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Sustained Monopolistic Business Relationships: A UK Defence Procurement Case

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Sustained Monopolistic Business Relationships: A UK Defence Procurement Case

Abstract

Business-to-business relationships within sustained monopolies, such as those within UK Defence Procurement, have received scant attention by Management Researchers. This is unusual because under these market circumstances there appear to be few incentives to achieve mutually beneficial outcomes despite their strategic policy importance. This paper argues that an understanding of the monopolistic environment using a Transaction Cost Economics theoretical framework and Relationship Marketing concepts provides an approach to solving this problem as well as testing aspects of these disciplines empirically in a novel area. This plan is supported by the results from a Pilot Study and the paper concludes by proposing a substantial research project to test this hypothesis in the UK Defence Procurement situation.

Keywords: Relationship Marketing, Transaction Cost Economics, Monopoly, Defence Procurement

(5703 words)

Introduction

This paper addresses an under-researched area of business-to-business relationships, namely the relationship which exists where one or both parties has a monopoly of supply or demand (Fishwick, 1993). Many theories of buyer-seller relationships have discussed in general terms the concept of structural bonds and opportunism, but not adequately applied them to the extreme situation of monopoly buyer and monopoly seller relationships. We first summarise the difficulties faced by the UK Ministry of Defence (MoD) and its major industrial suppliers in moving away from traditional, adversarial relationships whilst facing increasingly monopolistic business dealings. We then justify the use of a Transaction Cost Economics (TCE) model as a theoretical lens through which to view the problem. Because Relationship Marketing (RM) provides an effective framework for describing business-to-business relationships, this paper argues that its concepts can be used to address the problems identified when viewed through the TCE theoretical lens and at the same time enabling a better understanding of the dynamics of sustained monopolistic business relationships. The authors finally propose an exploratory research programme within the UK Defence Procurement (DP) environment to test the approach.

UK DP

Historically, the relationship between the UK MoD and the UK Defence Industries has been adversarial. On one hand, with equipment expenditure of £10,082 million in 2000/01 (DASA, 2000), the UK MoD has immense power as British industry's largest single customer. It can thus determine the *'size, structure, conduct, ownership and performance of the industry through pricing, profitability,*

technical progress and exports' (Hartley 1998). On the other hand, industry is a major exporter and contributor to the UK's balance of payments, its production for foreign sales reduces UK MoD's equipment unit costs, it develops strategically important technologies such as aero engines and is a significant employer in UK industrial areas. Lastly, the major UK Defence companies are virtual domestic monopolies and can team with foreign companies to further reduce the choice of supplier. The UK MoD/industrial supplier relationship is thus dominated by a monopoly market in which each side wields considerable power but where lack of trust and the option to leave often reduces efficiency, increases costs and offers little incentive to co-operate (Humphries & Wilding, 2001, Palmer, 2001, Parker & Hartley 1997). Against this background, in the 1999 UK Defence White Paper (Cm 4446, 1999) the Government stated that its *Smart Acquisition* initiative depended heavily on the concept of partnership in order to reap the benefits of competition and collaboration. It is this challenging and potentially mutually exclusive business objective that drives a need for research in this area.

The Monopoly Environment

In our search of the literature for a suitable model with which to examine the relationship conditions within a monopoly, we first considered 2 relationship power perspectives. Michael Porter's (1980) five forces model of competitive advantage considers business relationships are characterised by a short-term orientation, arms-length competition and the exercise of market power (Rugman & D'Cruz, 2000). However, although participants may aim to achieve market dominance by limiting competition through the creation of barriers to entry, this does not accurately represent UK DP monopolies where equally powerful 'partners' can be locked in a 'deadly embrace' from which neither can escape. An alternative view is provided by Andrew Cox et al (2000) who see the combination of resource utility and scarcity creating a power regime in which the involved parties will employ adversarial/non-adversarial and arms-length/collaborative arrangements depending on their relative power positions. These options are shown in the matrix at Figure 1.

TAKE IN FIGURE 1

Quadrant 1 suggests limited information, resource sharing and the buyer/supplier aiming to obtain a greater share of the exchange value. In quadrant 2 a long-term, balanced relationship is sought where there is little sharing of specific assets but both parties gain some strategic benefit. In quadrant 3, the parties work closely together and share sensitive information and costly resources. However,

the dominant partner intends to take a disproportionate share of the returns. In quadrant 4, both sides enjoy a close, collaborative, equal arrangement, often called a 'partnership'. Although this approach offers a perspective on the appropriate use of power within a business relationship, it was optimised for use in 'normal' markets. In UK DP, where neither party has choice over the selection of relationship strategy and where equality of power really means equally disempowered, the Relationship Power Analysis matrix in Figure 1 fails to provide a robust framework for extending thinking on long-term, monopoly relationships.

In a review of the contracting and TCE literatures, we noted that when the cost of managing the risk associated with human factors such as opportunism became too high, the market could break down and force a firm to internalise the business, in effect creating an internal monopoly (Faulkner & de Rond, 2000). However, TCE treats the monopoly phenomenon as a short-term, highly undesirable market aberration which would normally be dealt with by government anti-trust regulation (Williamson, 1996). We have nevertheless adapted Oliver Williamson's (1975) Economic Organisations Failure Framework in Figure 2 to show the influences that create and sustain a monopolistic relationship and borne in mind that for the majority of major contracts in UK DP, monopoly is considered to be in the public interest (Fishwick, 1993).

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However, although both sides need to rely on maintaining close relationships over the supply of highly specialised goods (Grant, 1995), inevitably they are open to *opportunistic* behaviour (self-interest seeking with guile (Williamson, 1975)). This is especially the case since Sir Peter, now Lord Levene ended MoD's 'cosy relationship' with industry in 1985 (Hartley, 1998) which introduced *uncertainty and complexity* into the market. In seeking to obtain public expenditure value for money the UK MoD attempts to drive down industry's profit to a 'reasonable' level and in turn the contractor attempts to inflate the view of his costs to ensure the best possible rate of return. This deliberate obfuscation is *information impactedness* (selective information disclosures, and distortions which are difficult or expensive to verify at the time and which undermine the durability of contract arrangements) (Liston-Heyes, 1995). The consequences are that industry loses its incentive to perform better and, the UK MoD reduces the resources available to industry that might have been used to fund important Research and Development. This is *bounded rationality* where people have only so much capacity to rationalise what is going on around them and therefore naturally limit their performance to the

adequate rather than the optimum (Simon, 1957). The sum effect is the creation of an adversarial relationship without the freedom to look to the market for alternatives (Parker & Hartley, 1997) and the formation of *small numbers/monopoly* situation. Although the authors can find no empirical research using Williamson's (1975) Framework in similar circumstances, it seems to have face validity because the factors it represents are readily observable in the UK DP situation (Humphries & Wilding, 2000). We have therefore decided to use it as the basis of our theoretical framework with which to investigate this unusual situation. We now turn to a critical review of RM with the intention of determining the extent to which its business-to-business relational concepts can provide a means of understanding the dynamics within sustained monopolistic conditions and especially those found between the UK Ministry of Defence and its industrial suppliers.

