

Master Thesis in Business Administration

Blurring observed as an inter-firm communicative phenomenon in purchaser-buyer relationships.

Written by

Ken Roger Uteng Andersen

Hanne Grude Valdeland

Agder University, Kristiansand

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0. Preface

We have both followed the Masters program at University of Agder, and thereby also during the 4,5 preceding years tried to acquire as much knowledge as possible enabling us to write a good master thesis. Spring 2010 arrived and with it also the master assignment. We were given a list of different suggestions for master thesis, or we could submit a suggestion of our own. Both of us however, found one of the suggestions to stand out quite fast. We have both had a specialization in International Leadership, thereby also subjects that more or less have focused our interests on subjects as strategy, communication, decision making and so on.

The Master thesis proposal: Communication in inter-firm relationships was the one that made up the foundation of our assignment. The assignment is exploratory in nature, and we were given a suggested list of research questions to try to gather information about.

Our information gathering was primarily done via face-to-face interviews, some telephone interviews and of course also a literature study.

More than ever we would like to thank our supervisor Ellen Katrine Nyhus for impeccable advice and support during this whole process. We could not have asked for a better advisor.

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2. Abstract

We started out this master thesis for developing a greater foundation and knowledge for later quantitative studies of the phenomenon of blurring in inter-firm communication. We performed 8 in depth interviews with different candidates from different business regions in Norway. We tried to draw on findings through literature studies combined with findings from interviews to establish a better understanding of how and if blurring appear as a common phenomenon in business to business relations. First of all we found that blurring actually is observable in real life. We found implications about blurring with regards to being more likely in short-term business relationships than long-terms. Further we also found an indication about blurring being more likely when a firm is less dependent on the other part than vice versa. This knowledge is important to develop a better understanding about how to govern relations and how to communicate with other firms.

3. Introduction:

As mentioned in the Preface, we are two students with background from International Management studies at the University of Agder. This has in a lot of areas shaped our interests and knowledge areas and is why the presented assignment with inter-organizational communication appealed so much to us. We have been addressing a lot of similar areas in previous subjects at the university and felt we had a good background for writing this assignment.

Our research began in January of 2010. We wanted to explore more about inter-organizational relationships and communication, and especially focus on a type of- or a subject related to opportunism, namely the concept of blurring. Information blocking and distorting is something that might infer a lot of economical consequences upon a firm if they are not able to defend against blurring tactics, or see through others speculation in this field. We want to contribute to the research upon this field by raising the level of awareness about this phenomenon and try to discover a little bit more about how common this is and how it presents itself.

Blurring is a very new concept, and little literature can be found about the notion. Our thesis advisor has her - self (in collaboration with Otto Andersen), written a paper about blurring, a paper we found very useful in our own research.

Although the concept of blurring is very new, blurring tactics has been used for a long time in inter - firm relationships. When interviewing our respondents, vey few of them had ever heard about the theoretical construct, but when explained to them they soon discovered that blurring has and still is a part of their business-to-business relationships.

We started out with searching for relevant theoretical foundations for our thesis. Transaction Cost Theory and Relationship Theory were two theories that stood out early in our process. Transaction Cost Analysis is important and valuable for our thesis because it seems to explain and suggest a lot of scenarios where opportunism might be more likely than otherwise. It is the same with relationship theory, here we can find a lot of theory that helps us build research question and shape our thesis into shedding light upon the areas we find interesting.

To further shed light on this we interviewed respondents from several local companies, and also a few from other parts of the country. The responses varied and we soon saw that some respondents were more willing to open up than others.

We will hereby draw upon theories behind the phenomenon of blurring, combine them with findings from interviews, and try to get closer to answer our problem definition that is:

To what degree is blurring observable as a common phenomenon in inter-organizational relationships?

Finally we will discuss some managerial implications and give some advice for further research.

4. Theoretical Foundations

4.1 Communication

When thinking of communication, the first thing that might come to mind is language and conversation. Several things interact through communication, animals and human inventions like computers, humans themselves and so on. For this thesis however, it will be most relevant to focus on human beings and organizations. Normally communication involves more than one person, most often two and sometimes even more than two people.

Organizations can communicate with each other as well, if there are no identifiable humans behind communication being done for instance. Although we assume that the only thing being able to use communication for opportunistic acts in a business situation is human being.

First let us elaborate on another assumption. For tactics being used in an inter-firm communication scenario there must be two identifiable persons responsible for the communication being done. Or at least we have to for simplistic purposes to model it that way. Even though there might be teams of persons on each side of the relationship doing the communication, it is a lot easier to look at questions at hand as if there were only one person on each side. We can call them participants or parties for that matter. For the models sake we will keep it at two parties, one sender and one recipient of information.

This type of communicative model is well known within the field of cognitive psychology, and is also nicely portrayed in the article written by Andersen, and Nyhus (2009). “The sender decides which knowledge to be sent and encode this knowledge to facilitate the transfer. The receiver decodes the transferred information into his/her interpretation of the knowledge. This decoding is a complex cognitive process, involving perception, learning, interpretation, association and reasoning.” (Andersen and Nyhus, 2009).

