

An Empirical Investigation on the Dyad Perspective of Buyer-Seller Relationships in Australian Regional Agribusinesses

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ABSTRACT

The research reported in this study investigated how agribusinesses in Australian regional setting evaluate their existing business relationships and identifying the areas for improvement. These areas were examined in terms of the variables of the five-stage buyer-seller relationships development process from the existing literature and this was achieved through a series of 24 in-depth interviews conducted with 12 agribusinesses from a dyadic perspective. The findings revealed that at the early stages of the relationship, organisations were concern with achieving product and service quality whilst trust, commitments, co-operation, social and structural bonds were regarded as more critical in the later stages of the relationship, to the development of a close long-term relationship. The research findings also highlighted eight areas for improvement in a buyer-seller relationship that could vary in their relevance and importance at each level of the relationship.

Keywords: Buyer-Seller Relationships, Business-to-Business, Agribusiness, Australia

INTRODUCTION

The growing demand for agribusiness products has led to market conditions across this industry to be more challenging and competitive than before. At the same time, channel members are also facing with increasing cost pressures where inefficient channel members are unable to remain viable and therefore in many cases, supply chains have become increasingly reliant on fewer but more efficient and reliable suppliers who are willing to develop a long-term sustainable relationship with buyers. This is particularly evident in an environment of decreasing real returns. Thus, developing, maintaining and improving buyer-seller relationship is a critical issue for

agribusinesses so that they can value add and seek out long-term sustainability in the highly competitive industry (Weber, Current & Benton, 1991).

The key to a successful channel partner relationship requires the development, maintenance and improvement on the dynamics of a relationship within the supply chain. This relationship evolves over time and requires commitments and careful management to achieve best possible value outcomes for all channel members. While business-to-business (B2B) relationships has been investigated (eg Gronross, 1990; Perry, Cavaye & Coote, 2002) in great depth in the last decade, however limited studies (eg Duffy & Fearne, 2004; Masuku & Kirsten, 2004) have been conducted to evaluate the relationship as a whole and in particular addressing dyadic issues between the buyer and seller within the agribusiness industry. Therefore, this paper seeks to investigate the current long-term relationships from both sides of the dyad by exploring the relation between the evaluation and areas of improvement. This study draws from both the theory and the preliminary empirical knowledge gained from interviewing stakeholders responsible for the business relationships process in the Australian regional agribusiness industry. Hence, this paper will seek to identify the areas for improvement in a buyer-seller relationship.

LITERATURE REVIEW

In a B2B environment, a buyer-seller relationship can only be developed over a period of time that requires more than just monetary transactions. Such a relationship should also include a range of other activities (including commitments, investment in time and resources) that helps to build a sustainable long-term relationship (Axelsson & Easton, 1992; Ganesan, 1994; Narayandas & Rangan, 2004). The process of establishment and development of buyer-seller relationships is based on the variables of experience, uncertainty, co-operation, commitment and mutual adaptation, and this itself is complex in its own nature (Ford, 1980). Through this, a five-stage buyer-seller relationships evolution process (namely pre-relationship stage, early stage, development stage, long-term stage and the final stage) is identified (as shown in Table 1). During this evolutionary process, the buyer (or seller) learns more about one another and involves in a range of activities at different stages of the process. Each of these five stages of the evolution process will be discussed next.