The Importance of Relationships in Marketing

An RM view of marketing is that it aims to establish, develop and maintain successful relational exchanges which involves designing and negotiating strategic partnerships with vendors and technology partners through which the firm deploys its distinctive competencies to serve market opportunities (Webster, 1992). The RM literature also provides comprehensive views of the various styles used by firms and individuals when they do business with each other. These perspectives do not just draw on Marketing for inspiration but also on Behavioural Psychology (Simon, 1957), Sociology (Naude & Buttle, 2000), and Organisation (Hatch, 1997). Such approaches might seem to be simplistic but at the fundamental level social relations shape and define the nature of synergistic interactions between firms (Madhok, 2000) and may provide a starting point from which to understand an essentially uncharted area. This section of the paper therefore uses RM concepts to explore the business drivers, the development of various theories, the key variables and their relevance to monopolistic business-to-business relationships.

Drivers for Closer Business Relationships

In the last 20 years competitive pressures have forced companies to become more reactive to satisfying rapidly changing, specific customer needs in global markets and prompted a search for reduced transaction costs and more efficient, agile processes (Christopher, 1997). Firstly, quality systems, such as Total Quality Management, have encouraged 'reverse marketing' starting with the customer (demand driven/flexible manufacturing) and moving back to procurement process efficiencies (reduced cycle times and inventory) (Lewin & Johnston, 1997). Secondly, Supply Chain

optimisation has stimulated the use of IS tools and networks and highlighted the importance of relationships involving fewer, key suppliers to build competitive advantage (Wilson, 1995). This competitive advantage includes access to new technologies, information, skills and markets, increased capabilities to provide a wider range of products and services and, improved management that realises the importance of customer satisfaction, customer retention and relationships to the firm's performance (Mohr & Spekman, 1994). More recently Supply Chain Management describes a business environment in which firms closely co-operate rather than compete to achieve mutual goals (Perks & Easton, 2000). In summary, when allied to a concentrating and globalising trend of business, these factors have produced a dramatic shift from domestic, transactional sourcing to a New Procurement Paradigm based upon global, relational sourcing (Sheth & Sharma, 1997).

The MoD and its industrial partners have felt the same winds of change. The ending of the Cold War in 1989 removed the concept of 'Defence at any cost' and instead the MoD has been driven relentlessly by operational, financial and political pressures to become smaller, flatter and more flexible by using out-sourcing, rationalisation, redundancies and stock reduction programmes (Cm 4446, 1999). More recently the *Smart Acquisition Initiative* (Hansard, 2000) introduced more streamlined processes under the banner: *faster, cheaper, better* and stated that partnering would allow it to overcome the adversarial relationships within a Defence market containing few competitors (MoD/CBI 1988). However, despite clear strategic intentions, practical implementation of partnering arrangements by the MoD has been slow, patchy and clouded by uncertainty over ways and means (Humphries & Wilding, 2001).

Relationship Marketing Theory Development

Early emphasis was on discrete transactions, planning, control and profit maximisation and the primary focus of the exchange relationship was precluding *killing and stealing* (Dwyer et al, 1987). Known as Sales Management, this thrived in large organisations in the 1970s and 80s and usually operated in an adversarial mode (McDonald et al, 1997). As organisations migrated from bureaucratic hierarchies to more flexible and decentralised structures and buyer-seller relationships become less adversarial, the role of marketing within the firm changed. The Japanese Keiretsu suggested avoidance of confrontation as a solution to disputes (Gundlach & Murphy, 1993) and required discrete market transactions to be displaced by closer, long-term relationships. Furthermore, the concept of value creation through collaboration rather than exchange depended on purposeful co-operation using

a web of operational and interpersonal connections and structures (Dyer & Chu, 2000) and could extend to groups of co-operating, similar product/service companies known as sourced, service consortia (Kakabadse & Kakabadse, 2000). Partnership has many definitions but is generally a purposive, strategic relationship between independent firms sharing compatible goals and striving for mutual benefit (Palmer, 2001). Linkage takes place in form and substance that goes beyond the conventional flow of products and paper (Mohr & Spekman, 1994). Firms are also likely to be involved in more than one type of relationship at any time and will classify suppliers/customers according to their importance and business complexity and adopt a portfolio approach to create and manage relationships appropriately (Olsen & Ellram, 1997).

Next, the idea of Industrial Networks saw pairs of firms in dyadic relationships forming focal, value-added partnerships and, together with a secondary network of other firms, managing the flow of goods and services around a specific market opportunity (Anderson et al, 1994). Hakan Hakansson's European Industrial Marketing Group (IMP) sought richer meaning in these relationships where the degree of closeness between network interactiond was termed 'embeddedness' (Metcalf et al, 1992). Relationships were seen as valuable resources and investments capable of increasing economic and technological efficiency and serving as information channels and means of reducing uncertainty. Another perspective was the Marriage Analogy that saw building and sustaining customer relationships (McDonald et al, 1997) as requiring similar relationship qualities to those in marriage. As a result of dealing closely with a partner a firm achieved reduced uncertainty, managed dependence, exchange efficiency and social satisfaction (Dwyer et al, 1987, Tuten & Urben, 2001). Additionally, the arrangement required bilateral investment, a long-term perspective and the avoidance of legal remedies to secure co-operation (Gundlach & Murphy, 1993, Gummesson, 1999). Finally, the New Marketing Paradigm emphasised the strategic importance of relationship building and maintenance by the appointment of senior managers to devote high level expertise and management to this key task as Key Account Managers (MacDonald et al, 1997).