4.2 Inter-firm communication

There has been done a lot of research on inter-firm communication with several research goals. Communication between purchaser and supplier is the area we wish to look research

with this thesis. To cite Large (2005); “Communication is one of the most important behavioral aspects in business life” (Large, 2005). Håkanson found that Swedish purchasers dedicate around 20% of their time to external communication with suppliers (As cited in Large, 2005). And Large (Large et al, 2003) got similar findings with purchasers spending about 30% of their working hours on external communication with suppliers. Further on communication might be the most important factor for building good relationships. Morris et al (1998) did a survey where they got a list of key factors associated with successful relationships over time. The number one ranked factor was frequent communication between parties. As cited in Large (2005) Mohr and Spekman (1994) showed that as communication quality in supplier-customer relationships rises, satisfaction also rises.

Inter-firm communication has been studied on several dimensions; most common is probably the dimension of communication frequency or intensity (Katz and Tushman, 1979; Boyle and Alwitt, 1999 etc), or communication quality (Large, 2005). Large (2005) also found that communication quantity had an impact on relationship quality. Relationship quality being here identified as a measure of trust, understanding, and readiness to help and cooperate. Large’s (2005) results suggest that sharing strategic information can help increase relationship quality. And this brings us closer to the main motivation behind our study, information blurring. Within inter-firm communication it is suggested that firm’s should communicate openly (Large, 2005), with this come risks regarding opportunistic acts from the other part of the relationship. Examples are found throughout business history of businesses stealing ideas from one another, and therefore a lot of businesses also start to block or distort information to protect them from this type of opportunism. This defending behaviour is what we look at as blurring. Blurring might manifest itself at many levels of communication, both being used as a tactic for exploitation of human cognition shortcuts or as a defence, such as just mentioned.

4.3 Blurring

So what is blurring? Well as discussed earlier, blurring is a type of opportunism where distortion/blocking form or content of information has the goal of making one party benefit, at least over a short-term period. The long-term relationship is put in the hot seat, and maybe overlooked or under-emphasised. If the relationship was in the beginning non-profitable for

the part considering opportunistic acts, then it might not be rationally the wrong move if we presume the firm is not under moral scrutiny of the public. Public relations are for most firms however very important and thereby it is normally better for the company to stay within moral and ethical guidelines.

The difference between blurring and opportunism, or what makes blurring stand out is as Wathne and Heide (2000) describe it, “Opportunism concerns mainly behaviour – either refraining from or engaging in particular actions” (Wathne and Heide, 2000). Blurring on the other hand deals with the content and form of information transferred between the exchange partners (Andersen and Nyhus, 2009).

Companies compete with each other on multiple arenas and fields, and therefore companies should do what they can to constantly be on the same level if not in front of their immediate competitors. How can firms achieve this? One area of approach might be to get better relationships with other firms, being for instance buyers or sellers at some level of the supply chain. As Cohen and Levinthal put it (1990); “Knowledge transfer in an inter-firm relationship is a critical factor to achieve competitive success” (Cohen and Levinthal 1990).

Open, sincere, and substantive communication is the most important element to a successful inter-firm relationship (Anderson and Weitz, 1989; Bleeke and Ernst, 1993). When firms participate in relationships they have to communicate whether they want to or not, thereby they will also expose themselves to leak some of the important characteristics of their firm, their organisation or their contractual terms like for instance profit margins, market influence, number of competitors, prices, costs etc. We would like to from now on just address this mainly as sensitive information. On the other hand, sensitive information about the other company might also present itself to the initial participant. This is a phenomenon that goes both ways. We can imagine forms of blurring being used by both participants simultaneously to get an advantage over the other part in the relationship.

There is also drawn a division between passive and active opportunism. Passive opportunism means that one exchange partner fails to follow up on his/her obligations in the contract, while active opportunism occurs when one exchange partner consciously performs actions

that are prohibited in the contract. These forms of opportunism are considered under existing and new circumstances (Wathne and Heide, 1997).

What we would like to discuss more closely in this part of the thesis is a form of opportunism that might be both passive and active, it distinguishes itself as being opportunism with regards to content and form of information transferred between the exchange partners (Andersen and Nyhus, 2009). A good portrait of this phenomenon is that in a sender – receiver framework, blurring is present when the sender deliberately distorts the knowledge to be sent (Andersen and Nyhus, 2009). We can imagine both a seller and a buyer being the sender of such distorted information.

But first of all; is blurring tactics just a theoretical construct or also something that occurs in the business world. To find an answer to these queries, we came up with two research questions.

Research Question 1 A: To what degree does the exchange partner believe that blurring tactics is commonly used in business relationships?

Research Question 1B: To what degree does the exchange partner believe that blurring tactics is being used in their business/business relationships?

