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A Triadic Interaction Model to Study the Atmosphere and Outer Atmosphere of Triadic International Business Relationships

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Abstract

This paper presents a theoretical model to study triadic interfirm interactions between an intermediary and a buyer, and a seller. The model is developed to capture the nature of triadic interactions and the influence or dependence that network relationships have on focal triad network relationships. Theoretical perspectives include and extend concepts from the Industrial/International Marketing and Purchasing (IMP) school of theoreticians, and utilises the dyadic interactions approach as a base. Specifically, the model was developed to study triadic interactions between Hong Kong intermediaries, mainland sellers, and buyers from the West.

1. Introduction

It has been suggested that much of the richness of the original interaction model of the Industrial/International Marketing and Purchasing (IMP) group has to be discarded when studying business networks (Easton, 1992). And that the focus of the IMP group has shifted from the dyad to the network because an understanding of relationships, requires an understanding of the network within which firms interact (Ford, 1997). It has also been suggested that the study of business triads appears to impose some limitations on theory development (Holmen & Pedersen, 2000). However, the triadic model presented in this paper extends IMP theory, using the interactions approach as a base (Håkansson, 1982). Indeed, the need for and usefulness of such research has been raised by a number of authors within the IMP school (Axelsson, 1992; Smith & Laage-Hellman, 1992; Gadde & Håkansson, 1993; Anderson, Håkansson, & Johanson, 1994; & Salmi, 1997).

An international business relationships triad may be defined as the exchange relationships which take place between three firms across international markets. For example, where an intermediary coordinates transactions between a buyer and seller (Havila, 1996). The
model presented here was developed to study interactions between Hong Kong intermediaries and sellers from mainland China, and buyers from the West. Specifically, the triadic model has been developed to capture the nature of the focal triadic interactions of the actors, and also the influence or dependence that network relationships may have on the focal triad interactions. The model therefore provides for the study of a firm’s microposition in the triad, viz., the triad’s atmosphere, and its macroposition in relationship to the complexity of surrounding network relationships, termed the ‘outer atmosphere’.

2. A Macro and Micro Perspective of International Business Relationships Triads

The triadic interaction model presented in this paper contains micro and macro factors. Micro factors focus on the interactions between focal triad actors; for example, a buyer, seller, and intermediary. Macro factors focus on the connections that focal actors within triads have with firms outside the triad, and also the effects that such connections may have on the focal triad relationships. In this paper, emphasis is placed on understanding the concepts of atmosphere and outer atmosphere of business triads, and not factors of the market environment, which are well documented within the IMP literature (Håkansson, 1982; Ford, 1990, 1997).

A macro perspective of international business triads includes the concepts of environment, ‘outer atmosphere’, and complexity. The macro model is exhibited below in Figure 1.

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1 This is similar to the approach taken by Johanson & Mattsson (1988), who distinguish between micropositions between focal firms, and the macropositions of firms operating within business networks.
Figure 1. A Macro Model for the Study of International Business Relationship Triads

Source: Developed for this research and includes the work of Håkansson, 1982; Ford, 1990, 1997; Johanson & Mattsson, 1988; Håkansson & Snehota, 1995; and Havila, 1996.

Within the macro model, the *environment* incorporates the same concepts as included in the original dyadic interaction model (see Håkansson, 1982). They include the market structure, the dynamism of the market and participant firms, the internationalisation of the market, the social system that exists within the broader environment and the market, and the position of firms in the marketing channel. A new concept of ‘*outer atmosphere*’ is also developed and added to the model to assist the study of the complexity that surrounds a business triad. The concept of *complexity* refers here to the interconnections that exist between member firms of the triad and nonmember firms of the triad. The complexity of interfirm relationships which extends beyond the ‘bounds’ of a triad’s atmosphere, *viz.*, the outer atmosphere of connections, provides a means for the study of systematic factors which extend from business networks to focal relationships within international business relationship triads. The connectedness of business relationships and any interdependencies that exist may then be referred to, to assist an explanation of “what is happening in a given relationship” (Håkansson & Snehota, 1995, p.2)

A micro perspective of international business triads considers concepts that make up the atmosphere of business relationships. As with the original dyadic interactions model, the atmosphere of the triadic interactions model, developed in this paper, is a product of the
relationship (Håkansson, 1982). As such, the interactions process between firms directly affects the atmosphere of international business triads. The concepts that make up the atmosphere of business relationship triads include compatibility, cooperation, coordination, communication, complexity, and the character role of the intermediary. The micro model is exhibited in Figure 2.

**Figure 2. A Micro Model for the Study of International Business Relationship Triads**

![Diagram of a micro model for international business relationship triads.](image)


The following sections outline and develop the atmosphere and outer atmosphere concepts included in the triadic model. Six research issues are also identified. The research issues can be used to guide the application of the model.²

² The use of research issues to guide research is appropriate when using an inductive theory building research approach (Yin, 1993, 1994; Perry, 1997, 1998).
3. Compatibility in Business Triads

Compatibility is a construct that is used implicitly, rather than explicitly within the work of the IMP School (Håkansson, 1982; Ford 1990, 1997). In this paper the construct of compatibility is defined within the dimensions of competence, distance, and continuity that exist between interacting parties involved in triadic relationships. They are discussed next.