Within monopolistic UK DP relationships transactional business has been the norm but given the drive to seek synergistic benefits, efforts have been made to forge improved relationships between the main protagonists of a dyadic nature. But, the lack of network dynamics has reduced the effectiveness of attempts to discover 'common ground' on which to establish 'embeddedness' and few incentives to

dispel adversarial practices have excluded the Keiretsu option. The Marriage Analogy, on the other hand, has been dismissed as imprecise and misleading in the context of many markets characterised by firms having multiple simultaneous relationships. However, in the case of UK DP a much stronger case seems possible for its relevance although a key limitation is the impossibility of 'divorce'. Finally, the MoD has appointed senior people to take responsibility for managing specific relationships or key accounts.

Relationship Variables

We next address the key variables used within RM theories in order to identify the important relational features that build and sustain successful business-to-business relationships. A summary of these together with the authors who proposed them as issues is in Figure 3.

TAKE IN FIGURE 3

Trust and Commitment

Our treatment of trust and commitment is combined because these variables are highly intertwined in a rich seam of business, organisational and behavioural interactions. Moreover, many writers have remarked on this complexity and highlighted their importance to the stability and productiveness of business-to-business relationships (Faulkner & de Rond, 2000, Frow, 2001, Morgan and Hunt, 1994, Sheth & Sharma, 1997).

Trust is a complex entity, which is not easy to measure (Gulati, 1995). It has an extensive literature and for the sake of maintaining a clear focus on the business-to-business relationship area, this review takes a simplified perspective. Trust enables co-operative behaviour, promotes improved relationships, reduces harmful conflict and allows effective response in a crisis (Doney & Cannon, 1997). Trust requires risk (a perceived probability of loss) (Cowles, 1997), uncertainty (over the intentions of the other party) (Doney & Cannon, 1997), interdependence (where the interests of one party cannot be achieved without reliance on the other) (Kumar, 1996) and choice (alternative options are available) as essential conditions. Both Economics and Games Theory see trust as a stable phenomenon that either exists or doesn't (Williamson, 1996, Axelrod, 1984). Others see it as being 'caused' (e.g. by previous good experience, institutional reputation, commitment) and affecting factors such as openness, reliability and honesty (Goleman, 1998). A further assessment is a combination of all these elements in a complex interaction between parties which sometimes requires a leap in faith

to achieve but results in the creation of a reservoir of goodwill and the incentive to go the extra mile (Kumar, 1996). Therefore, in an era of more flexible organisation forms, there is a shift from institutional to relational trust (Rousseau et al, 1998) which links to the development of RM itself. Trust is of crucial importance in industrial and marketing contexts (Cowles, 1997) and manifested when a party has fundamental belief/confidence that the other partner will act reliably and with integrity in the best interests of the other (Kramer, 1999). There is little doubt that repeated cycles of exchange, risk-taking and successful fulfillment of expectations strengthens the willingness of parties to rely upon each other and, as a result expand the relationship – in effect producing a virtuous circle that can be developed and promoted (Goleman, 1998).

Commitment is viewed as an outcome of trust because without it, the relationship lacks credibility and growth potential (Naude & Buttle, 2000). Commitment is defined variously in the literature as the belief by an exchange partner that the relationship with another is so important as to warrant maximum effort to maintain it indefinitely (Morgan & Hunt, 1994). The desire to expend considerable additional effort in building the relationship is a recurring theme as is an implicit or explicit pledge or enduring desire to maintain a valued relationship (Moorman et al, 1992, Wilson, 1995). At the interactive level there can be an implication of stability, loyalty and sacrifice in both interorganisational and interpersonal dealings.

It is difficult to understand how trust and commitment might thrive in the monopoly environment envisaged by Williamson (1975). We have speculatively modified Morgan and Hunts (1994) Commitment-Trust Theory in Figure 4 to illustrate the problems.

TAKE IN FIGURE 4

Information Impactedness and Bounded Rationality have been added as negative influences. The model defines Reduced Propensity to Leave as a significant outcome. However, in a UK DP monopoly neither side is free to quit and this would instead provide a further negative input to Relationship Commitment and exclude the beneficial influence of Relationship Termination Costs. The addition of these factors might make the attainment of the model's positive outcomes rather more difficult to achieve. Nevertheless, a number of successful relationships are visible within UK DP monopolies so it must be possible to promote co-operative behaviours that break out of the Organisations Failure Framework's downward spiral and enter Goleman's (1998) virtuous circle where

integrity breeds credibility which in turn breeds further integrity. Writers are clear that both trust and commitment require an enormously challenging learning curve to deliver effectively but, the benefits are better customer service, superior communication and increased joint profitability (Dyer & Chu, 2000). In summary, although trust and commitment are strong, supportive factors that are communicated explicitly by action and without which a sound relational exchange will fail to deliver full benefits, quite how they affect the dynamics of monopolistic, UK DP relationships is unknown.

Co-operation, Co-ordination and Collaboration (C³ Behaviour)

These closely related variables are termed 'C³ Behaviour' in this paper. Co-operative, co-ordinating and collaborative behaviour is defined as working together/jointly to bring resources into a required relationship to achieve effective operations in harmony with the strategies/objectives of the parties involved, thus resulting in mutual benefit (Axelrod, 1984, Humphries & Wilding, 2001, Oliver, 1990, Stern & Reve, 1980). These views describe the boundary markers within which productive relationships can take place (Mohr & Spekman, 1994). C³ Behaviour actions are similar or complementary, co-ordinated actions needed to achieve mutual outcomes with reciprocation over time (McDonald et al, 1997). At a higher level, C³ Behaviour rather than pure exchange is used to create real value; an organisational competence known as 'collaborative advantage' which requires developed mechanisms, structures, skills and processes (Moss Kanter, 1994, Rugman & D'Cruz, 2000). A more product-oriented approach requires collaboration or coalescing between buyers and sellers to produce quality products and reduce costs (Metcalf et al, 1992). It appears that C³ Behaviour is a complete antithesis of those potentially found in monopolistic relationships where concentration on safeguarding against opportunism endangers the level and quality of co-operation and adversely affects the level of value attained through collaboration (Madhok, 2000). And yet in a growing climate of reducing UK Defence spending and market concentration, perhaps the driving motivation to use C³ Behaviour might be survival rather than a simple desire to leverage mutual capabilities.