Another thing we were interesting in finding was if our respondents had experiences of blurring tactics. We wanted to find these examples and also look more into what sort of information was more likely to be blurred. From this we composed another research question.

Research Question 2: What type of knowledge/information is believed being most likely to be blurred by the exchange partner?

This brings us to question in what circumstances blurring is most likely to happen, and for that we next visit a theory explaining some circumstances of a relationship that might increase or decrease the likelihood of opportunistic acts and/or blurring.

4.4 Transaction Cost analysis:

In this analysis the people see the firm as a "governance structure". A firm tries to find the governance structure that best can minimize the its transaction cost.

According to the transaction cost analysis (TCA) we have three general types of governance structures, these are; market, hierarchy and hybrid mechanism. In hierarchy they achieve coordination through direct control. As we can read from the name there is a large hierarchy in the firms that uses hierarchy as a governance structure. What we mean by hierarchy is that the firm is organized in several levels, where the people on the top level have most of the power and makes most of the important decisions in the firm. The people on the lower levels have to follow the instruction from the people higher up in the hierarchy, which means that the boss has the power to tell his workers what to do. The communication flows mostly down in the hierarchy. The power distance is also large in this type of firm, which means that workers accept that their boss has the power and accepts that they do not have too much to say about what happens in the firm (internet 3, assessed 02.03.10, 10:37). In the market structure there is less control mechanism, more freedom for the workers to make their own decisions and the power distance is small. The communication flows both ways and there is a lot less hierarchy in these firms.

A definition for transaction cost is "the cost of running the system" (Rindfleisch and Heide, 1997). Examples of transaction cost can be time and resources it takes to negotiate a contract (ex ante cost) or resources it takes to monitor one of its partners (ex post cost). The framework includes direct cost and opportunity cost. Direct cost is "a cost that can be directly traced to producing specific goods or services" (internet 1, assessed 04.02.10, 14:21). While opportunity cost is "the cost of an alternative that must be forgone in order to pursue a certain action" (internet 2, assessed 04.02.10, 14:23)

Important aspects for TCA are opportunism and trust. These are important aspect that fit well into a research study of inter - organizational relationship. Opportunism is always a concern for people and organizations involved in a relationship. The fear that your partner will betray you by acting opportunistically will always be part of any kind of relationship. Trust is important for a well functional and long lasting relationship; with trust the partners in a

relationship will not be as afraid of opportunistic behaviour. When studying inter - organizational relationships these aspects are important to consider.

4.4.1 Bounded rationality:

One of the major assumptions in the transaction cost theory is bounded rationality. Bounded rationality is the reality that people are not able to consider all possibilities when making a decision. One definition is “the capacity of human beings to formulate and solve complex problems is limited” (Douma and Schreuder, 2008). We have limitation when it comes to our cognitive capabilities and also limits when it comes to our rationality. When we are making a decision we are not able to know everything about that decision. Because of that we do not always make the optimal decision. A person can take advantage of people bounded rationality and try to blur the information they transfer to their partner in a relationship.

Usually people intend to act rationally, but their limitation stops them from doing so (Rindfleisch and Heide, 1997). Bounded rationality is especially a problem in environments, which is uncertain and complex (Douma and Schreuder, 2008 page 163). In such an environment we usually need a formal agreement, in the form of a contract. This contract needs to be negotiated and written down. A simple and certain environment is for example when someone is buying petrol, here we do not need a contract and we are all very sure about what we get and how much we have to pay for the product. An example of a complex transaction is for example when a government buys a new weapon system. Here there is a need for a written contract, which usually is very complicated. There are also a lot of questions that needs to be negotiated and answered (Douma and Schreuder, 2008 page 163). The relationship we are studying will be more complex than buying petrol. Even if a company is just buying a product from another company that will involve a negotiating process and a complex contract.

In an uncertain environment we have both behavioral uncertainty and environmental uncertainty. Behavioral uncertainty is the uncertainty surrounding the performance of people we interact with. It is not possible to know exactly how people will react in every situation, which at times may create problems in a relationship. It is also not possible to always know if

we can trust the people we interact with. Behavioral uncertainty also occurs when we are not sure if the other part has followed the agreement between them. It is not always easy to know if the other part has done all they could do in order to follow the agreement. They might have failed, but it is not simple to know if they failed on purpose or because of certain events that they did not have control over (Douma and Schreuder, 2008 page 163 and Rindfleisch and Heide, 1997). Behavioral uncertainty is especially a problem in relationship, also when it comes to blurring. You cannot be sure how your partner will act, and if he will use blurring tactics.

Environmental uncertainty is when there are circumstances in the environment, which we cannot control. These circumstances have the possibilities to cause problems for a relationship. The main focus here is the problem of adoption; people have problems adopting their agreements as the circumstances in the environment changes. We prefer to just keep it as it was at the beginning, and do not wish to change it even if that is what is needed. It is more or less impossible to write an agreement, which consider all possible outcomes and consider everything that can happen and go wrong. That is why we have to change agreements as the environments and circumstances changes (Rindfleisch and Heide, 1997). Environmental uncertainty is a problem especially with measuring, because when we try to measure something we would prefer as little change as possible. This is because no change makes it easier to measure (Rindfleisch and Heide, 1997).