The technical and commercial competence of buyers and sellers is an important component for identifying the compatibility of potential interfirm partners (Turnbull & Cunningham, 1981; Ford, 1984). Technical competence comprises the buyer’s view of the technical skill of a supplier with respect to product performance, for example. Commercial competence considers such factors as a seller’s ability to provide service, sales organisation, deliveries, and delivery information (Ford, 1984). The reputation a firm holds for its technical and commercial competence provides one important indicator for the assessment of its compatibility. Indeed, prospective partner firms that do not possess the appropriate levels of competence required within potential interfirm interactions, “will not even be considered” (Turnbull & Cunningham, 1981, p.27).

The degree of closeness and distance that exists between interacting parties will also reflect the degree of compatibility that exists between the parties (Håkansson, 1982; Ford, 1990). A number of distance dimensions may exist in international buyer-seller relationships (Ford 1980, 1984, 1990, 1997). They include social distance or the extent to which the firms are unfamiliar with each others way of working; geographic distance which encompasses the physical distance between firms; time distance, or the time taken

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3 The pilot study provided valuable insights into the importance of compatibility in the business interactions of the Hong Kongers. For example, it was very important to the Hong Kongers that the parties they deal with were competent and applied strategies that were relevant for the Hong Kong market, whether they be buying or selling (Trimarchi, 1997, 2002).

4 Indeed, the activities, resources, and actors model of industrial networks of the IMP group also recognises the importance of how resources, including human resources of companies involved in relationships, are brought together (Axelsson & Easton, 1992; Håkansson & Snehota, 1995). The concept also appears to be little developed within the domain of relationships research. For example, within the study of strategic alliances, compatibility is also referred to as the degree to which exchange partners share, similar goal expectations for the alliance, and norms and values (Spekman & Sawhney, 1990). Swaminathan & Reddy (2000) also stress that goal compatibility, culture compatibility, and complementarity are three important factors of compatibility. Sinclair et al (1996) and O’Toole & Donaldson (2000) use the term cultural compatibility to study cultural distance in buyer-seller relationships. Masciarelli (1998) refers to the importance of “relational compatibility” in business relationships management.

5 Seven previous studies using the Ford (1984) methodology have been carried out in Hong Kong. They include Pang, 1984; Cheng, 1993; Pyatt & Kwok, 1993; Cheng, Pyatt & Trimarchi, 1997; Trimarchi, 1997; Pyatt & Trimarchi, 1998; Trimarchi, 2002.
to establish contact, place orders, and the actual transfer of products; and technological distance, or the differences between each firm’s product and process technologies. One other distance factor includes commercial distance which refers to the differences between each firm’s understanding of sales organisation, product delivery service, and commercial information requirements (Trimarchi, 2002). The model also includes the factor of psychic distance which encompasses differences in culture, language, political systems, and education levels, for example, and how they may disturb the flows of information between buyers and sellers (as defined by Turnbull, 1990). As a compatibility factor, distance is the main determinant why firms prefer to continue to coexist, rather than develop close interactions (Easton & Araujo, 1992). Given that different economic cultures may exist in domestic and foreign markets, psychic distance may present problems which, at least in the short term, may be difficult for foreign firms to overcome.

Continuities also play an important role in the development of strong relationships, providing firms with the potential to develop their mutual compatibilities (Hallen, 1986; Håkansson & Snehota, 1995). Continuities can be depicted by the length of an interfirm relationship, together with the frequency of transactions and the frequency of information exchanges that take place between the interacting parties. Continuity is a common factor of strong interfirm relationships (Håkansson, 1982; Hallen, 1986; Easton, 1992), and serves to enhance compatibility of firms in a number of ways. Relationships built up over time provide for relative stability in interfirm exchange (Håkansson & Snehota, 1995). When continuous interaction leads to mutually benefiting exchange, it enhances the expectation that business dealings may lead to long-term benefits for the parties (Kay, 1993). Indeed, when mutuality develops between firms, firms focus on longer-term collective goals vis-à-vis short term opportunism (Ford et al., 1986). Strong interfirm ties, built up over time, not only assist the process of interactions between firms, they are also particularly important for more extensive use of a relationship. The above issues lead to

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6 This is an important factor when studying relationships in mainland China, because mainland China sellers tend to have a very different understanding of what commercial skills are, particularly when compared to Western market standards, as are followed by the Hong Kongers (Trimarchi, 2002).

7 Earlier research on the concept of psychic distance includes Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; and Hornell, Vahlne, & Wiedersheim-Paul, 1973 (see O’Grady & Lane, 1996).
the development of the first research issue (RI.1) to direct research into the study of international business triads.

