BUSINESS RELATIONSHIP MANAGEMENT AS A TOOL OF PERFORMANCE MANAGEMENT – THE CASES OF SUCCESSFUL HUNGARIAN COMPANIES

Ágnes Wimmer PhD

Budapest Corvinus University
Institute of Business Economics
1053 Budapest
Veres Pálné u. 36.
Hungary
Tel/fax: (36 1) 482-5844
agnes.wimmer@uni-corvinus.hu

Richárd Szántó

Budapest Corvinus University
Institute of Business Economics
1053 Budapest
Veres Pálné u. 36.
Hungary
Tel/fax: (36 1) 482-5844
richard.szanto@uni-corvinus.hu

Norbert Kiss

Budapest Corvinus University
Institute of Management and Organization
1093 Budapest
Fővám tér 8. Hungary
Tel.: (36 1) 482-5187
Fax: (36 1) 482-5018
norbert.kiss@uni-corvinus.hu
ABSTRACT
Business relationships could have a strong influence on business performance. Performance measurement and management should be implemented across the boundaries of the firm, since the effectiveness and efficiency, the competitiveness of a company are affected by not just their own activities, but by the performance of their business partners, the firms that come before (their suppliers, business partners) and after (intermediaries and customers) the given company in the supply chain. The goal of our paper is to analyze the business relationship management as a tool of performance management by the examples of two Hungarian innovative medium sized companies. We suppose that company’s approaches to business relationships (their strategy, their expectations etc.) and their practices to manage these relationships (besides other, external, industry-specific factors) influence the realized relations, and by the effectiveness and efficiency of these relations should affect the firm’s performance.

Keywords: business relationships, business performance, Hungarian Cases

INTRODUCTION
Business relationships could have a strong influence on business performance. Performance measurement and management should be implemented across the boundaries of the firm, since the effectiveness and efficiency, the competitiveness of a company are affected by not just their own activities, but by the performance of their business partners, the firms that come before (their suppliers, business partners) and after (intermediaries and customers) the given company in the supply chain. The goal of our paper is to analyze the business relationship management as a tool of performance management by the examples of two Hungarian innovative medium sized companies. We suppose that company’s approaches to business relationships (their strategy, their expectations etc.) and their practices to manage these relationships (besides other, external, industry-specific factors) influence the realized relations, and by the effectiveness and efficiency of these relations should affect the firm’s performance.

Our research is part of the “Value Creating Role of the Business Relationships” research project (reference number: OTKA F03778) in Hungary, realized by the Institute of Business Economics at Budapest Corvinus University. The conceptual framework used at the case studies (as well as at data analysis of an other research branch) is based on the results of a multidisciplinary research where diverse approaches of different business fields (business strategy, marketing, logistics and supply chain management, performance measurement and management) concerning business relationships (strategic partnership and strategic alliances, relationship marketing approaches, buyer-supplier relationships, etc.) were exploited (Wimmer et al., 2004).

THE BUSINESS PERFORMANCE AND THE BUSINESS RELATIONSHIPS
The business performance management traditionally focuses on internal business activities and it measures their efficiency and effectiveness. Nowadays, it is widely assumed that rather supply chains or even networks compete with each other in business life than individual firms. The excellent individual business performance is futile, if the business partners do not carry out similar results. Hence, company success depends on the effectiveness of business relationships (besides many other key factors), and these relationships have to be developed in order to improve overall business performance.
Describing the business relationships we differentiate between (1) the evaluation of the performance of the business partners (suppliers and customers) and (2) the evaluation of the given relationship (see Figure 1). The value of a business relationship (and their effect on business performance) generally depends on the benefits and costs of the relationship. Two factor groups affect on these elements: on the one hand, the characteristics of the performance of the business partner such as quality of the product or service, flexibility, delivery performance or price in the case of suppliers, orders characteristics, contribution to profitability in the case of customers. On the other hand, the characteristics of the relationship such as the way of communication, the simplicity and the effectiveness of the communication, the willingness for cooperation or the effectiveness of problem solving in the case of suppliers and customers shape the costs and benefits of the relationship as well (for other aspects of evaluation see Gunasekaran et al., 2001). The latter cluster of parameters is often neglected, and our empirical research also confirmed that company managers usually pay greater attention for the elements of the first group at the evaluation of the company relationships. However, both groups of factors influence the benefits and the costs of the relationships.