When it comes to blurring, it is possible to take advantage of peoples bounded rationality to in order to get a head in a relationship and the negotiating process (Andersen and Nyhus, 2009). You can take advantage by the fact that people do not have all the facts, and if you figure out what they do not know you can use this to your own benefit.

4.4.2 Opportunism:

Another assumption is opportunism. In TCA one assumes that people would, if they had the opportunity, to act in their own self-interest. This could be at the expense of the other parties in the relationship. It is difficult to know who is honest and who would act opportunistically,

before an agreement is agreed upon, especially if you have never worked with this person before (Barney, 1990).¹

Williamson (1985) defines opportunism as “self – interest seeking with guile”(Williamson, 1985 p. 47)¹. This can be understood as people trying to “exploit a situation for its own advantage” (Douma and Schreuder, 2008). Under opportunism we find behaviour such as lying, stealing, distort, disguise, cheating or violating an agreement (Rindfleisch and Heide, 1997).

As we have explained before, opportunism can be divided into two behaviours. The first one can distort information, which means lying, cheating and stealing. It also involves more subtle behaviour such as misrepresenting information, by not disclosing all the information. The second behaviour is not fulfilling your promised commitments, by shirking your responsibilities (S. Lui, Wong and W. Lui, 2008).

Although Williamson (1985) has opportunism as a large part of its TCA framework, does not mean that he thinks everybody will act opportunistically. He only assumes that some people will take advantage of certain situations, and will therefore act opportunistically. He also claims that it is difficult to know who will act opportunistically and who will be honest, before you make a deal. Even opportunistically people might not act opportunistically all the time, it is very difficult or costly to tell if they will act sincere or not (Douma and Schreuder, 2008 page 164). Some people think that Williamsons view of people is to pessimistic, that he focuses too much on opportunistic behaviour (Douma and Schreuder, 2008 page 164). To show that this statement might not be correct, consider this example:

Suppose you are planning to go on holiday this summer, and have decided for Greece. When talking to a travel agent you discover that Greece is the popular spot this year. You find a trip, but it is expensive and not exactly what you wanted, however you decide to book this trip. The next day you are lucky and find a cheaper trip that is exactly what you want. Would you not be tempted to take this trip in stead and cancel the first trip? If travel agents did not have a contract that is legally binding, than I think most people would agree that a number of

1.Rindfleisch and Heide, 1997

customers would cancel the first trip and go for the cheaper trip they found. This is something travel agents have thought about, and is the reason why they actually have their customers sign legal binding contracts. From this example we see the reason why travel agents spend money and time on contracts, not because they think everyone will act opportunistically, but because some customers might (Douma and Schreuder, 2008 page 164 - 165).

Opportunistic behaviour can occur *ex ante* (for example a seller might not tell you if the product you buy is defect) or it can occur *ex post* (for example after you have booked a vacation, you might want to get out of it) (Douma and Schreuder, 2008 page 166).

“Ex ante opportunistic behaviour leads to adverse selection”(Douma and Schreuder, 2008). When explaining adverse selection, it is common to use an example from the insurance industry. What commonly happens is that an insurance company ends up with high-risk clients. This is because the people, who are risky, are the people who needs insurance and who also ends up buying the insurance. “The high-risk clients have self - selected themselves in response to their product offer” (Douma and Schreuder, 2008). According to Williamson (1985) adverse selection arises in the insurance industry because of “the inability of insurers to distinguishes between risk and the unwillingness of poor risks candidly to disclose their true risk condition” (Williamson, 1985 page 47).

“Adverse selection is a type of information asymmetry”(Douma and Schreuder, 2008). What happens is that we have hidden information; one party of the transaction has more information about the respectable variables in the transaction, than the other part. This gives the party with more information an advantage in the relationship (Douma and Schreuder, 2008). When there is asymmetrical information, we often find opportunistic behaviour. For example in a seller – buyer relationship, the seller usually has more information about the product than the buyer. This is something he can use for his own advantage, or even trick the buyer into buying a too expensive product (Douma and Schreuder, 2008 page 166).

Ex post opportunism may lead to moral hazard (Williamson, 1985 page 47). Moral hazard is like adverse selection, about hidden information. Except that the information hidden occurs during the transaction, not before (Douma and Schreuder, 2008 page 73 and 75). If we use the insurance example, moral hazard is when people who have insurance do not act responsible.

They might take inappropriate risk, because they have insurance and do not feel that they have to play it so safe, as they would if they did not have any insurance (Williamson, 1985 page 47). When we talk about ex post opportunism we mean action that occur after they have agreed to go through with the transaction (Douma and Schreuder, 2008 page 73). These actions do not need to affect the other parties in a transaction, but it could also harm them and possibly end their relationship. If either of the parties suspects such behaviour could happen after the transaction, they might not want to take the risk, and the transaction will not transpire (Douma and Schreuder, 2008 page 73).