**RI.1:** What is the nature of compatibility in international business triads and how does it influence relationships?

### 4. Cooperation in Business Triads

Cooperation is a central construct in the study of interfirm relationships and used extensively within research of the IMP group (Ford, 1997). Interfirm cooperation occurs when firms conduct similar or complementary activities to enhance mutual gains, or when individual firms operating with an interfirm relationship perform individual activities on the expectation of reciprocity on the part of the other firm(s) (Anderson & Narus, 1990). Indeed, the value creation that arises through cooperation is what makes a relationship worthwhile for firms (Håkansson & Snehota, 1995). The atmosphere concept of cooperation places a focus on factors of conflict, commitment and the power-dependence relationship between the parties.

Tensions between conflict and cooperation are inherent in any business relationship (Ford et al., 1986). Conflict encompasses factors such as the extent of disagreement, or the supplier’s response to dealing with problems. Although minimising conflict is productive for the development of a cooperative ethic, some degree of conflict may be necessary to keep the relationship between the two companies healthy (Håkansson, 1982; Ford, 1990; Håkansson & Gadde, 1997). A firm’s commitment also plays an important role in conflict management, as “previous commitment generally directs the parties towards constructive solutions” (Håkansson & Snehota, 1995, p.9).

Commitment of the parties is crucial to the development of quality interfirm relationships (Håkansson, 1982; Ford, 1990, 1997; Ford et al., 1998). A buyer or seller can demonstrate commitment through various forms of resource investments. For example, *customer commitment* may refer to a supplier’s service efforts directed solely at a buying company. *Market commitment* includes the supplier’s commitment to a specific geographic region. This may include, for example, introducing a special product to suit the demand of a particular market segment, or opening a sales office in that market (Ford, 1980, 1984, 1997). One other form of commitment that is important in trading
relationships includes the commitment to the intermediary, exhibited by the buyer and the seller.

One form of mutual commitment in relationships is reflected by the investment of firms in interfirm adaptations (Ford, 1980, 1984). Such adaptations can include technical, logistical, administrative, financial, and knowledge adaptations (Johanson & Mattsson, 1991). Technical adaptations include the modification of products or production processes. Logistic adaptations include stock level adjustments, or developing common delivery systems (for example, just-in-time inventory systems). Administrative adaptations may require modifications to planning or scheduling systems. Financial adaptations include the handling of payments in a particular way. Knowledge adaptations occur when firms act together in, for example, technical development matters.

Adaptations are important for a number of reasons. They may serve to reinforce relationships and make them more endurable, both creating and strengthening the bonds between firms. Strong interfirm bonds demonstrate the existence of high levels of cooperation (Easton, 1992). Adaptations provide an environment where conflict resolution is effected through ‘voice’, rather than ‘exit’, where parties handle disagreements “...within the framework of the relationship” (Johanson & Mattsson, 1991, p.259). Adaptations also indicate that there exists flexibility or some ‘space for change’ in the relationship where firms over time adapt to fit each other better. However, while firms will have expectations about the returns they hope to gain from investments in adaptations, they may also be trying to avoid the loss of total independence. Such factors will place limitations on this space for change (Johanson & Mattsson, 1991).

The power-dependence relationship reflected by routines, institutionalisation, and the relevant power held by respective parties, plays an important role in understanding the nature of interfirm cooperation. Indeed, managing the power and dependence aspects of a relationship tend to be a critical element in developing marketing purchasing strategies to develop close interfirm relationships (Ford, 1990). Routine activities in interfirm interactions are exhibited by rituals in conduct, or implicit and explicit rules of behaviour. This includes routines that conform to accepted industry codes of practice, for example. Routines may assist firms to cope with complex needs in coordinating activities, reduce costs, and also assist to facilitate conflict management (Håkansson & Snehota, 1995). The
routinisation of activities leads to clear expectations of the roles and responsibilities of each party within the relationship. As such, routine activities in buyer-seller interactions can become expected practice or institutionalised, over time.

As a firm’s activities become institutionalised, activities of the parties may not be questioned and “...may have more in common with the traditions of an industry or a market than rational decision making by either of the parties” (Ford, 1990, p.14). Such institutionalisation may serve to reduce uncertainty in interfirm activities. It may also, paradoxically, serve to negate prospects for relationship development. For example, where institutionalisation leads to complacency, firms may continue to follow routines that no longer relate to the requirements of the interacting parties (Turnbull & Cunningham, 1981). Another danger lies with the prospect that firms may attempt to transfer institutionalised practices to other customers, operating in a market or market segment not appropriate for such practice; such as using home market routines in a foreign market (Turnbull & Cunningham, 1981). This may lead to a situation where firms appear less responsive or uncommitted to a relationship because institutionalised patterns of interaction make it difficult to assess the actual requirement of its partners (Ford, 1990). In such cases institutionalisation can be viewed as the opposite to adaptations. Routines may also lead to the dependence of one firm on another, which may also be accompanied by a fear of being dominated and exploited by a cooperative partner (Biemans, 1995). This may result in parties acting opportunistically and exploiting relationships.

