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Article

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Interdependences in Business Markets - Implications for Management Practice and Research

Ivan Snehota

Interdependences are a feature of business markets that are difficult to overlook. They have always been vital components of business markets, but now appear to be growing; or it may simply be that we are now more attentive to the phenomenon. Companies are increasingly dependent on suppliers, customers, and other business partners with whom they work. Examples are all around in large and small businesses. Companies hailed as champions in their sectors, such as Apple, Cisco, and Dell would be different without Foxconn, EMC, or Federal Express as their supplier-partners. Most companies, large and small, work closely with other companies, various suppliers in their supply chain, and with customers to develop various products, services, and commercial and administrative solutions, but they also work with other partners to innovate their processes and products. Close business relationships are common in business markets. Working together means linking two businesses in various areas (production, R&D, marketing, sales, administration, and logistics) and at different levels (operations, functional management, top management). Furthermore, businesses need to maintain these links through continuous adaptations and adjustments. Interdependences are specific and always concern relationships with definite partners.

Faced with the ubiquitous close relationships in business markets, the question becomes, why is it that way? How can we explain this tendency among businesses to work closely together? Looking at some of these working relationships can help answer the question. In most cases, the answer is rather obvious; close relationships and the resulting interdependences permit companies to do things they would not be able to do on their own in isolation. Without the possibility of drawing on other businesses'

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resources and capabilities, most companies would not perform as they do. Apple's costs would be considerably higher if it did not work with Foxconn, the world's largest contract manufacturer. Dell would not be able to offer the delivery service it guarantees in the US market without working with FedEx. Cisco would be unable to serve 100,000 customers using its hardware worldwide without the partners who assist the user businesses to identify, specify, and install the hardware they need. Answering the question why companies work closely together is straightforward in principle: there are benefits to be reaped from working closely with others. Interdependences pay and benefits can materialize in various dimensions. Companies learn and develop competences as they work together, and both the cost efficiency and development of a business can benefit from working closely with others.

Is it so simple? Of course not. The picture is not all rosy, and there is an obvious downside to close relationships and interdependencies. Two aspects make interdependences between businesses problematic. Firstly, substantial costs are required to handle close relationships. To develop and maintain close business relationships require continuous adjustments, and working out these adjustments tends to involve extensive and intense two-way communication and interaction. Products, equipment, materials, and various routines on both sides need to be interfaced, adapted, and adjusted over time. Assorted activities in the two companies require close coordination. All of that is costly, not only in financial terms but also in terms of management effort and attention. Yet, despite these costs, most of the businesses that engage in high-involvement relationships somehow continue to do so. We see more of these rather than less. This means businesses that commit themselves to close relationships are able to garner benefits that outweigh these costs of interacting. And, perhaps to some extent, these can also be seen not simply as costs but rather as investments necessary for obtaining the benefits.

Secondly, interdependences arising in close relationships always mean the business is giving up some of the control over its own operations and thus, over the own development. It has always been an illusion that companies are self-sufficient, as no business has ever been able to do without suppliers and customers. But the greater the specific interdependences, the less control businesses have over vital resources and critical activities, and thus, over the own results and development. Adapting to others means following others. However, there seems to be some benefit even from this giving up of some control. Decisions and choices based on a one-sided perspective elaborated by the company in isolation can be riskier than choices resulting from muddling through jointly with others. Giving up some control can also mean sharing the risks and stabilizing the context.

What are the implications for management of the growing interdependences in business markets? Living in the connected world of interdependences can be exciting, but it certainly is demanding for at least two reasons. One is that it requires coping with existing interdependences in relationships between businesses. Coping with interdependences means dealing with change and attending to myriad of issues arising more or less continuously for various reasons that can be internal to the own business or coming from the outside. The need for new solutions can concern billing or the format

of shipping documents, adapting the products and services, changing some of the logistical routines, and how to meet a new competitor entering the market after a joint venture of previously minor rivals. Adaptations in relationships between companies are also likely to affect practices within companies. Coping with interdependences thus requires flexibility in ways of organizing and experimenting with solutions to problems that are new and require new solutions. Coping with interdependences in business markets is onerous also because these markets are not static and interdependences exist in a context that is continually in motion. Such continuous motion in the context means that the own organization must develop its ability to adapt and keep this ability alive.

Coping with existing interdependences is only one aspect that makes managing in the interdependent world demanding. The second reason why living in a context of interdependences is demanding is that if a business wants to reap the benefits of interdependences, they must be created. Keeping at arm's length will not allow a business to benefit from interdependences. This means relationships with business partners must be developed; new ways of linking operations must be found and implemented. Producing interdependencies is as demanding as coping with interdependences; possibly more so. It involves mobilizing partners and involving them in the business's own operations, which entails breaking old patterns and introducing new ones. This, in turn, requires quite a lot of experimenting with novel solutions – a modicum of innovativeness. It amounts to changing the way in which the markets are organized.

Neither coping with the interdependences nor creating interdependences are linear processes that have a final destination. Rather, for both to cope with the interdependences and produce interdependencies requires never-ending, extensive interaction and a degree of give and take between the business and its partners. That makes the capability to interact critical to coping with and creating interdependences. Considering the effects of interdependences, the own organization's ability to interact stands out as more important for the performance of the business than any other capability; both cost efficiency and development of the business are linked to the interaction capability. The capacity to adapt and to provide innovative solutions more or less continuously in the relationships between businesses and inside the businesses requires interaction. Because the capacity of a business to adapt and to innovate depends on how it interacts in key relationships, interaction stands out as a very central business process. Interaction capabilities need to be fostered.

If interdependences are the distinctive feature of today's business markets and interaction is the key business process, what are the implications for research? The observable importance of interdependences and assumed centrality of interaction across boundaries of single businesses means we must focus our research on these phenomena. We need to understand interdependences and interaction better if, as researchers, we are to clarify how markets work and comprehend the factors that shape economic and financial performance of individual businesses. Orienting research to investigate and conceptualize interdependences between businesses and the interaction processes between them appears to be a logical recommendation, but it is

anything but simple to follow. Focusing research on interdependences and interaction in the business landscape means re-orienting the perspective of much of the current management research, and this has rather far-reaching methodological consequences. To put the phenomena that are “in-between” businesses at the center of attention in research means radically changing the traditional focus of business research, which has been on one specific business organization. Focusing on relationships, interdependences, and interactions entails investigating two-way effects rather than one-way effects that are the prevailing object in management research; that also has significant methodological implications. At this stage, we still need more empirical studies to better capture the interdependences between businesses and develop an analytical framework to investigate the interaction processes involved in producing and coping with interdependences across company boundaries.