The concept of adverse selection is about hidden information, while the concept of moral hazard is more about hidden action (Douma and Schreuder, 2008 page 75). One thing these two concepts have in common is that they are both has problems with observation. If all the parties in a transaction could, before the transaction went through, observe all the information they needed to “prepare and execute the transaction”(Douma and Schreuder, 2008 page 75), these two concepts would be irrelevant (Douma and Schreuder, 2008 page 75). Another thing these two concepts have in common is that the information between the parties is unevenly distributed. One of the parties has information, important to the transaction, which the other partner cannot observe. This information is valuable to the transaction, and gives the partner with the information an important advantage (Douma and Schreuder, 2008 page 75). The information is also private, so the partner with the information can decide for him self if he wants to disclose it to its partners. If revealing the information would harm the partner’s position in the relationship and harm is interest in the relationship, there is little chance he will reveal the information (Douma and Schreuder, 2008 page 75). The last similarity for the two concepts is “that both problems may occur in both market and organizational settings” (Douma and Schreuder, 2008 page 75). But the two offers different solutions for these problems (Douma and Schreuder, 2008 page 75).

The differences between the concepts are the following (Douma and Schreuder, 2008 page 75). Adverse selection is an ex ante concept. It occurs from “private information that exists before parties agree on a transaction” (Douma and Schreuder, 2008 page 75). Moral hazard occurs from hidden actions, which is an ex post concept. “It pertains to hidden information that may develop during the execution of a transaction (Douma and Schreuder, 2008 page 75). The type of information that is hidden is information about the unobservable behaviour of the

partners in the relationship. This behaviour is valuable for the transaction, because it affects “the terms of trade in the transaction” (Douma and Schreuder, 2008 page 75). We can again use the insurance company example; if the insurance company knows about negligence or fraud with someone they insure they will not cover that person. Therefore that person has no incentive to tell the insurance company about these matters (Douma and Schreuder, 2008 page 75).

In a normal market we find a several buyers and sellers, who all trade with each other. In such a market, a seller who has acted opportunistically will damage his or her reputation and will therefore have problems finding new customers.

A seller’s reputation is important for his sales, if he has cheated several of his costumers and this comes out, that will make other possible costumers reluctant to buy from him. This is because they are afraid that he will cheat them too, or because they do not want to encourage such behaviour, by buying from him. This can also be transferred to an - inter - organizational relationship. A firm will not want to work together with another firm who has a bad reputation. If they have heard or experienced that this firm has acted opportunistically in the past, then the firm will be very reluctant to work with that firm. Unless they do not have another firm to work with, they will choose a different partner. If no one knows that you cheat your costumers, than you will not be affected by your behaviour. The problem arises when you get caught, and that information spreads to your costumers and potential partners (Douma and Schreuder, 2008 page 166). This can of course also be transferred to other types of relationships, both personal and business.

Especially in cases called “small number exchange” opportunism is a serious problem. In these cases we have only one seller. The seller in this marker does not have to consider his reputation, because the buyers do not have anywhere else to go. (Douma and Schreuder, 2008 page 166).

If a seller has a reputation for being honest, a buyer will trust that seller and will not feel the need to spend extra money on an inspection, in order to make sure the product is in good condition. When trust is involved in the transaction, a buyer will save money on transaction cost.

TCA claims that a legal contract between partners will reduce opportunistic behaviour. The theory says there are several reasons why a legal contract will reduce the opportunistic behaviour in a relationship. The first reason is because a contract contains future action for future events, it contains formal rules for the relationship and also helps reduce uncertainty in the relationship, because with the contract all parties know what to expect. The second reason is that a contract tells the parties what is seen as cheating and “illegal” behaviour, it also contains what the consequences of such behaviour is. They can use the contract as a reference point to judge if some behaviour is opportunism. The third reason is that a contract prescribes the nature of the transaction, so that the partners can use the contract to resolve conflicts and disputes (S. Lui, Wong and W. Lui, 2008).

“A formal contract provides a monitoring mechanism for a partnership to reduce opportunistic behaviours” (Balakrishnan and Koza, 1993)². A contract shows if either partner has followed their part of the agreement and it can also be used as motivation for the partner to fulfil their obligations, since if they do not fulfil their obligations the contract contains different penalties for deviations (S. Lui, Wong and W. Lui, 2008). TCA argues that if a relationship uses a formal legal contract, then the partners involved will less likely act opportunistically (S. Lui, Wong and W. Lui, 2008).

Opportunism is bad for the performance of a relationship, since the success of a relationship relies on both parties. They all need to be willing to work and give something to the relationship, in order for it to be a success. (S. Lui, Wong and W. Lui, 2008). If one of the partners does not give it all or even worse work more for their own benefit, the relationship will suffer. If the other, more reliable partner realises that its partner has taken advantage off them, they will probably no longer want to contribute too much more into the relationship. This is because they do not want to lose any more to its partner; they have most likely already spent a lot of resources on the relationship and do not want to waste anymore. If this happens the relationship is no longer productive, it does not create a competitive advantage for the firms anymore. Because of this evidence, TCA are able to claim that “opportunism is expected to reduce partnership performance” (S. Lui, Wong and W. Lui, 2008).