Power is also related to the dependence of one firm on another. Interfirm interactions are conditioned by the commonly held view of the relative power of the parties and the exchange episodes to which such power extends (Håkansson, 1982). The power to influence or control depends on the degree of control one holds over things the other values (Emmerson, 1962). Indeed, one way of overcoming the problems related to interfirm dependency is to maintain some degree of control. By increasing the control over another firm, the firm is able to minimise uncertainty associated in exchange. However, power as a function of relationships may tend to shift from party to party, particularly if the economic circumstances in the market of one of the actors in an international business triad change vis-à-vis the market of other actors. The above issues
therefore lead to the development of the second research issue (RI.2) to direct research into the study of international business triads.

RI.2: What is the nature of interfirm cooperation in international business triads and how does it influence business relationships?

5. Coordination in Business Triads

Coordination is also a central construct in the development of interfirm relationships and is used extensively within research of the IMP group (Ford 1997). Interfirm exchanges comprise a division of work between firms that are dependent on each other to varying degrees, and activities therefore need to be coordinated (Johanson & Mattsson, 1988). The problem of coordination in interfirm exchange arrangements rests with the need for mutually consistent responses in interfirm arrangements (Kay, 1993). In industrial markets where resources are employed, combined and transformed, coordination and direction of activities takes place through governance structures (Johanson & Mattsson, 1991). Different governance structures affect how specific interfirm processes are carried out. The possible different modes for coordination of exchange can begin by assessing the mechanisms of price, authority and trust (Bradach & Eccles, 1991).

Price is considered to be an efficient governance mechanism when products are standardised and performance is easy to measure, since no further supervision is required. In such interactions price becomes the sole concern for buyers, who tend to interact in a mobile market where competitiveness of suppliers is based on achieving the lowest price. In such interactions, relationships tend to be unstable (Håkansson, 1982). International trading relationships, however, tend to be characterised by the importance of previous purchases, mutual evaluation and associated relationships (Ford, 1990). In such arrangements, price forms but one component of an interfirm relationship and also tends to play a ‘lesser role’ in the governance of interfirm exchange relationships.

Interfirm governance structures based on authority resemble structures of hierarchy, as exhibited by the internalisation of activities by firms (see Williamson, 1975, 1979, 1985). Authority mechanisms are included in contracts, and also implicitly encompass accepted industry practice. Such mechanisms include, for example, inspection arrangements, quality control systems and agreements outlining the authority of the parties to modify contractual provisions (Bradach & Eccles, 1991). Authority measures tend to become
important when, for example, performance measurement is difficult and/or much uncertainty surrounds the predetermination of product specifications, or design and/or production costs (Stinchcombe, 1985). Specifically, Stinchcombe (1985, p.126) found interfirm relationships based on contracts exhibited

...legitimate authority, with a manipulative incentive system, with a method for adjusting costs, quantities, and prices, with a structure for dispute resolution, and with a set of operating procedures, looks very much like a hierarchy, very little like a competitive market.

One reason why firms prefer to become legally bonded through contracts is because other types of bonding, through adaptations, for example, are not operating successfully.

The use of price and authority tends to provide specialised control mechanisms for interfirm relationships. Trust, on the other hand, provides a more general class of control mechanism (Bradach & Eccles, 1991). Trust develops out of the social context of interfirm transactions and provides the expectation that parties will refrain from mutually incompatible activities, such as acting opportunistically (Gambetta, 1988; Arrow, 1974). However, building trust in interfirm relationships may take years, and requires substantial investment in the relationship by the parties, including the development of personal relationships (Lunnan & Reeve, 1995; Håkansson & Gadde, 1997).

Social psychology research by Kahneman et al. (1986) finds that norms of fairness reduce the prospect that parties will act opportunistically in economic exchanges. Relational contract theory explains that the perception of fairness in interfirm relationships can be affected by the relational contract norms of role integrity, harmonisation of conflict, and preservation of relationship (Macneil, 1980). The diffusion of these social norms which reflect obligation and cooperation in personal relations operate as a means of establishing trust when they overlap with economic exchange. The norm of preservation of relationship is concerned with contractual solidarity and the ongoing character of relations. This norm involves two forms of preservation. The individual preservation, or the preservation of particular memberships in relations, and collective preservation or the preservation of the ‘larger’ or entire relation. In circumstances where the two norms come
into conflict and threaten the whole relational structure, it is expected that collective preservation will triumph over individual preservation.

The norm of harmonisation of conflict focuses on the ability of parties to minimise the prospect that conflict will act to the detriment of the relationship\(^8\). Regardless of how conflict comes about, this norm implies that the current status of the relationship, built on explicit and implicit mutual understandings, provides the reference point for conflict resolution. As such, social norms are important, the primary desire of the parties is to continue the relationship, and conflict resolution tends to take place for both social and economic reasons. Role integrity is concerned with the proposition that roles in relational transactions do not normally operate within rigid rules. Roles tend to develop through intricate interlinkings of internal rules, customs, social exchange obligations and expectations with respect to future transactions (Macneil, 1980). Role integrity therefore is more than keeping the role honest, as a social function it must lay the foundation for reliance and expectations in relationships, to maintain integrity for the preservation of relationships. As such, relational contract norms encourage the development of good faith in interactions.

