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SUPPLIER-CUSTOMER RELATIONSHIP PERFORMANCE IN CONSTRUCTION INDUSTRY

Business relationships are seen as having positive links to performance but little is known about the nature of this performance. The purpose of this paper is to show the sales managers' performance relationship (operationalized based on B2B-RELPERF) in construction industry. The research was conducted among companies from construction industry which is perceived as focused on time limited projects, switching suppliers from one project to another which makes it difficult to develop long term relationships with customers.

Key words: business-to-business, relations, construction industry, relationship performance

Introduction

Companies operating in the modern economy are constantly looking for solutions that would allow achieving a competitive advantage and could provide a basis for developing their market success. The idea of relationship marketing becomes increasingly important on B2B market. An important strategic value for B2B companies becomes the creation and management of relationships with partners. Exchange based on partner relations refers to the process in which the supplier and the customer form strong social, economic, service and technical bonds which purpose is to reduce transaction costs and increase delivered value. This leads to mutual benefits. But is it possible to implement the idea of relationship marketing developed in the Nordic countries in every culture and in every industry?

The purpose of this paper is to show the sales managers' performance relationship in construction industry. The choice of the industry was purposeful - construction market is considered to be the area where the well-established relationship between the supplier and the customer are rare to find. Previous studies on companies in this market have indicated a low level of relations, whilst the presence of a number of relationships barriers can be observed. On the other hand the critical opinion on construction companies could affect their behaviour and change their approach to supplier-customer relationships. Therefore it is worth verifying - despite the conclusions of previous research conducted in this market - whether there is a group of companies with a relational approach. This will be the first step in determining the characteristics of relationships with customer.

This paper is organized as follows; firstly, the revision of the literature on relations and relations performance is presented. Secondly the construction industry conditions that influence the relationship are discussed. Then research conducted on construction companies is described. The last section contains conclusions.

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The role of business relations

The focus on relationships between companies results from the fact that institutional buyers and sellers behave differently than the entities operating in the consumer market. The relatively small number of buyers, high value of purchases, the direct nature and complexity of the purchase lead to the existing of close, personalized and multi-faceted relationship between buyer and supplier in the B2B market¹. Relational approach is largely associated with the research achievements of IMP Group - Industrial Marketing and Purchasing Group².

ies expect the benefits that may result directly form the relationship and indirectly from the effect of the relationship on future events and interactions or on other relationships³. Taking into account the features of the relationship according to the classical approach⁴, the relationship can lead to:

- building relationships between partners, leading to interactions described in the ARA model; because of the relationship comes to qualitatively new interactions,
- creating benefits for actors in the relationship, which could not be achieved without this relationship,
- affecting other links that lead operators to extend or strengthen the network of relationships.

Operating in the knowledge-based economy requires emphasize that the function of the relationship - apart from access to information and knowledge possessed by a partner - is also running or facilitating the learning process. Relationships affect learning directly through the increase of knowledge resulting from the joint resolution of problems and form the developed by supplier and buyer new solutions. Indirect effects are also possible, that go beyond the specific relationship - what the supplier learns during interactions with the buyer can be offered to other customers⁵.

Relationships performance

As managers and researchers observe that good versus poor relationships significantly affect business performance, there is an increasing concern with achieving a better understanding of relationship development with business partners⁶.

The study of relationships is now a well-developed stream of thought in the literature from both a buyer and supplier perspective. Relationships are seen as having positive links to performance but little is known about the nature of this performance. Relationships themselves can be seen as generic; applying to all buyer-seller exchanges.

¹ P.Kwiatek, G. Leszczyński, M. Zieliński, *Komunikacja w relacjach business-to-business*, Advertiva, Poznań, 2009.

² www.impgroup.org

³ J.C. Anderson, H. Hakansson, J. Johanson, *Dyadic business relationships within a business network context*, *Journal of Marketing*, Vol. 58, No. 4, Oct., 1994, p1-15.

⁴ IMP Project Group, *International Marketing and Purchasing of Industrial Goods*, Chichester, John Wiley&Sons, 1982.

⁵ L. Arajujo, A. Dubois, L.-E. Gadde, *Managing Interfaces with suppliers*, *Industrial Marketing Management*, 1999, Vol. 28, 497-506.