2. S. Lui, Wong and W. Lui, 2008)

Opportunism is a problem because people invest a lot of time and resources into a relationship, and one expects the other party to behave in a certain way. It could be difficult for firm to find another partner to work with, or it could be that the firm cannot afford or do not have time to invest in another partnership. A firm risk losing time and resources if its partner decides to act in its own best interest and not the relationships (Rindfleisch and Heide, 1997).

Safeguarding problems often arises with the problem of opportunism. A safeguarding problem “arises when a firm deploys specific assets and fears that its partner may opportunistically exploit these investments” (Rindfleisch and Heide, 1997). If a firm invest in a relationship and especially if they invest in a resource that cannot be used anywhere else (asset specificity) then the fear of opportunism is very high. This is because they will have a lot to lose, if they have to end the relationship. According to the TCA framework if we have high levels of asset specificity in a relationship and therefore a large chance of opportunism, there will be high cost concerning safeguarding contracts (Rindfleisch and Heide, 1997).

Opportunism creates cost by having the partners spend resources on monitoring and controlling its partner. These recourses could instead be spent on improving the relationship or invested into their companies.

According to TCA, if performance evaluation and safeguarding cost are low or absent, the economic actors will prefer market governance (Rindfleisch and Heide, 1997). If the same costs are higher than the production cost of the firm, the same firm will rather prefer internal organization. TCA has three prior assumptions about organizations that help a firm with its organization.

The first assumption is that firms are able to monitor and control behaviour, more than the markets are able to. Because of this the firms are also able to reward and measure behaviour as well, this also is true with output. With these characteristics firms are more able to detect opportunism and are also more able to adapt to changing circumstances.

The second assumption is that a firm is able to give rewards, for example through promotions inside the company. This could help with the allure of opportunism; one might not be so tempted to act opportunistically if you risk the chance for a promotion.

The last assumption is with regards to the firms' culture and the affects of that culture. A firm's culture and atmosphere is very important to a firm and its employees. A well functional organizational culture can help people come together towards a common goal and is also a large part of the socialization process inside the firm. This is also affective towards reducing opportunistically behaviour (Rindfleisch and Heide, 1997).

4.4.3 Asset specificity:

Another dimension of the TCA framework is asset specificity. "Asset specificity refers to the transferability of the asset that support a given transaction" (Williamson, 1985)³. It can be defined as "the durable investment that are undertaken in support of particular transactions, the opportunity cost of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated" (Williamson, 1985 p. 55)⁴. It can also be defines as "the asset specificity of a transaction refers to the degree to which the transaction needs to be supported by transaction – specific assets" (Douma and Schreuder, 2008 page 168). If an asset is specific, it means that the asset will lose value if it is used in an alternative way (Douma and Schreuder, 2008 page 168).

Asset specificity is when a firm invest in something for a relationship, and this investment is not worth much outside of this relationship. If an asset has high asset specificity, it means that that particular asset will have little or no value outside of that relationship. If for example a production firm buys expensive equipment to meet their buyer's special needs, but this equipment is not something their other buyers need. This equipment is only useful for the firm as long as they work with the specific firm, which means that the investment is asset specific. Firm that cooperate often invest in specific asset for a partnership, either because it is something that it really needs or because of goodwill towards its partner. Because of the loss of value outside the relationship, the decision about asset specificity is a very important

3.Rindfleisch and Heide, 1997

4.S. Lui, Wong and W. Lui, 2008

decision. If a firm is not quite sure about the relationship and if they do not trust its partner, it is not likely that they will invest in such an asset. If a firm feel secure in the relationship they are more likely to take such a risk as investing in an asset that is specific for that relationship (S. Lui, Wong and W. Lui, 2008).

We can use an example from Douma and Schreuder (2008) to proper explain the concept of asset specificity. Consider a person (Mr X) who wants to start up a newspaper in a town that has no local newspaper. Mr X needs to print the newspaper locally, because that is cheaper. There are several printers in this town, but no one has the equipment to print a newspaper. One of the printers (Mr Y) would consider buying a press, which would be able to print a newspaper. If Mr Y decides to buy this press that press would be a transaction specific asset; he can only use the press with Mr X, since that is the only newspaper in town and since it would also cost too much money transporting a newspaper to another town. This transaction between Mr X and Mr Y would then be characterized by asset specificity and lock in (Douma and Schreuder, 2008 page 168 - 169).

“For transactions with high asset specificity, the cost of market transactions is high” (Douma and Schreuder, 2008 page 169). To explain why this is, we can continue using the same example. If we suppose that the press bought, had an economic life of five years, because of that Mr Y wants a five-year contract with Mr X. It might not seem that writing such a contract, would cost a lot. But if we continue with the example, we can illustrate problems that may take place.