Figure 2 presents the conceptual framework with the influencing factors and the elements of the evaluation of relationships applied at our research. Among the factors we emphasize the partner attitude and the quality of the buyer-seller cooperation. The significance of the objective and subjective elements cannot be ignored at the analysis of the realized business relationships. From the point of view of the firms besides the single relationship we also consider the problem (and evaluation) of partner portfolios.

**Figure 1 - The components of business relationship evaluation**

<table>
<thead>
<tr>
<th>Performance of the business partner</th>
<th>Relationship with the business partner</th>
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<tbody>
<tr>
<td>Quality (quality of the product or service)</td>
<td>Way of communication</td>
</tr>
<tr>
<td>Time (accuracy, speed)</td>
<td>Simplicity of communication</td>
</tr>
<tr>
<td>Flexibility (responsiveness for alternating demand)</td>
<td>Effectiveness of communication</td>
</tr>
<tr>
<td>Price</td>
<td>Willingness for cooperation</td>
</tr>
<tr>
<td>Benefits of the relationship</td>
<td>Efficiency of problem solving</td>
</tr>
<tr>
<td>Costs of the relationship</td>
<td>Speed of administration</td>
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MINI CASES
During research two Hungarian case studies were elaborated. We focused on two successful and innovative Hungarian companies. These firms are medium sized companies in the pharmaceutical and in the software industries. Both companies have a very emblematic founder or leader, and the growth and the expansion are significant elements of their corporate strategy. Since these firms are active in different industries and market conditions, their business relationship managements are diverse which suggests that the differences have an influence on the concepts and practices of business relationship management. Although the effective performance measurement systems are unique and corporate-specific the empirical research suggests that there are some common success factors related to the management and evaluation of the business relationships. These mini cases illustrates that the main categories of our research model are plausible and substantial in the management of business relationships, and these factors have some influence on the business performance. However, these case studies would test our basic assumptions, but they do not prove the validity of our model. Further research is needed to refine and confirm the model.

Pharma Corp. Case
The Pharma Corp. is a middle sized pharmaceutical company in the country which was established in 1989, at the beginning of the so-called transition period. The firm is market leader in the area of manufacturing and distributing preventive health products (medicines, medical preparations and dietary supplements are among the products of the company). This marketing-oriented firm has a very intensive and successful growth strategy and they came up with innovative solutions in the field of distribution, Pharma Corp. has been introduced new distribution channels recently.

In the Pharma Corp. Case we learnt that that the company implements two ways of distribution: the so-called pharma channel (which means the classic way of distribution of pharmaceutical products: producer – wholesaler – pharmacy – consumer) and the non-pharma or consumer channel (where the products are sold in big supermarket chains directly to the consumers). The consumer channel is considered much costlier, but this way is very unique in the country yet thus the Pharma Corp. havee gained significant competitive advantage with this relatively new form of distribution.
The retail stores are completely different actors in the supply chain than the wholesalers in the so-called classic channel. They demand lower prices from their suppliers and large turnover in the stores. The Pharma Corp. had to set up a new sales organization for this segment, with key account managers (who are responsible to develop and attend the most important relationships) and regional agents (who control the display in the shops) which is also a substantial investment at the introduction of the new distribution channel.

**Attitudes, approaches to the relationships.** The Pharma Corp. case illustrates that developing new business relationships can be an exceptionally strategic action of a company. In order to gain competitive advantage in the market of vitamins, and other preventive health (dietary supplementary) products they established a new distribution channel, hence new business relationships as well. Running these new business relationships successfully is a key factor in the implementation of the actual corporate strategy. Since the firm became a market leader, the strategic action seems to be working. The company is planning to reach massive positions in the retail stores, therefore their bargaining position with the supermarket chains will happen to be strong.

