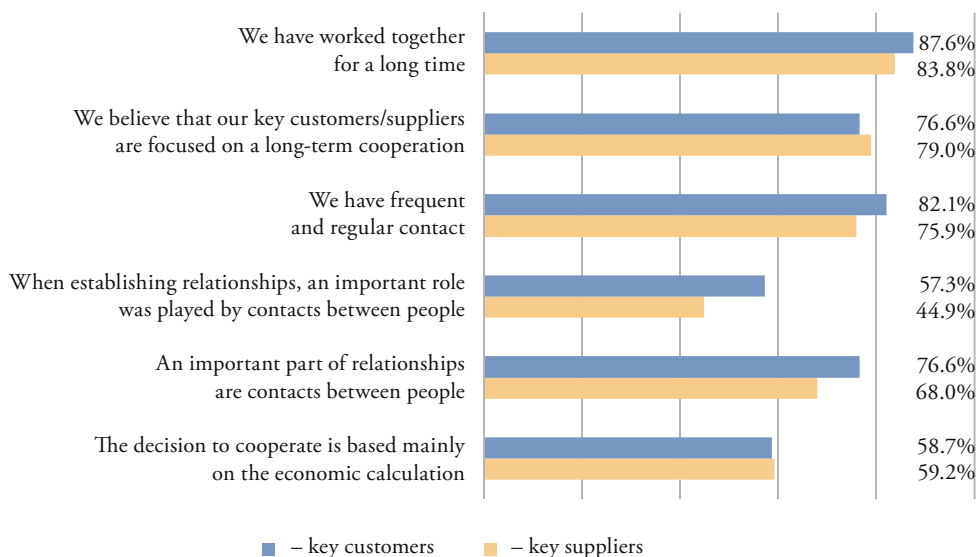
Relationships are developed only with a limited number of entities [Håkansson, Waluszewski, 1992], and there is also the claim that an average company has ten important relationships [Håkansson,

Henders, 1992], and a limited number of relationships stems from the investments that are required in order to develop them [Ford, Håkansson, 2006]. These investments involve commitment of resources, including financial resources, as well as time. The assumption concerning a limited number of important business relationships means that the interactions themselves may or may not lead to the development of a relationship [Blois, 1997]. Hence, more important is the question about the conditions of transferring individual interactions, embodied by the network of one-off contacts, into relationships that bring benefits.

### Key features and benefits of relationships between companies

To answer the question on what is necessary to transform a contact into a beneficial relationship in practice of running the business, the answers obtained from 419 companies, as mentioned above, have been analysed. The method applied involved a survey delivered by post and via the Internet, with both questionnaires including the same research questions, and

Figure 1 **Characteristics of relationships with key customers and key suppliers**



The percentage of companies that agree or strongly agree with the listed feature describing the relationship (evaluation was made on a 5-point scale).

Source: own elaboration based on research results.

the companies could receive the questionnaire only once. The address list has been prepared on the basis of a nationwide company database Kompass Poland, and the sampling frame included companies from all around Poland, representing all sectors and all sizes of companies. The sample was selected at random. The return rate of 11.8 percent was obtained in the case of surveys by post, and 2.4 for Internet surveys, which led to the total of 419 responses. The questions about key relationships of companies were answered by the representatives of management, which was to provide representative opinions on important relationships from the perspective of the entire company.

In the first phase, the characteristics of relationships have been analysed (see Figure 1), which enables identification of the most important areas distinguishing the relationships from all contacts of the company, and allows to indicate what is necessary to convert contacts into relationships.

It is widely believed that the formation of relationships takes time. The presented research confirms this dependency. For a relationship to be established, it is essential to develop informal standards of cooperation and trust, and it usually takes time. What is more, the fact of building trust is proved not only by the duration of interactions, but also by the conviction about the long-term attitude of the partners towards joint activities. It must be emphasised that these conditions apply both to the relationships with customers, as well as with suppliers. Also the quality of what is going on in the course of cooperation is important. A relationship connected with routine assignments once in a while will not necessarily bring a wide spectrum of benefits. Among other things, the transformation of a contact into a relationship can be accelerated by a frequent and regular cooperation. Where-

as, it is essential for this frequency to be related not only with keeping contacts, but with actual offering of benefits.

The research conducted shows that each time 59 percent of relationships, both with key customers and suppliers, is based on the economic calculation (not excluding, however, at the same time, the importance of other factors), which indicates that the relationship is not only an idealistic vision of cooperation. Generally, the companies guided by maximising profits are looking for the most economical and financially beneficial solutions. Thus, the question arises, what might be the motives of the companies to maintain the remaining 40 percent of relationships? If in their case the most important is not the simple economic calculation, than they must be associated with other than strictly direct financial benefits.

Relationships can bring not only financial benefits but also imply the improvement of flexibility and speed of operation, reduction of transaction costs, risks, and uncertainty by the creation of routine proceedings, unwritten principles of cooperation, trust and mutual adaptation. As a consequence, the closer the cooperation is, the more difficult it becomes to change the partner. On the other hand, if for almost 60 percent of the companies the economic factor plays an important role, in their case it can mean either the lack of place for other reasons to build relationships or the lack of differences in the perception of the existing key business partners. The latter creates a special market opportunity for those companies, that have already possessed the ability to build long-term business relationships based on non-financial factors, as it allows to stand out against the closest competitors.