The existence of good faith in interactions leads to trust between parties where contracts operate via an internal system of regulation, exhibited in the form of norms and personal relationships. For example, “...good faith and the trust it builds come before procedural regularity in both importance and desirability” (Macneil, 1980, p.68). It is an environment where the expectation in relationships is to move forward and not to regress to some form of rigid contractual obligation. The relationship itself is, therefore, at the centre of understanding how trust evolves and develops as a coordination mechanism in interfirm relationships.

Another important dimension of trust is economic trust which develops through mutually oriented interfirm behaviour (Larson, 1992). Economic trust may develop through reciprocity in adaptations of investments, or when the skill and performance capabilities of other parties can be relied upon, for example (Larson, 1992). Such activities may also

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\(^8\) Macneil (1980) discusses that this norm could be easily subsumed by the 'preservation of the relationship' norm, as the relationship will sooner or later collapse if conflict is not harmonised, however, this characteristic raises problems which should be addressed separately.
be viewed as contributing to economic bonds (Johanson & Mattsson, 1988; Buttle & Ahmad, 1999) and/or value bonding (Gordon, 1998) that develop in interfirm relationships. Such bonds may develop when intermediaries are involved in continuous interactions with buyers that provide value and hold the expectation that such value-laden interactions will continue to occur over the longer term. Economic trust will exist when, for example, continuous interactions, which lack social interaction, develop into a relationship where an intermediary deals with a buyer using ‘open terms’ rather than relying on a contract for payment (Trimarchi, 2002).

Contract design is also important for creating value in interfirm relationships. Managers make contracts in many ways and the choice of contract is dependent on the particular situation. Where efficient governance cannot be implemented using one form of control, firms will use combinations of control mechanisms. Indeed, interfirm relationships often use control mechanisms that exhibit a mix of price, authority and trust. Such governance structures are referred to as plural forms (Bradach & Eccles, 1991). Authority and trust used as plural forms for coordinating interfirm exchanges provide firms with alternatives to compose more efficient means of governance. Indeed, Haugland & Grønhaug (1995) studied plural forms in dyadic interactions and found that the two governance structures “...can be combined and complement each other, and that the ‘best’ combination possible...is applied” (p.378).

The plural form exhibits the most sophisticated mix of coordination mechanisms when two distinct forms of coordination are operated simultaneously by the same firm. For example, where an intermediary, rather than choosing one form of coordination will conduct exchange with buyers and sellers using a mixture of governance forms, viz., using trust with one party, and authority with another. Indeed, the use of plural forms provide intermediaries with alternatives to compose more efficient means of governance, particularly when dealing with firms from different economic cultures, for example. The above issues contribute to the development of the third research issue (RI.3), to direct research into the study of international business triads.

RI.3: What is the nature of coordination in international business triads and how does it influence relationships?
6. **The Role of Complexity in Business Triads**

The *complexity* which surrounds business relationships considers the multiplicity of actors and relationships which operate both within and outside triadic relationships and the consequential effects on firms operating within international business triads (Håkansson & Snehota, 1995). Specifically, complexity refers to the *number, type, and contact patterns of individuals* taking part in relationships. It also includes the *scope* and *use of established relationships*, in that well working relationships are bound to be exploited whenever possible (Håkansson & Snehota, 1995). Indeed, interactions between firms may be affected by relationships which each firm has with other firms (Håkansson, 1982; Ford, 1990; Blankenburg & Johanson, 1992). We, therefore, need to study closely a firm’s *microposition* in the triad and its *macroposition* in relationship to the complexity of surrounding relationships, outside the triad; *viz.*., within business networks.

That triad modes may include authority based relationships, such relationships may provide individual actors with desired outcomes, but may not do so for the whole triad (*viz.*, the buyer, seller, and the intermediary). Nor would it serve to insulate parties from changes occurring in foreign markets where network forms of business are dominant. For example, in a plural triad, the least likely partner to be insulated from changes in networks, which extend from the complexity of the ‘trust based relationship’, would be the participant operating via the ‘authority based relationship’. Indeed, it would also limit the opportunities for these actors, because they are not viewed as part of the network. If this occurs, network partners who are in the triad may, whenever possible, look for members who are more compatible, and let ‘authority based participants’ return to ‘the market’.

The study of business networks implies an interdependence between firms. Within trust based triads, a “...business relationship is connected to other business relationships, forming a kind of network where one business relationship impacts on another” (Havila, 1996, p.39). The concept of connectedness considers the different interdependencies of business relationships and addresses their effect on a particular relationship. As such, the study of this ‘connectedness of relationships’ provides a means for explaining what is happening in a given relationship (Håkansson & Snehota, 1995).
The concept of complexity can, therefore, be used to provide insight into the interfirm linkages that exist or have developed within and around business triad relationships. Indeed, in the present model, complexity is used to study how firms perceive the affect of connectedness with ‘outside’ relationships, within the outer atmosphere of the business relationship, on the ‘inside’ or triadic relationships. Interfirm linkages which appear to resemble dyadic or triadic relationships may actually be more complex. Furthermore, firms that have been introduced to ‘outside’ relationships by other triad members may actually become connected to a wider array of interfirm networks in the foreign market. Organisational knowledge accessed through ‘connectedness’ may also provide market related advantages for firms participating in foreign markets. The fourth research issue (RI.4) develops from the use of the concept of complexity.