Long-term Orientation

A long-term orientation is an essential prerequisite for moving away from adversarial relationship. It suggests continuity, stability, predictability and working together consistently to achieve sustained competitive advantage and an opportunity to build trust and commitment (Oliver, 1990). This attitude is also instrumental in increased morale, co-operation and improved dispute settlement procedures

(Lewin & Johnston, 1997). Unfortunately the Defence Procurement business has always been characterised by short-termism due to the limited Parliamentary spending horizons that are often characterised by 'stop-go' policies and this uncertainty introduces a strong source of bounded rationality and limited vision. The result is incongruity and tension where short-term behaviour is promoted within an inescapable, long-term relationship and it would be interesting to probe this phenomenon to discover if it is possible to reconcile the two.

Interdependence, Power and Conflict

A relationship will not survive unless both sides are dependent upon each other to achieve their objectives and loss in individual autonomy is compensated through the expected gains (Mohr & Spekman, 1994, Rugman & D'Cruz, 2000). A key outcome of interdependence is reduced temptation to act opportunistically and thus to prolong the relationship (Lewin & Johnston, 1997). Interdependence is built and reinforced by both parties investing in the relationship. Such investments are likely to be non-retrievable such as funds, equipment, IS, tacit knowledge, skills and management time (Sheth & Sharma, 1997). Power-play also determines whether an interdependent relationship will survive. Power is a complex variable with both beneficial and destructive properties, even when not exercised overtly. Unbalance, or asymmetry, can make one partner susceptible to the power and influence of the other (Hatch, 1997) and, as already mentioned at the beginning of this paper, can be the basis of a deliberate business strategy (Cox et al, 2000). However, this need not be destabilising as long as the perception of equity (a relationship between equals (Watson, 1999)) remains in terms of sharing the outcomes and participation in the venture. Destructive conflict (opponent-centred behaviour (Stern & Reve, 1980)) should not be confused with functional conflict (creative abrasion (Eisenhardt et al, 1997)). The latter's freedom to disagree takes place in an atmosphere of trust and not only enables the productive resolution of disagreements but also produces innovation from teamwork (Hatch, 1997). The table at Figure 5 shows a comparison of the destructive aspects of power, monopoly and trust. Neither power nor trust quite accurately sums-up the monopoly situation where you will find that mutual imprisonment without an exit option or means of complaint (Gummesson, 1999) limits freedom of action and mutually disempowers. For example, contracts will necessarily be long term but they may not be open or informal and more often than not infested with opportunism and adversarialism. Additionally there will be no opportunity to choose partners with

'appropriate values' and a negotiating strategy is likely to be both constrained and empowered by having only one partner.

TAKE IN FIGURE 5

Adaption and Communication

A different type of investment is that which adapts to the needs of the relationship. Examples are products, procedures, inventory management, attitudes, values and goals and these mark a commitment to maintain the relationship. The extent to which adaptations are made will depend on the type and complexity of the product/service, the depth of information exchanged and the extent of organisational social and operational contacts and degree of co-operation required (Metcalf et al, 1992). Multi-level, intensive communications are essential in successful relationships (Moss Kanter, 1994). They flow through honest, open channels from joint planning and goal setting where mutual expectations are established and measured and allow the breadth and depth of the complex interaction to be managed (Gaski, 1984). At the operational level, clear guidelines on the sharing of proprietary information and technology influence product development, costs, sales and revenues and increase commitment (Wilson, 1995). Such is the degree of technical and design complexity within UK DP that adaption and communication must be viewed as key relational success factors. However, the issue of intellectual property rights (IPR) is often the factor that defines the monopoly and is a root cause of disagreement and discontent. Moreover, adaption and communication may be exercised under mutual duress rather than within a spirit of willing, openness.

Building Relationship Management

In the last few sections a number of key relationship variables have been reviewed. Leading from them, the table in Figure 6 summarises a number of practical, normative management measures that can be taken to build and sustain a business partnership but which also appear relevant to the UK DP situation with its more challenging problems.

TAKE IN FIGURE 6

A management philosophy or corporate culture needs to be developed where companies can operate in a climate of trust and openness (Mohr & Spekman, 1994). Perhaps this can be accomplished by changing the reward systems which reinforce the behaviours that generate trust, mutual goals and adaption (Wilson, 1995) but, the difficulty of changing the mindsets of staff should not be underestimated (Sheth & Sharma, 1997). The importance of rich interpersonal relationships to the

growth of trust is often mentioned, but there is an alternative pragmatic view where close personal relationships are not essential and where enlightened self-interest operates such that both press hard for advantage but stay within their trust compact (Kumar, 1996). In the final analysis, business relationships depend on clearly understanding each other's needs and the maintenance of an agreed framework within which to prosecute shared objectives. It is possible that in a monopoly this framework can never be more than an uneasy truce.

A Theoretical Framework for Research

The development of Relationship Marketing thinking appears to have mirrored that of the UK MoD and its industrial suppliers such that both see the need for strategic interaction at a relational rather than a transactional level (CM 4446, 1999). Moreover, they understand they must put aside their traditional approach based upon the *power game* (Kumar, 1996) and embrace partnering principles based upon trust (Watson, 1999). However, implementing these concepts appears to be extremely difficult, potentially because of the monopolistic aspects of their situation. The RM literature describes a complex suite of relationship variables that might provide some clear insights to the improvement of monopolistic relationships within UK DP as long as one is wary of those aspects based upon assumptions of free market choice. These are illustrated in Figure 7 where we have juxtaposed a selection of business relationship 'antidotes' to the essentially negative factors in Williamson's (1975) Economic Organisations Failure Framework.

TAKE IN FIGURE 7

Bounded Rationality might be reversed by enabling mutual creativity through open contracts, joint innovation, applying stretch targets, ensuring disputes are resolved quickly and fairly and by taking a long-term view of the relationship (Ganesan, 1994). Uncertainty/Complexity could be overcome by building relationship stability and creating a framework for successful business. This could include working more closely with fewer partners (Lewin & Johnston, 1997), pursuing mutual objectives through value creation, joint investment and harmonised processes and, building interdependence through C³ Behaviour (Moss Kanter, 1994). Creating a communication environment optimised for success might defeat information Impactedness (Sheth & Sharma, 1997). This could involve implementing multiple communication links at all level between firms (Mohr & Spekman, 1994, Morgan & Hunt, 1994) including KAM, IS, sharing business and design data, objective performance measurement and responding quickly to the other party's needs (MacDonald et al, 1997). Opportunism

requires measures to strengthen the relationship by creating a reliable business infrastructure; a focus on the quality of the relationship outputs is key as is clarity over the boundaries of the relationship. A creative approach to conflict and problem solving (Hatch, 1997), building goodwill, trust and commitment by incrementally building on achievements could create the necessary ingredients of a virtuous circle (Goleman, 1998). Lastly, Small Numbers might be addressed by incentivising a quality relationship with highly rewarding, shared gains (Watson, 1999) and, both sides feel empowered to strive dynamically for the mutual good and true equity to overcome power imbalance (Eisenhardt al, 1997).