The additional costs of this new relationship mentioned above can be formulated in an objective way (for example the costs of the new sales organization or lower prices offered to the retailer stores, etc.), but this case reveals that the subjective elements of the characteristics of the realized relationship are as important as the objective ones. When the managers regard the so called non-pharma or consumer channel as an expensive form of distribution they take the subjective elements into account very markedly. They mentioned words like “unscrupulous”, “bleed white” or “stony” when talking about some of there business partners. We suggest that these perceptions about the partners’ behavior can lower the value of these business relationships.

**Cooperation characteristics.** On the supplier side other influencing factors occur. In the one hand, the raw (and mainly the supplementary) material suppliers are large multinational companies, and they generally operate in a very monopolistic market. That means in case of the most important raw materials only two-three suppliers can provide the needed input in the world for Pharma Corp. The bargaining power of Pharma Corp. in these relationships is extremely low, and there is no opportunity for high level of cooperation, nor for some kind of strategic partnership. (However, it does not mean that long term relationships do not happen in this segment). The most important success-factors are the traditional competitive factors such as quality, price or delivery. In the other hand, with the suppliers of packaging materials (i.e. flacons, cans and boxes) very strong cooperation has been emerged in the previous years. As we mentioned before, Pharma Corp. is a marketing oriented firm, thus the packaging is an essential part of the marketing strategy. The firm strives to produce packaging which differentiates it from its competitors; this is even more crucial in the case of the newly introduced distribution channel, in the retail stores. To make produce distinctive packaging often needs relationship specific investments (mainly the machinery) which are not covered by the supplier, but Pharma Corp. usually for financial reasons. The two types of business relationships (market-centered relationship with raw material suppliers and strategic partnership with packaging material suppliers) need fragmented logistics organization, and different approaches to business relationships as well.

**Other influencing factors.** Since the pharmaceutical industry has special characteristics, this appears in the management of business relationships. Quality control has a key role in operations management, so at procurement logistics has to enforce very strict regulations. This means at the evaluation of the suppliers price is usually only a secondary factor, but of course, never neglected. The suppliers must be audited and they have to operate according to the international standard of the good manufacturing practice (GMP).

Summing up, in the strategy of Pharma Corp. the business relations play determinant role, the company realized that by developing and managing its business relationships more effectively than its competitors do, it can gain competitive advantage in the market of preventive health products.
We could see that different segments (both in the supplier and the customer side) require different business relationship management in order to enhance value creation and business performance.

**Graphisoft case**
A group of engineers founded Graphisoft in 1982 (in the socialist regime), it was one of the first Hungarian privately-owned companies. The company developed computer codes that were able to model objects in 3D. Based on these developments, they completed ArchiCAD, a 3D-engineering software for architects in 1984, capable of both planning and displaying objects in 3D. Since that time Graphisoft has become one of the leading companies in the architectural design market. Beyond ArchiCAD, they also sell their facility management software solution. Graphisoft’s total revenue was 26.5 million € in 2004, with 21 m from ArchiCAD, 2.5 m from facility management, and 3 m from other sources. The net profit of the company grew to 5 m €. The emblematic founder of the company, Gábor Bojár still holds 25% of shares, and chairs the board of directors.

In the software industry the source of value creation can be mainly found in the intangibles of the company: the most important ‘assets’ are employees with their knowledge, the knowledge base of the company, the brand name of its software solutions, and their users. Regarding supplier-buyer relationships in this industry, we can focus on the buyers of Graphisoft since its employees are the ones who can be considered as the main ‘suppliers’ of the company.