RI.4: What is the nature of complexity in international business triads and how does it influence relationships?

7. The Role of Communication and the Nature of Information Content in Business Triads

Communication or information flows, is also a central construct in the IMP literature on buyer-seller relationships (Gadde & Håkansson, 1993). The exchange of information can be viewed as the common currency of interfirm relationships (Håkansson, 1982, 1997; Ford, 1990; Easton, 1992, 1997). Within the context of interfirm relationships, organisations must adapt to establish and maintain necessary information systems (Turnbull & Cunningham, 1981). Such systems need to provide for information flows which are adequate, sufficient and also expedient.

The present model utilises and extends Gadde & Håkansson’s (1993) matrix manipulation technique to discern patterns of communication flows within international business triads. Gadde & Håkansson (1993) place a focus on the different roles and content of information being exchanged within interfirm interactions. This technique places a focus on the coordinating, controlling, and learning roles of communications and the associated technical, commercial, and administrative content of information exchanged. The present model extends this framework and also emphasises the need for

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9 The initial pilot study identified that communication flows within interactions were found to be of great importance to the Hong Kongers. All of the 10 respondents explained that communication was very important for the development of relationships, keeping the business moving, which included working through problems, staying abreast with current information, and for gaining an understanding of the market. Respondents also explained that they use communication in an attempt to educate buyers and sellers about facets of the market, in an attempt to improve business interactions among the parties (Trimarchi, 1997, 2002).
the study of social information content, within the context of the different communication roles. These factors are discussed next.

The coordinating role of communications refers to the importance of exchange of information in the function of tying together interfirm activities. The coordination of information exchange links actors, activities and resources together, and can result in more efficient use of resources. The controlling role of communications refers to the ‘influential’ role of information. For example, implementation of reciprocal adaptations requires a continuous dialogue between parties. The learning role refers to the use of communication to transfer knowledge between firms. For example, resources may require specialist application, therefore requiring the transfer of specialist knowledge on the part of both buyer and seller (Gadde & Håkansson, 1993).

The technical content of information refers to a specific purchasing situation in a market. For example, a buyer may require help in problem solving when the foreign market requires a specification dissimilar to the standardised product in the home market. Alternatively, technical innovation activities and/or joint product development may be discussed or undertaken by the parties. Information about product performance and specifications may also be required by the buyer during the initial selection process, contract negotiation, and after orders have been placed. Commercial content may include the terms discussed prior to entering into an exchange agreement and also of delivery performance. Factors of delivery performance include the sellers’ ability to adapt a delivery schedule to the buyers’ production schedule and meet their expectations on delivery lead-time, punctuality and reliability. Administrative content includes information which is of a transactional nature or information regarding the exchange of the good or service. For example, this may include the placement of orders, stock holding information. It may also include the exchange of financial information, for example, the type of payment required and the terms governing the transaction. These classifications of information content, or the nature of information transferred between firms, provide for the identification of typical information needs (Gadde & Håkansson, 1993).

Over time, both buyer and seller will have accumulated a great deal of knowledge about the technical conditions of the other. And the coordination and control of technical information tends to be prerequisite for effective interaction between firms. Coordination
may refer to the structuring of various activities, or the use of resources. Control comes into play when buyers attempt to influence suppliers to adapt technically to the needs of the foreign market. Coordination also tends to play a main role with respect to commercial content of information. However, the roles of control and learning come into play more intermittently. The need for managing information on terms of prices, delivery and payment are essential in buyer-seller exchange, *viz.*, in the first instance or placing the order. More thorough knowledge of such things as the supplier’s alternatives and commercial terms will need to be known as required, which is normally expected on an intermittent basis. This will tend to depend on the number of products exchanged and the frequency with which transactions take place. The need for commercial information in a negotiation situation, however, will tend to exemplify the controlling role. Administrative information will include facts about volumes, delivery times, transport channels, formal roles, and routines, for example. The coordinating role, therefore, will primarily involve administrative information exchange. The roles of control and learning are of considerably less importance in the exchange of administrative information (Gadde & Håkansson, 1993).

In the present model, the *social content* of information is added to Gadde & Håkansson’s (1993) framework of information exchange. Social exchange is an important ingredient in the development of interfirm relationships (Easton, 1992; Ford, 1997; Ford et al., 1998). The social content of information includes information derived from social exchange episodes, such as informal interactions including a meal, or drinks, or a non-business discussion in the workplace, about family, for example (Trimarchi, 2002). Social exchange information processes can provide an important condition for the development of interorganisational ties between firms (Håkansson & Snehota, 1995). For example, interfirm ties of obligations may lead to benefits whereby personal relationships permit the exchange of confidential information such as feedback about markets, technological and product developments (Ford et al., 1998).