We pose the following Research Question: To determine if it is possible to obtain an understanding of the monopolistic relationships within UK DP using the theoretical lens of Williamson's (1975) Organisations Failure Framework combined with RM's relational and behavioural factors.

Operationalising the Model

A triangulated data capture approach was designed using both quantitative (questionnaire) and qualitative (semi-structured interview) methods, which aimed to measure perceptions from both relationship sides. Operationalisation of the research instrument concentrated on the 5 dimensions of the theoretical model in Figure 7 using a 5 point Likert scale (Youngman, 1984) with questions grounded in the literature. The dimensions and 37 questions which achieved a satisfactory 0.7977 level of Coefficient Alpha in the study (Bowman & Ambrosini, 1997) are shown in Appendix 1. The semi-structured interview design involved following-up the dominant quantitative results by capturing 'why' information from senior relationship managers for each dimension of the relationship in question i.e. what were the key factors that resulted in success or failure? By this additional means it was intended to obtain the richness of perceptions needed to gain insight into the subtleties and cultural depth of the business problem.

The Pilot Project

In order to test the research approach, a pilot project was carried out which examined both Industry and MoD perspectives of a current, UK DP relationship. This was a true monopoly worth £40m per year for the purchase of aircraft spare parts and the provision of repair services. Questionnaires were administered to both team leaders and their staffs and a 100% response was received from the 50 respondents. The survey was followed-up by 30 minute semi-structured interviews with the 2 team

leaders. The joint statistical results are summarised in Figure 8 and, together with the semi-structured interview key points must be treated with some circumspection because of the small sample of respondents.

TAKE IN FIGURE 8

Nevertheless, they enable the following observations to be made:

- **The Model:** Although the overall relationship satisfaction score of 47% bears out the predominantly negative prediction of Williamson's (1975) Organisations Failure Framework, those of the 5 dimensions are neither uniformly optimistic nor pessimistic. The use of the theoretical model thus allows a pattern of results to be discerned for a particular business relationship.
- **Bounded Rationality – Creativity 53%:** There was some evidence of a desire to improve service quality but low performance expectations were caused by a lack of joint activities to improve planning and problem-solving.
- **Uncertainty/Complexity – Stability 28%:** This result highlights an unwillingness to take a long-term view of the relationship by investing in relationship-building (adaptive) measures such as improved commercial and business processes.
- **Information Impactedness – Communication 58%:** Despite the rating, both team leaders mentioned the poor quality of shared data and their fear that the other party would use honest performance figures as a weapon against them. Nevertheless despite this lack of trust, actions to improve matters such as staff exchanges, were being taken which indicated a desire to seek better adaption.
- **Opportunism – Reliability 34%:** This result highlights a mutual lack of confidence and trust in the ability of the other to deliver the contract outputs. The view appeared to be based upon poor C³ and opportunistic behaviours over pricing and service delivery moreover, it was mentioned that tensions in the relationship were destructive rather than constructive.
- **Small Numbers - Quality 57%:** Overall, the parties expressed feelings of helplessness at their inability to find ways to improve the relationship and achieve an equitable arrangement although one remarked that the other's acknowledgement of poor performance in the survey was at least a start.

- **RM**: The Pilot Study considered a monopoly where there was patently a poor relationship and as predicted by the model, negative behaviours were observed for which RM enabled a useful understanding. However, a larger sample is required to establish a clear view of the dynamics.
- **Business Perspective**: The team leaders mentioned that the detailed charts which provided a comparison of the parties' views question by question had, for the first time, given them a clear perspective of the relationship and would allow them to start detailed discussions on improvement measures.

Conclusion

Within the business environment and the RM literature in particular, much study has identified the key relational dynamics and success factors. However, in the area of sustained, full monopolies there is little theory supported by empirically derived evidence. The authors have identified a substantial enterprise which annually spends over £10bn per year and where very powerful actors, the UK MoD and Defence Industries, are locked into relationships which potentially disempower their efforts to obtain adequate value for money for tax-payers and profits for shareholders. This paper considered the face value of Williamson's (1975) Organisations Failure Framework providing a realistic lens through which to view UK DP monopolistic business-to-business relationships and the suitability of RM as an 'idiom' capable of describing them. The results of a Pilot Project have confirmed the validity and feasibility of this exploratory research approach and the authors now intend to extend their project to a further 53 monopolistic relationships. This will allow Williamson's (1975) Organisations Failure Framework and RM theories to be tested empirically in a business environment which has received scant attention by Management Researchers. There will also be immense practical benefits if it is possible to help UK DP managers to improve the performance of their business.