In this context, the research conducted showed the main benefits achieved by the companies thanks to relationships with key customers and suppliers, which is the second stage of the research (Figure 2).

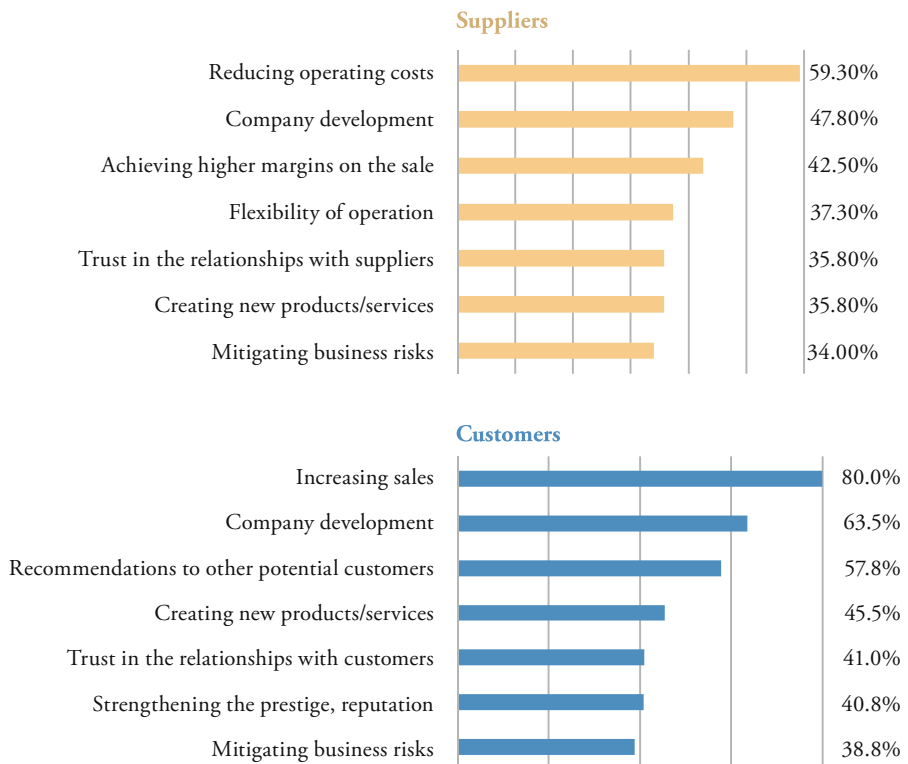
Apparently, there is a certain group of common benefits for all relationships, regardless of the type of a partner. They are related to the widely understood development (which may be supported in terms of economics, technology, competence, reputation), creation of new products, trust, and risk mitigation associated therewith. Moreover, in the case of key customer relationships, there are benefits associated with sales – directly, its growth and factors supporting it (recommendations and prestige). In turn, in the case of relationships with key suppliers, there are benefits related with the costs of operation (directly, reduction of costs, greater flexibility, and an increase in the margin).

The broad range of benefits achieved by relationships at the same time indicates the key condition that must be satisfied to convert the contacts into relationships. If one of the parties does not achieve benefits, it means that there is no interest in the development of long-term and close relationships. In such a case, the relation

is a rather forced contact (for example, due to the lack of alternatives in choosing a supplier, impossibility of allowing oneself to lose the customer providing revenues). Hence, for a contact to result in a relationship, it is necessary to appropriately identify and offer benefits sought by the other party.

Speaking of relationships, the importance of having connections in the business is often emphasized. Meanwhile, the research conducted shows that the personal contacts are of a limited importance and in the absence of significant benefits, business relationships gradually erode. Bearing in mind the respondents' answers, it should rather be stated that it is the effort made in the longer period to maintain mutually beneficial relationships, including frequent contacts with customers, that promotes the widening and deepening of the existing connections, which consequently sometimes also have the chance to be continued on the business and non-business grounds.

**Figure 2 Main benefits achieved through relationships with suppliers and customers**



Source: own elaboration based on research.

In the above situation, contacts between people play a role in creating quality of the already existing relationships. It will be expressed in the way of communication, the depth and scope of cooperation, the distinguishing feature of which will be, in particular, the informal, direct and quick solving of emerging conflicts of interest or current problems. It should be remembered that the condition for this is the presence of benefits valued by both parties. Otherwise, the effort made sooner or later will begin to be perceived by one or the other side as unjustified. It is worth to note here that due to the dominant share of financial benefits in business relationships indicated in the research, the time horizon within which the parties assess the relationships, can be relatively short. And this in turn may affect the growth of their dynamics, and can cause their low resistance to changing conditions.