⁶ C. Lages, C.R. Lages, L.F. Lages, *The RELQUAL scale: A measure of relationship quality in export market ventures*. *Journal of Business Research*, 58(8), 2005. 1040-1048

These are mutual, two-way, involved exchanges between buyers and suppliers⁷. The importance of relationships to the conduct of business is widely supported in the literature – this research began in the 1970s in a European context within the IMP group⁸.

Various theoretical perspectives from a wide range of disciplines (social psychology, sociology, and anthropology, social exchange theory) have been applied to understand interfirm relationship performance. Palmatier et al indicate that research in the relationship field should follow a multidimensional perspective because there is no single or best dimension able to capture the full essence of relationship phenomenon⁹. Most researchers investigating interorganizational relationship performance use one or more of the theoretical perspectives. Extant marketing literature predominantly uses (1) commitment– trust, (2) dependence, (3) transaction cost economics, and/or (4) relational norms perspectives to understand interfirm relationship performance¹⁰. Each of these perspectives suggests different key drivers of exchange performance.

Relationship dimension

Many authors attempted to characterize the relationship. However, it is difficult for consistent results of this work. Initially, Hakansson¹¹ looked at the relationship through the prism of its content and features. Within the content relations are fulfilled with interaction between: actors, activities and resources (AAR Model). Relational functions are focused on three aspects: the creation of new relationships, the impact on network performance and network functions. This concept has been changed in further publications - the relationship was characterized in a structural and procedural dimension¹². This proposal was developed by Elaga i Eggert¹³, and expended later by Ritter i Geersbro¹⁴ by adding:

- relationship effects, within which we can distinguish effects of direct (cash, quantity, quality and safety) and indirect (innovative, informative, and incentive market) nature,
- Assessment of the relationship defined by trust, affective and calculative commitment and cognitive and affective satisfaction¹⁵,

⁷ T. O'Toole, B. Donaldson, *Relationship performance dimension of buyer-supplier exchanges*, European Journal of Purchasing & Supply Management, 8 (2002), 197-207.

⁸ H. Hakansson, *International Marketing and Purchasing of Industrial Goods*. Wiley, 1982, London.

⁹ R.W. Palmatier, R.P. Dant, D. Grewal, K. Evans, *A meta-analysis of the nomological network surrounding relationship marketing*. Cambridge, Mass.: Marketing Science Institute, 2005.

¹⁰ R.W. Palmatier, R.P. Dant, D. Grewal, *Theoretical Perspectives of Interorganizational Relationship Performance*, Marketing Science Institute Special Report 07-200.

¹¹ H. Hakansson, *International...*, op.cit.

¹² H. Hakansson, I. Snehota, *Developing Relationships in Business Networks*, London, Routledge, 1995.

¹³ W. Ulaga, A. Eggert, *Relationship value and relationship quality. Broadening the nomological network of business-to-business relationships*, European Journal of Marketing, 2006, Vol. 40, 311-327.

¹⁴ T. Ritter, J. Geersbro, *Navigating in Business Relationships: Distinguishing Relationship Value, Relationship Quality, and Relationship Structure*. The 28th IMP Conference: Combining the social and technological aspects of innovation: relationships and networks. Rome, 2012.

¹⁵ P. Kwiatek, G. Leszczyński, M. Zieliński, *Komunikacja...* op.cit.

- relationship structure, determined by the duration of the relationship, its complexity, degree of its formalization of balance of power and resources and interest in the relationship)¹⁶.

In addition, Ritter and Geesbro suggest completing relationship description by adding activities which are the subject of the relationship (relationship strategies, relationship management). This area refers to the strategic level, which goes beyond the scope of this paper⁷. It will for this reason not be developed in the text.