Appendix 1 – Questionnaire Dimensions and Questions

1. Bounded Rationality - Creativity: promoting quality, innovation and long-term approach by encouraging high performance.
 - a. The relationship encourages the achievement of high performance by both parties ie. reliable equipment, on-time delivery, good forecasts.
 - b. The relationship encourages us to be innovative in the way we do business.
 - c. Performance measurement is used to raise standards.
 - d. Disputes & problems are resolved: 'quickly'.
 - e. Disputes & problems are resolved: 'fairly'.
 - f. The other party is reliable and consistent in dealing with us.
 - g. The other party is dedicated to making our business a success.
 - h. **When an unexpected problem arises, both parties would rather work out a solution than hold each other to the original contract terms.**
2. Uncertainty/Complexity - Stability: synchronisation of objectives and confidence building.
 - a. The other party displays a sound, strategic understanding of our business.
 - b. The objectives of both parties are clearly stated.
 - c. The objectives of both parties are fully compatible.
 - d. Both parties co-operate wholeheartedly.
 - e. The relationship provides a dynamic business environment within which both parties can seek increasing rewards.
 - f. **I have complete confidence in the intentions of the other party.**
3. Information Impactedness - Communication: shared data environment, openness, common performance measures, frequent interaction.
 - a. Where the other party has proprietary information that could improve the performance of the joint business, it is freely available.
 - b. We would welcome a shared data environment where planning, technical and pricing information are made freely available.
 - c. We understand the information requirements of all participants in the support chain from sub-contractors to end-user.
 - d. Exchange of information in this relationship takes place frequently and informally – not just according to specified agreement.
 - e. Objective performance measurement is an important part of this relationship.
 - f. We are aware of the performance requirements for all participants in the support chain from sub-contractors to end-user.
 - g. **We provide the other party with regular information including long-range forecasts to enable him to do his business better.**
4. Opportunism - Reliability: concentrating on service and product delivery, lowering joint costs and risks, building up trust.
 - a. The quality of the contract outputs ie. spares/repairs/services, is entirely satisfactory.
 - b. The quality of service delivery ie. delivery times, billing, payment, is entirely satisfactory.
 - c. The relationship is characterised by a continually improving quality ethos.
 - d. Problems are solved in a joint, open, constructive manner.
 - e. Such is the goodwill in the relationship, the other party would willingly put himself out to adapt to our changing requirements.
 - f. We trust the other party to act in our best interests.
 - g. The responsibility for making sure the relationship works is shared jointly.
 - h. The other party provides us with useful cost reduction and quality improvement ideas.
 - i. The other party is always totally open and honest with us.
 - j. **The other party always does what he says he will do.**

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

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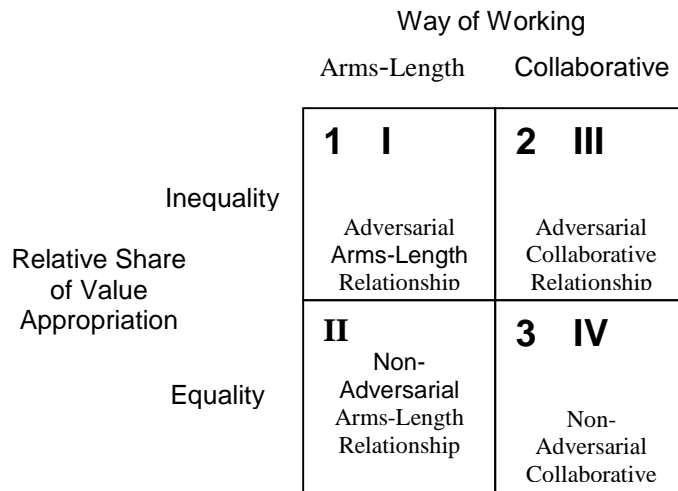


Figure 1. Relation Power Analysis (Cox et al, 2000)

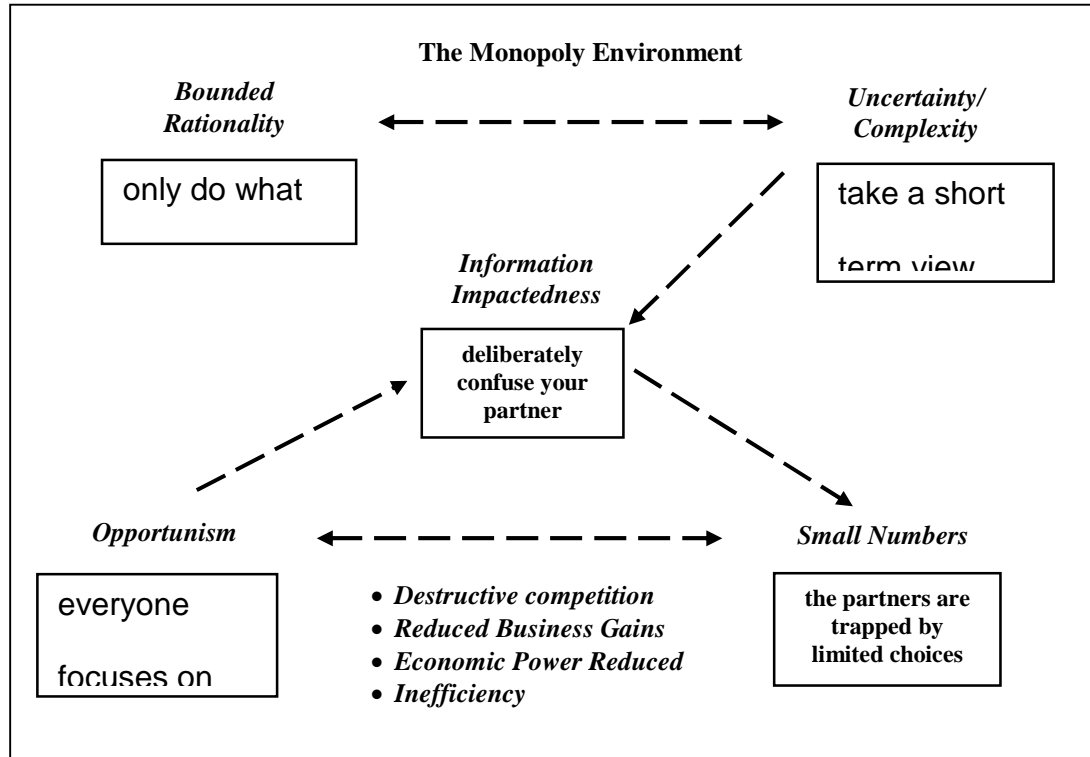


Figure 2. Economic Organisations Failure Framework (adapted from Williamson (1975))

Writer	Trust	Commitment	C ³ Behaviour (Coordination, Collaboration, Cooperation)	Long Term Orientation	Interdependence, Power, Conflict	Adaptation & Communication	Culture Change
Axelrod, 1984	X		X				
Cowles, 1997	X						
Doney & Cannon, 1997	X						
Dyer & Chu, 2000		X					
Eisenhardt et al, 1997					X		
Faulkner & de Rond, 2000	X		X		X		
Frow, 2001	X	X		X	X		
Gaski, 1984						X	
Goleman, 1998	X						
Gulati, 1995	X						
Gummesson, 1999					X		
Hatch, 1997					X		
Kramer, 1999	X						
Kumar, 1996	X						X
Lewin & Johnston, 1997				X	X		
Madhok, 2000		X				X	X
McDonald et al, 1997			X				
Metcalf et al, 1992			X			X	
Mohr & Spekman, 1994			X		X		X
Moorman et al, 1992		X					
Morgan & Hunt, 1994	X	X					
Moss Kanter, 1994			X			X	
Naude & Buttle, 2000		X					
Oliver, 1990		X	X	X			
Palmer, 2001			X	X	X		
Rousseau et al, 1998	X						
Rugmen & D'Cruz, 2000			X	X			
Sheth & Sharma, 1997	X	X			X		X
Stern & Reve, 1980			X		X		
Tuten & Urban, 2001	X				X	X	
Watson, 1999					X		X
Williamson, 1996	X						
Wilson, 1995		X				X	X