Therefore, as indicated above, numerous contacts do not have to convert into numerous and durable relationships of the company at all. Wide personal contacts are good as a starting point, enable breaking through formal barriers associated with complex organisational structures or the lack of resources, and establishing the first contact between the companies, but not necessarily translate into real and beneficial relationships. On the other hand, business relationships do not have to be permanent, especially if they are based only on achieving financial benefits.

### **The process of developing a contact into a beneficial relationship**

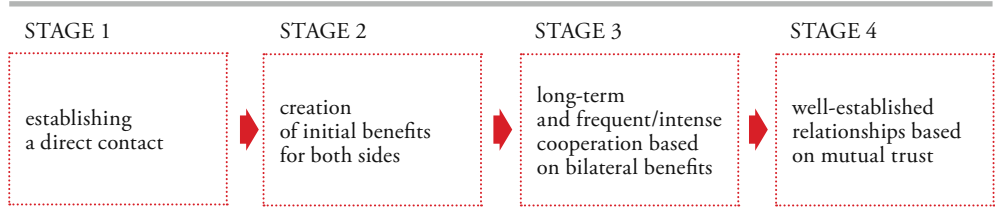
Building relationships takes time and requires orientation towards a long-term cooperation. For a contact to develop into a relationship, one needs to remember about the benefits that can be offered and which are important to the future or existing partner. But such benefits cannot

be provided to all customers and suppliers, thus, it is important to be selective. It does not mean being closed to new contacts, on the contrary. It is important, however, to search for such contacts for which a high potential to build relationships based on mutual benefits can be indicated.

Selectivity is not just a matter of choosing of those with whom direct contacts will be established, but relates also to the scope of time and effort necessary to be borne in order to transform particular contacts into established relationships. It may be considered that the expected benefits will be greater in the case of sustained involvement in several selected contacts and building business bonds with them, than in the case of blind devotion to establishing numerous contacts, and then making cursory attempts to “build relationships” with everybody. In this context, a considerable involvement of time and resources in building bonds with customers and suppliers that are guided only by the economic calculation (in this case the only criterion will always be a lower price), who, guided by undisclosed premises showed a lack of loyalty or turned out to be opportunist entities, who value immediate benefits more than long-term cooperation, may be found doubtful.

Based on the survey, several key conditions necessary for the transformation of the established contact with a potential partner into a long-term beneficial relationship can be distinguished. They include the selectivity in relation to contacts, focusing on the target group (not – the more the better), discovering of this group and offering significant benefits to them, and then devoting time and keeping appropriate frequency of contacts. At the same time, these conditions are reflected in the process of developing relationships, which can be divided into four main stages, as shown in Figure 3.

Figure 3 The process of developing a contact into a beneficial relationship



Source: own elaboration.

How might this process look like in practice, for example, in relation to a company providing B2B (business-to-business) services? The first stage can pose some difficulties, especially when one does not have extensive “connections”, and the target group, which can be offered the most benefits, while maximising one’s own, has not been precisely defined. After gaining interest in a potential partner that meets certain criteria, where the personal contacts can turn out to be helpful, the company oriented towards building long-term relationships will be more focused on awakening and increasing confidence than on maximising their financial benefits in the short-term. Due to the lack of previous experience in working together, and the risk associated therewith, the first contacts may be limited to rather small assignments. The development of the relationship at this stage will be promoted by considerable commitment, frequent contacts between people, ensuring that certain benefits have been achieved, which in turn should build trust, which will allow for the continuation of cooperation and obtaining new, possibly larger assignments. They will be an opportunity to strengthen cooperation, mutual matching, simplifying and making the operations more routine, which will greatly reduce the costs incurred and will improve the profitability of orders. In turn, a well-established cooperation will promote building relationships aiming at achieving objectives other than purely financial (Figure 2).

## Summary and managerial implications

The suggestions presented in this article are not a guarantee of success and building beneficial, long-term relationships with every business partner. The results of the research indicate, however, that the orientation towards the simultaneous achievement of financial and non-financial benefits by both sides of the relationship is not common, and therefore, it may become a significant factor differentiating the company from others operating on the given market. Above all, however, this will require time, added value offered to the other partner, selection of and concentration on the most prospective partners, and effort spent on searching for mutually beneficial solutions and maintenance of proper daily contacts.

Sometimes, despite the efforts undertaken, there may appear disappointment, frustration and discouragement. This is due to the fact that the assessment of the benefits arising from business relationships may change together with changing circumstances, and even despite the best efforts of one of the partners, the overall balance of benefits may lead the other party to decide to terminate or limit the existing relationship. Potential benefits of permanent business relationships, indicated by the surveyed respondents, however, are high enough to fully justify this effort. On the other hand, it may be so large that despite its efforts the entity will be able to create only few or one strong relationship with its business partner. It is, therefore, recommended for this partner to be sig-

nificant or at least with a large development potential.

It is important to recognise that a personal feeling and gaining a direct contact to a decision-maker of a potential business partner does not necessarily mean that there will be a commercial transac-

tion completed, and even more, that one managed to establish a lasting business relationship. As shown in the article, there is still a long way to go, and requires crossing a number of stages of the defined process of developing the contact into the beneficial relationship.

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