Table 1 Five-stage buyer-seller relationships evolution process

Stage of relationship development	Authors	Activities
Stage 1 Pre-relationship stage	Conway & Swift (2000); Dwyer, Schurr & Oh (1987); Ford (1980)	<ul style="list-style-type: none"> • Search for potential partners from outside and inside sources. • Evaluate and select potential partners based on social and economic aspects. • Finding more information and cross-checking partners' competency. • Matching needs and capabilities.
Stage 2 Early stage	Anderson & Narus (1990); Wilson (1995)	<ul style="list-style-type: none"> • Make initial contact. • Establish rapport with partners. • Testing for compatibility of partners. • Determining and defining mutual goals.
Stage 3 Development stage	Dwyer, Schurr & Oh (1987); Ford (1980); Morgan & Hunt (1994); Handfield & Bechtel (2002)	<ul style="list-style-type: none"> • Joint planning of activities, responsibilities and relationships. • Develop personal relationship and trust. • Direct involvement through regular contact and socialisation. • Little commitment towards trial trading activities. • Adaptations and adjustments through agreement, negotiation and self control.
Stage 4 Long-term stage	Gundlach, Achrol & Mentzer (1995); Morgan & Hunt (1994); Narayandas & Rangan (2004)	<ul style="list-style-type: none"> • Increased commitment and recognition of mutual benefits through institutionalised conflict resolution process. • Development of inter-organisational and member adaptations. • Ongoing trading activities.
Stage 5 Final stage	Ford (1980); Hakansson (1982)	<ul style="list-style-type: none"> • Long term rewards based on mutual behaviour and trust • Termination based on extent of mutual interest and cost benefit analysis of continuing in the relationship

Source: adapted from Anderson & Narus (1990); Conway & Swift (2000); Dwyer, Schurr & Oh (1987); Ford (1980); Gundlach, Achrol & Mentzer (1995); Hakansson (1982); Handfield & Bechtel (2002); Morgan & Hunt (1994); Narayandas & Rangan (2004); Wilson (1995)

Pre-relationship is the first stage of the evolution process that concerns mainly with the evaluation of new potential suppliers. During this stage, buyers actively search for potential suppliers and gathering information about them, and evaluating the contents to determine if a relationship can be developed (Anderson, 2001; Dwyer, Schurr & Oh, 1987; Ford, 1980). This evaluation can take place within the existing relationship and/or as a general evaluation of existing supplier performance (Fynes, Burca & Marshall, 2007). Although in the early stage, relationships between both buyers and sellers are likely to have minimal experience of one another, but subsequent direct contact with each other has provided the opportunity for them to establish rapport and exchange information to assist in making decisions on further tangible and intangible investments (Ford, 1980; Fynes, Burca & Marshall, 2007). Through this, the potential of the relationship can be further explored and possibly reduce the buyer's perceived risk and improving the supplier's creditability (Hakansson, 1982; Turnbull, 1987).

At the development stage, buyers and sellers begin making joint planning of activities and responsibilities. In addition, commitments to the learning processes and investments are agreed between buyers and sellers, so that there is a continuity of the relationship (Ford, 1980; Handfield & Bechtel, 2002). During this phase of the process, communication and trust continue to grow, leading to increased adaptation, co-operation and the establishment of common goals (Fynes, Burca & Marshall, 2007; Morgan & Hunt, 1994). The long-term stage describes the adoption of on-going business exchanges routines between buyers and sellers that can only be achieved through mutual attraction, trust and commitment (Anderson & Narus, 1990; Dwyer, Schurr & Oh, 1987; Handfield & Bechtel, 2002; Lindblom, Lindblom & Tuominen, 1998). At this stage, buyers and sellers begin to recognise the mutual benefits that they can gain from the relationship (Narayandas & Rangan, 2004).

The final stage seeks to carefully manage the interactions and communications between buyers and sellers, so as to minimise and avoid any uncertainty that can occur during the relationship. During this stage, sanctions (such as termination) that discourage the interruption of the business relationship (Ford, 1980; Narayandas & Rangan, 2004) can also take place and often if the termination of a relationship is to occur, it will be based on the level of dissatisfaction, the switching cost involved and the cost benefit effects (Rokkan, Heide & Wathne, 2003; Tahtinen, 2002). On the whole, the buyer-seller relationship is seen as an evolution process to: (1) increase experience of both buyers and sellers, (2) minimise uncertainty in the relationship, (3) the development of both actual and perceived commitment, and (4) the formal and

informal adaptations, and investment and savings involved in both buying and selling organisations (Ford, 1980).