The fixed costs are \$3500 a day, if the press deprecates over five years. The variable costs are \$1500 per day, the cost it takes to operate the press. Mr Y gets a contract, which entitles her \$5000 a day. They have a legally binding contract. One day Mr X comes and says that the newspaper is not selling as much as he thought. He asks if he can lower the price to \$4000 a day, because with \$5000 he will go bankrupt. If he files for bankruptcy, the press will have no use anymore. Because of that Mr Y, sees no other choice than to lower the price. Mr Y would actually only have to accept a price higher than \$1500, with a price higher than this amount he will still have a “positive contribution margin” (Douma and Schreuder, 2008 page 169). If we use economic language, a price higher than \$1500 will give a positive quasi rent. By trying to

lower the payment, Mr X “tries to appropriate a part of that quasi rent” (Douma and Schreuder, 2008 page 168 - 169). In economic terms, when someone tries to appropriate someone else’s quasi rent, they “refer to it as the danger of hold up” (Douma and Schreuder, 2008 page 168 - 169).

Another example of hold up is from the movie industry. If the first movie of a series of movies turns out to be a blockbuster, the cast will usually demand more money for making the sequels. When making the Lord of the Ring trilogy, they solved this problem by making all the three movies at the same time. This way neither of the actors could demand more money when the first movie came out and became a huge hit (Douma and Schreuder, 2008 page 169 - 170).

Transaction cost theory suggests that asset specificity in a relationship increases the risk of opportunism and therefore transaction cost will emerge. A firm is more exposed to opportunism when they have invested in asset specificity (S. Lui, Wong and W. Lui, 2008). The other firm might see the investment as a golden opportunity for opportunism by trying to get as much as possible out of the relationship and then threaten to terminate the relationship if they do not get more (S. Lui, Wong and W. Lui, 2008).

TCA claims that a firm will maximize performance in a relationship if they are able to reduce opportunism on asset specificity. In a relationship with high asset specificity there tend to be more formal contracts. With a contract you have a legal agreement, which contains both parties’ obligations and their commitment to the relationship. It is also supposed to contain actions for different circumstances that may occur, but of course the contracts are not able to consider all possible circumstances. With a legal contract a firm usually feels more secure, because they know that they are protected by law and also feel that they have more control over the situation. A firm uses a contract to protect their transaction with and to safeguard their investment. Contracts are common in these relationships because of the vulnerable position the firm are in when it comes to asset specificity, so we expect in a relationship with high specific asset investment to see legal contracts involved (S. Lui, Wong and W. Lui, 2008).

We have four types of specific assets; these are physical locations, specific physical assets, specific dedicated assets and specific human assets (Payan and Svensson, 2007).

It is not enough to just find out if blurring exists in the business world and find examples. We also wanted to see when our respondents used blurring tactics. From this issue we find our third research question, which we decided to divide into three different questions.

Under what circumstances is blurring likely to be used?

Because of the link between asset specificity and the risk of opportunistic behaviour, we wanted to see if there could be a link between blurring and asset specificity, which leads us to a research question.

Research Question 3A: Is there a link between asset specificity and use of blurring?

Another way to secure an asset specific investment, other than a formal contract, is trust. If a relationship has trust, the partners feel more secure and are more willing to make such investments.

4.4.4 Trust:

One definition for trust is “the perception of reliability, creditability and benevolence of a partner (Johnson et al., 1996; Morgan and Hunt, 1994)⁷. You develop trust in a relationship with reliable and fair exchanges between the partners. If you have worked with a partner, and that partner has not cheated you but acted honest, then trust will develop between the partners (S. Lui, Wong and W. Lui, 2008).

Some scholars argue that “the tendency of a certain person to behave in an opportunistic way” (Goshal and Moran, 1996)⁵ depends on two things; the immediate net benefits of such behaviour and disposition toward the transaction partner” (Goshal and Moran, 1996)⁶. A

7. (S. Lui, Wong and W. Lui, 2008).

5. Douma and Segreuder, 2008

person will not act opportunistically if he will not reap any benefits from the behaviour, and the more he will earn the greater the chance is that he will act opportunistically. The feelings the person has towards the partner will also affect how he behaves in the relationship. If he see the partner as a friend and has had a good relationship with him, it will reduce the chance that he will betray him. If you are in a trusting relationship with a partner, you are then able to be in a long-term profitable relationship with him. Many economists have now recognized that trust is very important in a working relationship, and many have tried to “figure out which circumstances trust is most likely to develop” (Douma and Schreuder, 2008 page 184).

TCA theory suggests that with long-term relationship, there is less opportunistic behaviour (Douma and Schreuder, 2008 page 184). We wanted to see if there is a link between the length of a business relationship and the use of blurring tactics. To answer this we came up with our forth research question.

Research Question 3B: Is there a negative link between the length of the relationship and blurring?