Figure 3. A Digest of Business-to-Business Relationship Success Variables

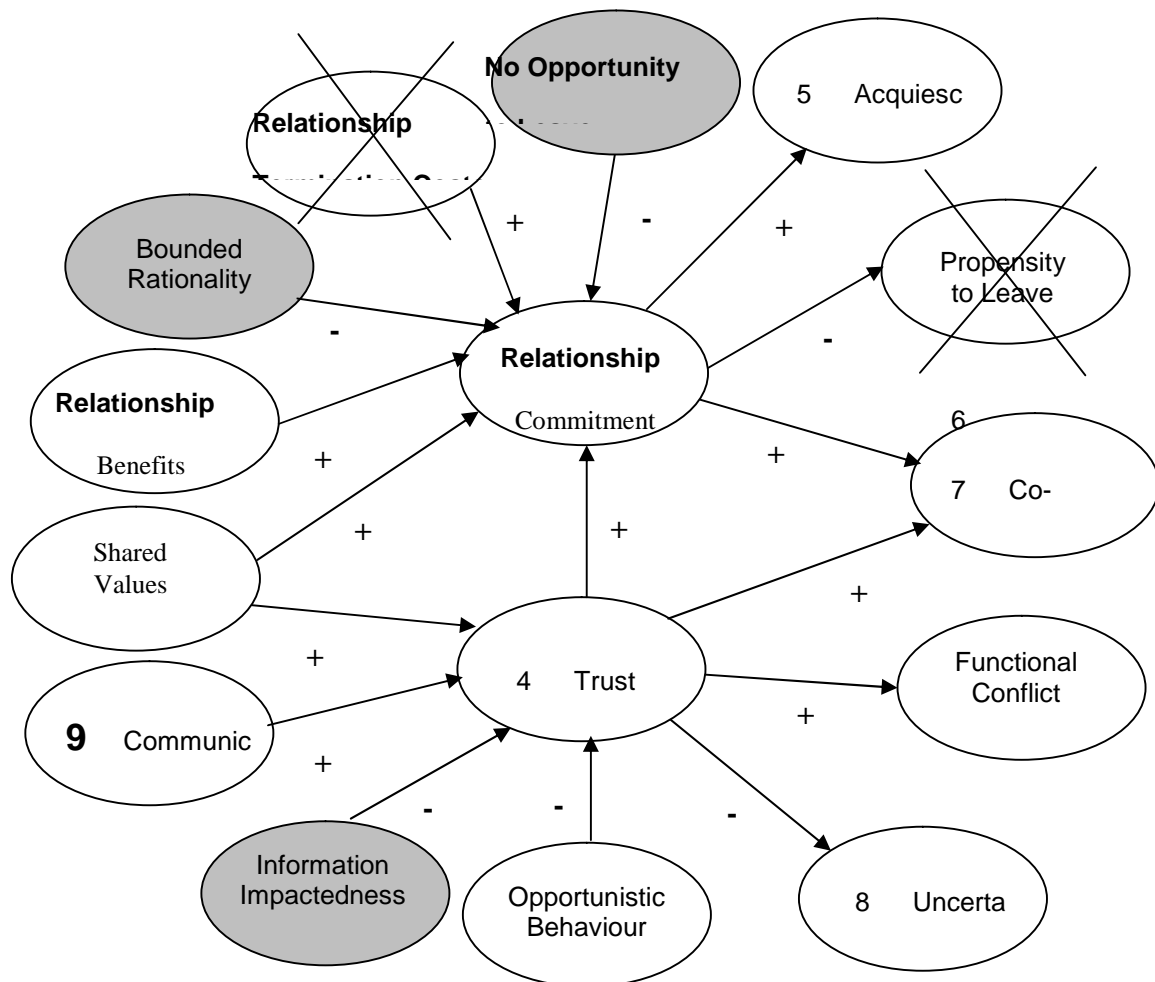


Figure 4. The Commitment-Trust Theory with Possible Monopoly Components
(Adapted from Morgan & Hunt, 1994)

	Power	Trust	Monopoly
Modus Operandi:	Create fear	Create trust	Create distrust
Guiding Principle:	Pursue self-interest	Pursue what's fair	Pursue self-interest
Negotiating strategy:	<p>Avoid dependence by playing multiple partners off against each other</p> <p>Retain own flexibility but lock in partners by raising their switching costs</p> <p>Primarily unilateral</p>	<p>Create interdependence by limiting the number of partnerships</p> <p>Both parties signal commitment through specialised investments to lock them in</p> <p>Bilateral</p>	<p>Create interdependence; no other option</p> <p>Both parties achieve dependence through specialised investments seen as hostages that lock them in</p> <p>Closed - bilateral</p>
Communication:	Through coercion	Through expertise	Through mutual coercion
Influence:	Closed, formal, detailed, short term	Open, informal, long term	Closed, formal, long term
Contracts:	<p>Use competitive bidding frequently</p> <p>Reduce conflict potential through detailed contracts</p>	<p>Check market prices occasionally</p> <p>Reduce conflict potential by selecting partners with similar values & by creating mutual understanding</p>	<p>Limited market price comparison possible</p> <p>Conflicts often unresolved</p>
Conflict management:	Resolve conflicts through legal system	Resolve conflicts through procedures such as mediation or arbitration	Legal recourse and liquidated damages difficult to apply

Figure 5. Power & Trust Compared with the Addition of a Monopoly Perspective (Adapted from Kumar, 1996)

<ul style="list-style-type: none"> • First Generation Partnering: <ul style="list-style-type: none"> • Agreeing mutual objectives. • Making decisions and resolving problems openly as agree at the start of the project. • Aiming at targets that provide continuous measurable improvements.
<ul style="list-style-type: none"> • Second Generation Partnering: <ul style="list-style-type: none"> • Develop strategy jointly. • Embrace participating firms fully. • Ensure equity by allowing all to be rewarded on the basis of fair prices and profits. • Integrate firms through co-operation and trust. • Benchmark performance accurately. • Establish best practice processes and procedures. • React to feedback positively and quickly.
<ul style="list-style-type: none"> • Third Generation Partnering: <ul style="list-style-type: none"> • Understand the client's business and its success factors. • Take joint responsibility for key outputs. • Turn the main processes into a seamless chain of value-adding activities. • Mobilise full partnership development expertise. • Create expert teams and Key Account Managers. • Innovate jointly.