The importance of social information can also be dependent upon the socially constructed nature of a particular market. For example, the nature and role of social information can be particularly important when dealing with Chinese actors. In such markets social information can assist buyers and intermediaries to develop a better understanding of each other, which tends to be particularly useful in coordination activities. However,
depending upon the individualistic and opportunistic nature of buyers or sellers, social information may play a relatively lesser role in controlling and learning activities in interactions (Trimarchi, 2002).

The need for information in interfirm relationships is, therefore, complex with respect to its content and role in business communications. As a consequence, high demands will be placed on the type of information exchange within business relationships. Indeed, some types of information are open to standardisation and others not. For example, the control and learning associated with information related to technical content and also the information exchanged in negotiations associated with commercial content. On the other hand, coordination of commercial and administrative content, such as orders and payments, for example, may be open to rationalisation and provide benefits of economies through standardisation. That different communication channels may be better suited for the exchange of different types of information is also of importance.

There are numerous communication channels available to facilitate information flows between international buyers and sellers. Electronic channels, such as telex, telephone, facsimile, telegraphic transfers, and teleconferencing, for example, all provide for efficient information transfer across international borders (Easton, 1997). The use of e-mail is also growing in popularity (Gadde & Håkansson, 1993; Havila, 1996). Postal mail may also be an important channel for communications in interfirm interactions. However, a high frequency of personal face-to-face contact may be preferred in close business relationships (Turnbull, 1990).

Standardised information exchange may be well suited to postal mail, electronic or computerised channels for communication. However, on the other hand, exchange of more complex (nonstandardised) information may require an organisational solution which promotes closer ties and cooperation between firms. More personalised channels for information exchange may be suited to this type of information exchange. This may include direct access, or face to face communication between persons that hold a position of authority, or expertise with respect to a problem encountered by a buyer or seller. Indeed, personal relationships often assist interfirm relationships to manage through the ‘rough spots’. For example, they facilitate a better understanding of each others’
problems and also serve to facilitate closer cooperation (Turnbull & Cunningham, 1981; Henderson, 1990).

The geographic distance alone, however, makes face-to-face personal selling difficult. Although ease of communication with end user customers can be enhanced by employing a foreign intermediary, there may still exist much psychic distance between the seller and intermediary or buyer. Interestingly, in some environments, the use of the phone may be regarded as a personal channel for communications, particularly where firms transact over large geographic distances (Trimarchi, 2002). The above issues lead to the development of the fifth research issue (RI.5) to direct research into the study of international business triads.

**RI.5: What is the nature of communication in international business triads and how does it influence relationships?**

8. The Character of the Role of the Intermediary in Business Triads

The character role of the intermediary in international business relationship triads has, to some extent, been elaborated on in the IMP literature (Havila, 1997, 1996, 1992). An intermediary operating within an international business triad may assume a number of different roles. Role theory suggests that a role exists together with other roles (Merton, 1957). That expectations may differ among members of a role set illustrates the complex structure of expectations. It also highlights the possibility that some expectations may come into conflict with each other, resulting in intra-role conflict, thus making it difficult to perform the role. Alternatively, roles may also exist due to a particular situation. This suggests that a role may exist regardless of who fulfils it, for example, such as a position of employment. However, what the intermediary does, *vis-à-vis* what it is expected to do, adds a dimension of complexity to possible situations. Role expectations of an intermediary therefore becomes an important element of study when looking at triadic relationships. The character of the role of the intermediary may be analysed by studying such factors as the *tasks*, *position* and *contribution* of the intermediary, as perceived by both the intermediary and the different parties within the relationships.

In triads where buyers and sellers only interact via the intermediary, the central party is the intermediary and has the *task of mediating* between the parties. One dyadic exchange precedes the other. This type of exchange relationship can be viewed as a system, where
each party has a specific role, a specific position, and follows specific tasks performed in a predefined order (Havila, 1996). On the other hand, where all firms within the triad interact together, each party is as central as the other, and the roles do not involve mediating. This form of triad resembles a group (Havila, 1996). Participants in groups, who have an interest in maintaining that group, will more than likely tend to cooperate. Such cooperation can lead to differentiation, or *specialisation of tasks* within different areas between group members (Barnard, 1958; Homans, 1961). Specialised tasks need not be predefined, such as is the case when the triad includes a central party which controls the mediation between buyer and seller (Havila, 1997).

The position of the intermediary is relevant to the power which exists between parties in a triad. A triad is viewed as *power imbalanced* when one of the actors holds a central position, in the triad (Havila, 1997). This position provides a party with more power than the other two triad participants. A power imbalance may also lead to the formation of coalitions in triads, for example, if two of the three parties are closer than the relationship they have with the third member (Mills, 1953). Alternatively, a triad may be *power balanced* where each party, as a member of the ‘group’, exhibits a ‘central position’ and as such each party may choose to deal with either of the two other parties (Havila, 1997). The possibility of coalitions forming in triads is therefore dependent on the distribution of power among triad members (Caplow, 1956, 1959).