Previous studies (eg Aijo, 1996; Anderson & Narus, 1990; Dwyer, Schurr & Oh, 1987; Gruen, 1995; Morgan & Hunt, 1994; Nielson, 1998) revealed that a number of key factors such as trust, commitment, communication, shared norms, quality service and reliability, product quality and co-operation contribute to the development of long-term relationships. However, these factors and their level of importance vary at different stages of the relationship (Ford, Gaddle, Hakansson, Lundgren, Snehota, Turnbull & Wilson, 1998; Lindblom, Lindblom & Tuominen, 1998). This research will evaluate current buyer-seller relationships in the agribusiness sector within the Australian regional setting and investigate on what areas and improvements can be made on such relationships.

RESEARCH METHODOLOGY

The nature of this study was exploratory and was conducted in the form of case study research that aimed to replicate or extend the emergent theory in the literature reviewed (Donellen, 1995; Parkhe, 1993; Yin, 2003). The use of case study methodology was justified mainly on two grounds. Firstly through case studies, this research sought to investigate the complex business environment in the agribusiness industry that will allow a real-life account of the research issue raised in this study and builds on theory for further conclusive research (Carson, Gilmore, Perry & Gronhaug, 2002; Perry, 1998; Yin, 2003). Next, case study research focuses on an organisation or industry to rigorously explore and analyse contemporary real-life experiences and events in depth while retaining the holistic and meaningful characteristics of these real-life experiences and events. This allows the richness and depth of contextual meaning (such as the areas for improvement in a buyer-seller relationship) that can give raise to the possibility of new insight (Yin, 2003).

Twelve cases within the agribusiness industry were selected judgmentally, of which six cases were buying organisations and the remaining were supplying organisations (ie suppliers to those six buying organisations). Through the use of replication logic in multiple case studies, external validity was achieved. Two interviews were conducted in each case (buying and supplying organisations) with the managing director or equivalent (involved in managerial activities) and a middle level manager or operational staff (involved in day-to-day operational activities), to determine if there are any significant differences in their respective opinions (ie management versus operations perspectives and buying versus supplying

organisations viewpoints). In addition and where possible, secondary sources such as the company's business plans, marketing plans and other relevant documentations were used to further triangulate the results. The construct validity of this study was achieved with the use of multiple sources of evidence. These interviews were semi-structured with flexible and informal discussion that gave the interviewer the opportunity to gain greater insights about the topic addressed. To enhance the reliability of the study, a case study interview protocol was developed and used throughout the interviewing process, so that all relevant issues were addressed and consistently conveyed to the interviewees. The duration for each of the face-to-face in-depth interview lasted approximately 60 minutes. The findings of this research will be discussed in the next section.

RESULTS

Twenty-four in-depth interviews were conducted with 12 agribusiness cases (ie six buying organisations and six supplying organisations). Majority of the interviewees (21 out of 24) were male whilst only three females were interviewed. Twenty-one out of 24 interviewees had more than five years of experiences in agribusiness, whilst the remaining interviewees had at least two years of relevant experiences. But all interviewees were directly involved in activities related to buyer-seller relationships in their respective organisation.

On the whole, the findings were consistent with interviewees agreed that seeking an appropriate partner (ie a buyer or seller) is an important step in the relationship development process. At the early stages of the relationship, organisations often placed great emphasis on product and service quality. However, towards the later stages of the relationship, trust, commitments, co-operation, social and structural bonds were regarded as critical to the development of a sustainable long-term relationship. The research findings also revealed eight areas for improvement in a buyer-seller relationship that could vary in their relevance and importance at each level of the relationship.