The more difficult the tasks supported by the software, the larger the ‘lock-in’ effect: if there are high costs associated with changing the software provider (e.g. converting documents, educating people), getting a new client becomes more difficult. Software products are innovative products, needing continuous development, and demanding newer and newer versions from the companies. A systematic collection of customer needs is a basic competitive factor of the industry. Since the software is used in the core, value creating processes of the customers (architectural designers), the main criterion of purchasing decisions is total cost of ownership in the long run: if a company decides to use one’s software, they expect full support for education, every day use, and future developments. Larger customers does not only need newer versions coming with newer functions but also prompt response for their unique and special needs. Due to economies of scale in software development, global presence is an important factor of competitiveness, however, architectural design software must be highly localized (beyond foreign language versions there are differences in the styles and types of architectural design elements and construction materials that must be included).

Both localization and post-sales support require a flexible network of partners. Graphisoft can establish subsidiaries only on its largest markets, all the other markets are served by (exclusive or non-exclusive) distributors – there are about 70 distributors worldwide, they can be considered as the main business partners of the company. A direct link should be also established with the most important clients: the largest design studios. The structure of Graphisoft reflects marketing and R&D orientation: the Department of Product Marketing plays the key role in information flow between the company and its clients.

**Attitudes, approaches to the relationships.** Graphisoft’s strategy about building partner relationships clearly reflects the importance of geographical markets. Subsidiaries operate only on large key markets (UK, US, Germany, Spain, Japan) while entering other markets is more efficient via distributors. The financial return earned on various localized versions is monitored: if a version runs low, it may be discontinued. Distributors are expected to increase sales: if a distributor cannot fulfill the expectations, Graphisoft first may withdraw exclusiveness, then might even look for a new partner.

**Cooperation characteristics.** Customer feedback plays a key role in the process of product development. Subsidiaries and distributors are continuously forwarding customer needs to Product Marketing. Graphisoft maintains a webpage for their partners: they can easily send feedback about software bugs, reducing the time needed for creating program patches. There are also other direct
links between Product Marketing and distributors as well as key clients. The Key Client Meeting is the forum of the largest users of Graphisoft’s solutions: from the one hand, users may share their experience with using the software, and from the other, Graphisoft introduces new versions this time, creating a warm atmosphere of partnership for its largest clients.

Fulfilling special programming requests establishes direct business relationships between Graphisoft and design companies requiring solution to a client-specific problem. The price of special requests is calculated by using daily fees. While users of the software can be sure about that their potential special needs can be fulfilled, this is also a great channel for Graphisoft to get ideas for product development.

Product Marketing, in the matter of fact, plays ‘transmitting’ role between the market and product development: based on customer feedback (programming bugs, requests for specific functions, new ideas), strategic guidelines and intense communication with Product Development, they decide what functions should be included in new software versions. Graphisoft had planned to market facility management solution for a long time, but, at the end, the introduction of the software was encouraged by feedbacks from key clients.

Other influencing factors. Competition is very fierce on the market of architectural software solutions: virtually all of the design studios have become a user of a certain software provider. Graphisoft’s growth has been significantly slowed down during the last four years. When there is no market growth, it becomes even more important to service existing customers well in order to keep them satisfied. It should be added that creating new versions is also in interest of software companies: the only way to maintain the level of revenues is to sell upgrades (and upgrades can be sold if the new version includes useful and more efficient solutions than the earlier). An other way to increase revenues may be differentiating the product portfolio: that is an other reason for developing and marketing a facility management software.

Summing up, important and large markets are served by own subsidiaries while smaller ones by independent distributors. Since the competition in the industry is based on R&D activities, maintaining business relationships should have a strong focus on, beyond selling the product, collecting customer feedback and marketing information for future developments. Graphisoft managed to find a balance between self-controlled relations to software users (via subsidiaries) and distributor channels, taking costs and benefits of maintaining business relationships into account.

CONCLUSIONS

The literature of performance management has been focusing on the performance of the individual firm, and did not concern about performance of companies before and after in the supply chain. Since in the business world nowadays supply chains and networks compete with each other performance measurement and management should concentrate on business relationship, because successful business relationship can create value for the firm and improve its business performance. Newly developed performance measurement systems take the role of business relationships into consideration (see for example the concept of the performance prism by Neely et al., 2003). Through case study methodology we revealed business relationships affect, and adequate evaluation of these relations can foster the improvement of business performance.

REFERENCES