Based on verification of the four most often cited models for the relational exchange Fontenot and Wilson identified the important dimensions of the relationship in the marketing context. Among the several dimensions cooperation, interdependence, commitment, trust, opportunism, communication, conflict, power, shared values, the benefits of the relationship and the effects of the relationship (eg, increase operational efficiency) were recognized as the most important¹⁷. Slightly different measures of relationship performance were proposed by Lages et al., who developed RELPERF scale, which reflects the performance of a buyer–supplier relationship marketing process at a specific point in time. Following the findings of Dwyer, Schurr and Oh¹⁸ this scale is a higher-order construct composed of five dimensions: (1) relationship policies and practices; (2) trust in the relationship; (3) relationship commitment; (4) mutual cooperation; and (5) relationship satisfaction¹⁹. Findings reveal that the B2B-RELPERF scale based on those dimensions relates positively and significantly with customer loyalty. This scale will be used to measure relationship performance in construction industry.

Construction industry: considerations for relationship performance

Construction industry is perceived as focused on time limited projects, switching suppliers from one project to another which makes it difficult to develop long term relationships with customers. Thompson et al²⁰ argue that market-based interactions in construction industry are standard, and little attention is paid to relationships development. Construction companies do not make use of the potential of long-term supplier-buyer relationship and they are not convinced to develop those relations²¹. As reasons for such situation Dubois and Gadde indicate the following factors: the complexity of construction projects which are connected with dependable elements, high level of uncertainty, focusing on realization of the target project, a need to implement actions to the local conditions of a maintained project and the influence of tender

¹⁶ H. Hakansson, I. Snehota, *Developing...*, op.cit.

¹⁷ R.J. Fontenot, E.J. Wilson, Relational Exchange: A Review of Selected Models for a Prediction Matrix of Relationship Activities, „Journal of Business Research”, Vol. 39, 1997, s. 5–12.

¹⁸ F. Dwyer, P. Schurr, S. Oh, *Developing buyer–seller relationship*, Journal of Marketing 51 (1987), 11-27

¹⁹ L.F. Lages, A. Lancaster, C. Lages, The B2B-RELPERF scale and scorecard: Bringing relationship marketing theory into business-to-business practice, *Industrial Marketing Management*, 37 (2008), 686-697.

²⁰ I. Thompson, A. Cox, L. Anderson, *Contracting strategies for the project environment*, *European Journal of Purchasing and Supply Management*, Vol. 4, 1998, 31-41.

²¹ A. Anvuur, M. Kumaraswamy, *Conceptual model of partnering and alliancing*, *Journal of Construction Management and Engineering*, 2007, Vol. 133, 225-234.

procedures and cost approach to the rate of effectiveness²². Bresnen and Marshall stated that the developing relationship in construction market in the UK is a deviation from the standard²³. Crespin-Mazet and Protier wrote about common adversarial arms-length relations and seldom-appearing partnership on the French market²⁴. Dubois and Gadde reported that opportunistic behaviour and transaction-oriented approach prevail in Sweden²⁵.

Also in Poland the concept of relationship marketing is hard to observe in the construction industry. Economic crisis, fall-out of the conducted investments and commissions in the construct industry in 2008-2010, did not facilitate broadening of relationship marketing. During the economic downturn and drop in investments the lack of trust to business partners was particularly noticeable, because some investors made use of economic crisis and did not discharge their contractual financial obligations²⁶.

According to relationships literature, lack of partnership orientation may have a negative impact on commitment, trust, satisfaction, mutual co-operation and financial ratios.

Research problems and research methodology

Above mentioned considerations lead to the determination of the research problem, which concerns the evaluation of supplier-customer relationships in the construction market.

We have chosen to anchor the sales manager responses to a specific customer in order to facilitate them and avoid too general considerations. We asked to choose one of the key customers and to estimate relationship with that company. This approach was adopted from Ulaga and Eggert research on perceived relationship value²⁷.

The research problem needs to be clarified on the basis of quantitative data. In order to collect data a standardized questionnaire was designed. The questionnaire included questions on evaluation of relationships performance with key customers. On the basis of theoretical data included in the first part of the paper, relationship was operationalized based on B2B-RELPERF scale proposed by Lages et al. w 2007²⁸.

In total, 12 items measuring performance were included in the study; including items measuring satisfaction, commitment, trust, mutual cooperation and relationship policies and practices (table 1). Performance elements were measured using a 5-point Likert scale. The questionnaire was prepared in Polish and English versions.