At the pre-relationship stage where the searching of potential partners began and information about one another and cross-checking potential partners' competence were sought, interviewees argued that there was a lack of interactions, communications and information sharing between buyers and sellers at this first stage of the process. The lack of communication and information sharing had often prevented organisations from evaluating (eg through the matching of their needs and capabilities) potential partners in an effective and efficient manner. One interviewee

supported this by commenting “We need to communicate to gain a better understanding of each other, so that we know if a relationship can take place”. However, this lack of communication and information sharing could be explained by the fact that organisations were cautious about exposing too much information about themselves in the early stage of the process. This was supported by one interviewee “We do not usually tell them too much about us at this (early) stage. In this very competitive industry, just have to be a bit careful on what we tell them”.

At the early stage of the relationship, the lack of rapport with partners and understanding towards mutual goals were regarded as areas for improvement. Interviewees agreed that the development of rapport and understanding and sharing of common goals were essential and important at this early stage of the relationship since this would help to determine if the relationship should proceed to the next level. Interviewees also suggested that the lack of rapport with partners and the understanding towards mutual goals could lead to potential conflict resolution and this would only do more harm than benefit to the unstable relationship. In addition, it was acknowledged that mutual goals were the bond holding a relationship together but this could be difficult to achieve when either one party (buyer or seller) was not prepared to open up for sharing. One interviewee commented that “We need to develop some rapport to get things started. Knowing that we do share something in common will definitely help in improving the relationship”. In contrast, the lack of understanding towards mutual goals could possibly be explained by the absent of trust on the other party whilst some (buyer or sellers) might feel that it was too early in the process to discuss and share their goals. An interviewee commented “At this stage, we wouldn’t be sharing too much (information) with them. It’s just too early, not easy for us to trust someone at this early stage”.

Joint planning of activities and adaptations appeared to be of major concerns for the interviewees during the development stage of the relationship. During this phase of the process, buyers and sellers were expected to make joint planning activities and adaptations to accommodate one another, so that a closer bond and understanding between them could be developed. However, interviewees revealed that joint planning activities would be difficult to coordinate due to the differing levels of commitments that buyers and sellers had. An interviewee who supported this commented “It is really difficult to coordinate the joint planning activities, we (buyers and sellers) have different commitments which do not necessarily give priority to this particular joint effort (planning of activities)”. Interviewees also argued that adaptations often require modifications to the already established process and changes made for the adaptations

would incur further cost and resources. In addition, there were disagreements on what adaptations to make and who (buyer or seller) should make those adaptations. It was often the view that the party (buyer or seller) with a lower bargaining power should make the necessary adaptations. This was further supported by an interviewee commenting “Our company is relatively small and we are the one who usually have to make the necessary changes to adapt to the needs of our major buyers. Though this is unfair that we have to make the changes all the time, but there is nothing much that we can do to this effect”.

At the long-term stage, non-retrievable investments were highlighted by the interviewees as an area that could be improved. Non-retrievable investments involved commitments towards specific resources (such as capital improvements, training, equipment and software) that a partner invested in the relationship where value creation could be increased and stronger social and structural bonds between buyers and sellers could be enhanced. However, interviewees suggested that some partners (buyers or sellers) were wary and reluctant to make substantial non-retrievable investments as they regarded such investments as high risk, particularly if the relationship could be terminated. This could also be further explained with the fact that the buyer-seller relationship had not reached the mature stage where trust and confidence had not been fully established. One interviewee commented “We are not going to make such investments unless we are extremely confident with the relationship and that there is a high level of trust between us. This can be a very expensive lesson if not dealt with properly. Time is needed to have serious thoughts and consideration on this”.

Differences in Responses

The findings suggested that there were differences in responses for four areas to which improvements could be made in a buyer-seller relationship based on the perspectives from stakeholders (ie management versus operational). From the management perspective, interviewees believed that the management team plays a critical role in the success of the business, from making strategic decisions, building relationships, to ensuring smooth day-to-day business operations. Interviewees raised concern about the lack of early understanding of the mutual goals between buying and supplying organisations, which could pose to be a barrier for the testing of compatibility of partners in the early stage of the relationship development process. This initial understanding of mutual goals was regarded as critical to the management personnel because they had to determine if a relationship should be established and

proceed to the next level. The lack of this understanding no doubt would hinder such an important decision. An interviewee commented that “I need to see if we (between the buying and the supplying organisations) have anything in common in the early stage, so that I know if the relationship will work out”. Furthermore, interviewees also highlighted the lack of trust between buyers and sellers which generally led to a failure in the relationship and thus resulting in early termination of the relationship or discontinued before the relationship could proceed any further. This was supported by an interviewee stating “Business relationships should be based on trust and without this, it is determined to fail”.