Figure 6. The Three Generations of Partnering (adapted from Watson, 1999)

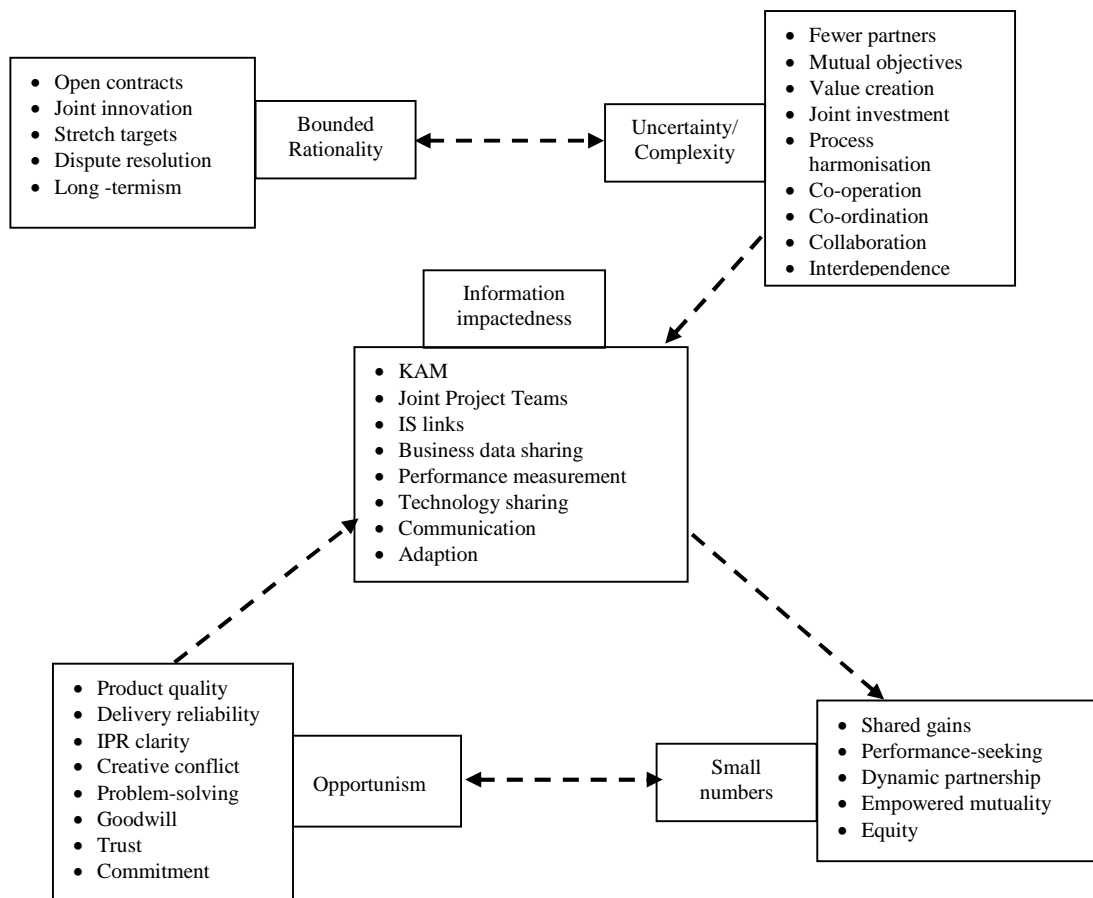


Figure 7. A Conceptual Framework for Research – Williamson's (1975) Economic Failure Framework with Relationship Success Factors

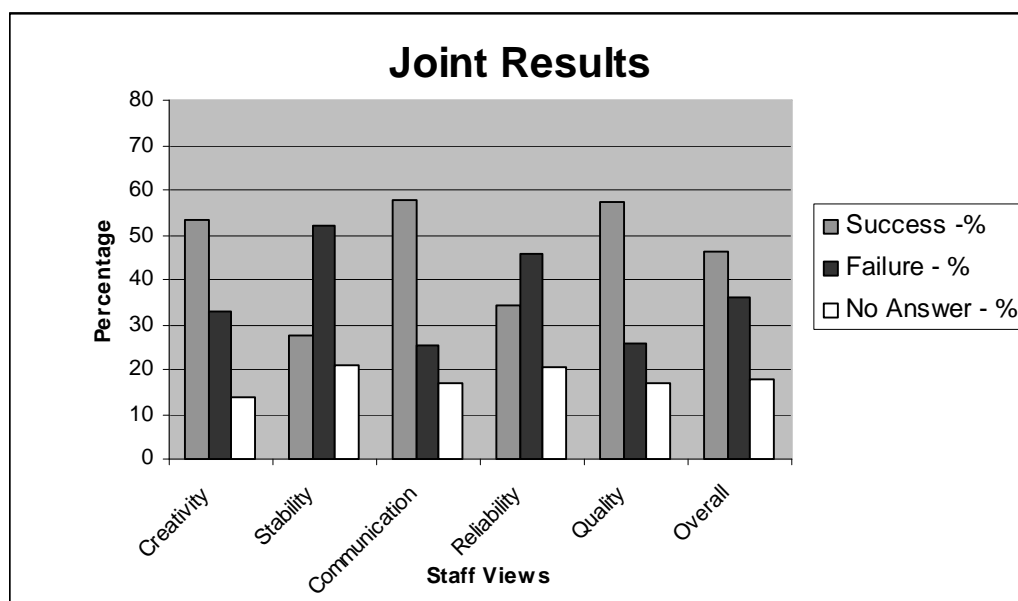


Figure 8. Results of Pilot Project Questionnaire Survey

Sustained monopolistic business relationships: A UK defence procurement case.

Humphries, Andrew

2004-01-01T00:00:00Z

Andrew Humphries and Richard Wilding; Sustained monopolistic business relationships: A UK defence procurement case, European Journal of Marketing, 2004, Vol. 38, No. 1-2, pp99-120

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