22 A. Dubois, L.-E. Gadde, *The Construction Industry as a Loosely Coupled System: Implications for productivity and innovativity*. Construction Management and Economics, 20, 2002, 621-631.

23 M. Bresnen, N. Marshall, *Partnering in construction: a critical review of issues, problems and dilemmas*. Construction Management and Economics, 2000, Vol. 18, 229-237.

24 F. Crespin-Mazet, P. Portier, *The reluctance of construction purchasers towards project partnering*. Journal of Purchasing & Supply Management, 2010, Vol. 16, 230-238.

25 A. Dubois, L.E. Gadde, *The Construction...*, op.cit.

26 J. Singetzki, *Uwarunkowania...* op.cit.

27 W. Ulaga, A. Eggert, *Relationship...*, op.cit.

28 L.F. Lages, A. Lancaster, C. Lages, *The B2B-RELPERF...*, op.cit.

Table 1. B2B-RELPERF elements

the customer regards us with respect	B2B-RELPERF - relationship policies and practices
solving problem with the customer is easy	
when we report a problem, they can solve it easily	
a long-lasting relation with the customer is profitable	B2B-RELPERF - commitment
we cannot abandon the customer, because we are bound with him	
we want to supply him, because we are proud to cooperate with such a company	
we assume that the customer will behave as he promises	B2B-RELPERF - trust
we assume that the customer will consider our goals and our best interests	
the consumer provides us with mostly reliable information	
we regularly exchange information with the consumer	B2B-RELPERF – mutual cooperation
communication is open and good	
generally, we are interested in continuing cooperation with this consumer	B2B-RELPERF - satisfaction

Source: L.F. Lages, A. Lancaster, C. Lages, The B2B-RELPERF scale and scorecard: Bringing relationship marketing theory into business-to-business practice, *Industrial Marketing Management*, 37 (2008), 686-697.

In order to simultaneously reach a large number of companies the research was conducted among Budma 2013 trade fairs participants - the largest construction trade fair in Central and Eastern Europe. The research was conducted among 734 fair exhibitors (except for governmental, branch institutions and media). Persons responsible for sales' tasks: preparing offers, contacting customers, planning sales or developing products/services in companies were invited to take part in the study research. Drop and collect questionnaire was chosen as a research tool. This method is recommended to be used during research conducted in trade fairs environment²⁹.

The final sample consisted of 287 returned questionnaires (including 66 companies from abroad), for a response rate 39,1%.

Test group consisted of key account managers (43%), sales managers (30%) or trading directors (27%). Respondents can be described as experienced - half of them have been working for 8 or more years. The majority of examined companies represented SME (Me=30 persons). Every second company dealt with commerce (51,9%), one third dealt with manufacturing (35%). The smallest group consisted of service companies (27%).

Research results and discussion

In the table below the average scores given to specific relationships dimensions are presented.

Tabel 2. Relationships dimensions – suppliers' perception

	M	S
Relationship policies and practices	4,02	1,24
Commitment	4,03	0,67
Trust	4,02	0,7

²⁹ G. Leszczyński, M. Zieliński, *Drop and Collect Survey as the Response to Business-to-Business Marketing Research Problems in Poland*; In: R. Springer, P. Chadraha, (eds.) *The 15th Annual Conference on Marketing and Business Strategies for Central nad Eastern Europe*. Vienna, Austria: Vienna University of Economics and Business Administrations Institute of International Business, 2007.

Mutual Cooperation	4,06	0,68
Satisfaction	4,11	0,62

M=Mean, S=Standard deviation, Cronbach's α =0,91

The results obtained have shown that representatives of suppliers in the construction industry responsible for selling rate relationships with key customers relatively high (average above 4.0 on a scale of 1 to 5). In their opinion, the relationship with key customer includes ethical values and partners have common beliefs about what behaviours and policies are important. Relationship with key customers as rated by respondents is based on trust and aligned communication. Researched companies believe in the stability of the relationship. It can be assumed that they perceive recognise greater benefits from working together than from working independently and they are interested in continuing cooperation with this customer.