The contributions of the intermediary may include the provision of standardised and/or specialist functions. When the position of each of the actors is well defined, tasks do not evolve into some form of differentiated activity, and parties tend to perform *standardised functions*. For example, the role of the buyer is to buy, the seller to supply and the intermediary to mediate. As such, the contribution of each of the parties to the relationship is based on well-defined discrete activities and is therefore standardised or generic. On the other hand, when triad actors operate as a group and are involved in close cooperative activities, the actors may be involved in *specialist functions*. Consequently, mediating may not be the primary function of the intermediary, and other actors within the triad may take on additional tasks or differentiate activities further to the buyer or seller roles they represent. For example, where the “…intermediary has become a specialist in some specific area other than mediating” (Havila, 1992, p.4).
The study of the various roles of the parties within a business relationship such as that of a triad therefore requires an holistic approach, it “…should be viewed as a unit which consists of three positions which in turn involve three different roles” (Havila, 1992, p.8). Of particular interest to the application of the present model is the possibility that role performance of an intermediary may be viewed differently when considering relationships across different economic cultures. For example, in triadic interactions between Hong Kong intermediaries, buyers from the West, and sellers from mainland China. Indeed, the model provided for the identification of a number of character preferences which intermediaries tend to exhibit when conducting business interactions. The sixth research issue (RI.6) is therefore concerned with the role of the intermediary in international business triads.

**RI.6: What is the nature of the character role of the intermediary in international business triads and how does it influence relationships?**

9. **Summary Remarks**

The triadic interaction model developed in this paper provides for the analysis of the environment, the atmosphere, and outer atmosphere factors of triadic business relationships (displayed in Figures 1 & 2). Elements of the environment include factors as identified in the original IMP model (Håkansson, 1982). The atmosphere constructs include compatibility, cooperation, coordination, complexity, communication, and the character role of the intermediary. The concept of outer atmosphere also focuses on the complexity of connections that extend from triad actors into business networks. The atmosphere and outer atmosphere constructs underpin the development of six research issues, displayed in Table 2. The research issues can be used to direct the application of the model, for the study of interactions in international business relationships triads.

**Table 2. The Research Issues**

<table>
<thead>
<tr>
<th>Six Research Issues (RI) to Study Interactions in International Business Relationships Triads</th>
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<tbody>
<tr>
<td><strong>RI.1.</strong> What is the nature of compatibility in international business triads and how does it influence relationships?</td>
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<tr>
<td><strong>RI.2.</strong> What is the nature of interfirm cooperation in international business triads and how does it influence business relationships?</td>
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<tr>
<td><strong>RI.3.</strong> What is the nature of coordination in international business triads and how does it influence relationships?</td>
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<tr>
<td><strong>RI.4.</strong> What is the nature of complexity in international business triads and how does it influence relationships?</td>
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<tr>
<td><strong>RI.5.</strong> What is the nature of communication in international business triads and how does it influence relationships?</td>
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<tr>
<td><strong>RI.6.</strong> What is the nature of the character role of the intermediary in international business triads and how does it influence relationships?</td>
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9.1. Implications for the Application of the Triadic Model in the Hong Kong market

The model was developed to study triadic interactions between Hong Kong intermediaries and Chinese mainland sellers, and buyers from the West. The model includes a number of important IMP constructs for the study of interfirm relationships. However, the nature of the Hong Kong Chinese business environment required the inclusion of a number of specific relationships factors to study business triad interactions. In particular, the need for a focus on compatibility and communications factors in interactions was identified in an initial pilot study conducted before the final development of the model (Trimarchi, 1997).

The factor of commercial distance is also an important dimension for the study of compatibility. The socially constructed nature of the Hong Kong market requires that an emphasis be placed on the nature of social information within the roles of coordinating, controlling, and learning in interactions. The concept of outer atmosphere, developed for the present triadic model, provides for the analysis to capture the effects that interactions between focal triad actors and actors outside the triad (which exist within broader business networks, for example) have on the focal network relationships. The study of plural modes for coordination also provides greater scope to study the nature of interactions between firms from different economic cultures. By studying the character role of the intermediary, it is possible to identify the character preferences of the intermediary(s) involved in triadic interactions (Trimarchi, 2002).

9.2. Implications for Theory Development Using the Triadic Interactions Model

The application of the model provides for the identification of a number of factors. The model provides for the identification of the nature of authority (or classical) and relational relationships within triadic interactions. Different triadic forms that operate in the chosen market can also be identified. It is also possible to map the marketing channels and network connections that exist in the chosen market. Strategies that actors use to develop their network connections and the boundaries which actors may place on the business networks within which international business triads operate, can be identified. Implications for partner choice and relationships development for triadic actors, wishing to develop their network positions, are also able to be identified (Trimarchi, 2002).
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