In contrast, interviewees from operational roles indicated that there was increasing demand for adaptation which had created much difficulty for them in accomplishing their day-to-day operational activities and tasks. This was particularly evident when the power of the buyer or seller was significantly imbalance where adaptation had to be made to accommodate the needs of the party (buyer or seller) that had a greater level of power. This imbalance of power could potentially damage the relationship and therefore in achieving a sustainable long-term relationship, the need to support one another would be preferred rather than imposing power and pressure to gain individual benefits. An interviewee supporting this commented “It will be great if it is not just a one way adaptation but rather both (buyer and seller) trying to make accommodations for one another”.

On the other hand, the study found no major differing opinions between interviewees from supplying and buying organisations with regards to the areas of improvement towards the development of a close buyer-seller relationship.

CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

In conclusion, 24 in-depth interviews were conducted with agribusinesses in Australian regional setting with majority of them highlighted similar areas of improvement in evaluating their relationships. This study suggested that whilst organisations might differ in their approach towards the relationship process, it was essential for them to acknowledge the importance of developing and building a sound relationship with their partners (buyers or sellers) in the early stages of the process, so that a sustainable long-term relationship could be attained. In the early stages of the relationship, organisations emphasized the importance of product and service quality, whereas trust, commitments, co-operation, social and structural bonds were regarded as critical in the later stages of the relationship process. The findings also identified eight areas; namely interactions, communications, information sharing, rapport with

partners, understanding mutual goals, joint planning of activities, adaptations and non-retrievable investments, in which improvements could be made to the existing buyer-seller relationships. However, the level of importance of these areas of improvement could vary from organisation to organisation. Furthermore, there were differing attitudes between management and operational stakeholders in four areas (mutual goals, trust, adaptation and power imbalance) to which improvements could be made to further strengthen a long-term sustainable buyer-seller relationship.

From this study, agribusiness managers could consider the relevance of these areas of improvements (in accordance to their differing situations) and determine the essential ones that require further consideration during their involvement in a buyer-seller relationship. This could assist in developing a stronger long-term buyer-seller relationship that could see mutual benefits gained and thereby staying ahead in the increasingly competitive agribusiness industry. For example during the pre-relationship stage, a greater level of willingness to interact, communicate and share information would enable a better understanding of one another (both buyers and sellers), thus helped to determine the suitability of the partners towards a closer relationship. Another implication of the findings for agribusiness managers during the early stage of the relationship was to develop rapport with partners and to gain an understanding of their mutual goals, and through this potential conflict resolution could be reduced. During the development stage, agribusiness managers should be committed to the joint planning of activities so that a closer bond and understanding between them could be developed. In addition, through joint planning of activities, buyers and sellers could determine the adaptations required from them and avoid any disagreements at a later stage. At the long-term stage, agribusiness managers should have a high level of trust and confidence in their partners and should regard non-retrievable investments as their commitment towards the relationship. This would build stronger social and structural bonds between buyers and sellers and developed long-term, mutually beneficial relationships.

This study investigated the buyer-seller relationship in the Darling Downs region of Queensland, Australia and thereby constrains the applicability of the findings to other geographical areas. A more representative sampling population should be sought and be tested and further exploratory research is needed to provide comparisons to the findings to determine if any differences existed between metropolitan, rural and regional settings. From the findings, organisations could also evaluate the relationship process and identify key areas of improvements so that a sustainable long-term relationship could be developed.

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