Analysing the data on the general level lack of diversity in the studied dimensions of relationships performance can be observed. However, in cross-sectional analysis of the responses differences in respondent's position on the evaluation of the relationship became transparent between opinions of directors and sales managers, and directors of sales and specialists. In the first case the difference dealt with the involvement (t-test, $p < 0.05$), while in the second in evaluation of mutual co-operation (t-test, $p < 0.05$). In both cases, the evaluations of sales directors were lower than those in other positions. It can be assumed that those working as sales directors have less contact with customers; thereby their commitment to the relationship is decreasing.

The evaluation of involvement was influenced by the origin of the company – Polish companies value commitment to the relationship higher than foreign companies (t-test, $p < 0.05$). It should be pointed out however, that the research was conducted among trade fairs exhibitors. The explanation for these phenomena can be the same as in case of sales directors – foreign suppliers tend to have less frequent contact with customers. They can also use communication tools (mail, phone,) which can lead to lower commitment in comparison to face-to-face communication among Polish representatives.

No statistically significant differences between trade, service and manufacturing companies were identified in the assessment of relationship performance.

Presented results can be surprising. As mentioned before, construction industry is characterized by low level of partnership orientation. . Companies in the construction industry represent a transactional approach, and customer relationships are rare³⁰.

Meanwhile, the results indicate that well-developed relationships with key customers can be identified. Perhaps the explanation for the above situation is deteriorating condition of the building market³¹, which forced the change of supplier's approach relationships that allow for stability in times of economic downturn.

What's interesting - apart from few exceptions, all respondents represented a similar approach to researched dimensions of the relationship, regardless of their country of origin, position and represented company profile. Other variables that could

³⁰ J. Singetzk, *Uwarunkowania...*op.cit.

³¹ Polski rynek budowlany w 2012 roku – ocena bieżącej kondycji i prognozy na przyszłość, Ministerstwo Skarbu Państwa, http://inwestor.msp.gov.pl/portal/si/338/21970/Polski_rynek_budowlany_w_2012_roku__ocena_biezacej_kondycji_i_prognozy_na_przysz.html

differentiate supplier opinions on the relationship performance might be therefore worth searching.

Conclusions

Business-to-business market trade often does not end with a single transaction, but takes the form of long-term cooperation, which over time leads to partnership-based relationships. Relationships are viewed as mutual, two-way, involved exchanges between buyers and suppliers. Previous research suggests however, that these scenarios occur in the construction market only to a small extent. Its conditions are not conducive to building strong relationships. Results of the evaluation of relationships performance with key customers obtained during this research deny the prevalent opinion about the lack of strong relationships in the industry.

Relationships are balanced - all examined dimensions were rated high. The described phenomenon does not relate to a select group of companies, but it occurs in any of the groups analysed. It is worth noting, that result indicates that Polish companies do not (except for one dimension) differ from foreign ones.

Limitations

Respondents answered questions concerning only one relationship - with the key customer. Extending the study to comprise other customers could contribute to a deeper understanding of the essence of relations in the construction market. On the other hand, the notion of "key customer" could be operationalized in detailed. Perception of the key customer may in fact have multiple dimensions.

The research was conducted during trade fairs. The exhibitors are mostly companies with good financial condition (participation in the fair is associated with considerable expenses). One can assume that companies taking part in the trade fairs as exhibitors are not representative for the whole branch.

Further studies on relationship performance could be extended to the buyer perspective and its relationship with the key supplier. It would thereby lead to assessing buyer-supplier exchanges as relationships rather than from a single actor perspective only. Comparisons of these two approaches would give a full picture of relationship and would allow drawing conclusions on the alignment in the assessment of relations between the two parties

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24. www.impgroup.org

Streszczenie

Relacje biznesowe postrzegane są jako czynniki posiadający wpływ na wydajność, jednak niewiele wiadomo o naturze i jakości wydajności. Celem artykułu jest ukazanie wydajności relacyjnej (zoperacjonalizowanej na podstawie skali B2B RELPERF) menedżerów sprzedaży. Badanie zostało przeprowadzone wśród firm z branży budowlanej, która jest postrzegana jako skupiona na realizacji projektów ograniczonych czasowo i częstych zmianach dostawców, co utrudnia wypracowanie długoterminowych relacji z klientami.

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