It is important to have “trust both between and within organizations” (Douma and Schreuder, 2008 page 185). Having trust between organizations can really help them develop an efficient long - term relationships with these organizations. To have such long-term relationships is very important to an organizations success. It is also important to have trust within the organizations that means that the employee places a certain trust in their employee. If an employee feels that he is being trusted, he will work harder for that organization. A person feels more comfortable, secure and has more confidence to do a great job if he feels that he has the employers trust. If a employer spends a lot of time monitoring the employees, that will not show the employees that he trust them and it will end up with the employees not wanting to do as good a job for the organization. What often happens when a firm monitors its employees to close because they think the employees will act opportunistically, is that the employees actually behaves opportunistically because of the monitoring. Since they do not feel that they are being trusted, they feel betrayed and feel they do not have to act in the organizations best interest (Douma and Schreuder, 2008 page 185).

“Trust is important for economic exchange” (Douma and Schreuder, 2008 page 185). Throughout history trust was built up through personal exchange. Small groups worked together and through good experiences they built trust between them. Since the groups were small there was a personal context, which allowed the transaction costs to stay relatively small. But since the economy expanded, there was less room for personal exchange, and more exchange between so called strangers. Because of that more problems concerning transactions came to light. They needed to find something to replace “personal trust” with; they need “other means of a personal nature” (Douma and Schreuder, 2008 page 185).

We find two important forms of such impersonal trust, in institutions and through reputation.

In institutions people put their trust into the country’s rule of law and its enforcement. This is essential in the economic development of a country. If organizations do not trust the institutions in a country, they will not feel secure enough to establish business in that specific country. It is important that organizations feel that their investment is secure and safe in the country they decide to invest in. The other form is reputation. It’s important for an organization to have a good reputation that will help them find success exchange partners. If an organization has a reputation for being trustworthy, that would put some personal element into the relationship. There is not a big chance an organization will have the opportunity to develop well functional relationship if they have a reputation for not being trustworthy (Douma and Schreuder, 2008 page 185 - 187).

4.4.5. Model for trust:

The model consist of three dimensions of trust, we have calculus - based, knowledge - based and identification - based (Hernandez and dos Santos, 2010).

It has been widely recognized that trust is very important for a relationship, both personal and business relationship. Trust is “vital for the maintenance of cooperation in society” (Zucker, 1886)⁷. With trust in a relationship uncertainty about the future is reduced, it reduces the need to monitor each other in order to protect them self from opportunistic behaviour. It also lead

6. Hernandez and dos Santos, 2010

to a better harmony within the organization, since trust helps eliminating friction and conflicts within relationships.

Trust helps reduce to reduce the need for bureaucracy in an organization. If you trust someone, you do not feel the need to monitor and control him as much (Hernandez and dos Santos, 2010). In several studies researchers have found out that “trust leads to longer and more stable relationships” (Andersen & Weitz, 1989; Pavlou, 2002)⁶, “it reduces the need for conflict (Morgan & Hunt, 1994)⁶ and “boosts satisfaction with the relationship” (Andersen & Narus, 1990)⁶.

There has always been a problem in academic world to find one common definition for trust. It has been normal that researchers from different disciplines define trust differently. For example in the discipline economic the researchers “tend to see trust as an economic (Williamson, 1993)⁶ or institutional (North 1990)⁶ phenomenon, sociologists see it as a property of relationship among people (Granovetter, 1985)⁶ or institutions (Zucker, 1986)⁶ and psychologist tend to focus on trust as a personality phenomenon (Rotter, 1967)”⁶. Because of this we have several definitions for trust, and even more than one definition for each discipline.

This model about is based on a model proposed by Lewinski and Bunker (1995). They have tried to develop a scale of trust for a buyer - seller relationship. “The model possesses basically most of the qualities that a model for measuring trust in a buyer - seller relationship would require” (Hernandez and dos Santos, 2010).

The first quality is that the model proposed by Lewicki and Bunker (1995)⁶ was more designed for professional relationships, like the buyer - seller relationship we find in organizations. In the model we find different definitions for trust, because they use different referents when they analyze. For example one might analyze trust on an individual, group, institutions level or a combination of them (Hernandez and dos Santos, 2010). The relationship in general might also be different, some relationships are personal and some are professional. An example for a personal relationship might be a romantic one, and a professional relationship could be one we find between employees in an organizations. The

model developed by Lewicki and Bunker (1995) helps us adapt “to the kind of relationship that occurs in a buyer-seller relationship” (Hernandez and dos Santos, 2010).

The model also recognizes “that trust is a multidimensional concept” (Butler, 1991; Gabarro, 1978; Hosmer, 1995; Johnson-George & Swap, 1982; Larzelre & Houston, 1980; Mayer et al., 1995; Rempel et al., 1985; Rousseau et al., 1998; Shapiro et al., 1992)⁶. This is important because if you do not take that into consideration; you might “risk losing the wealth of the concept” (Gabarro, 1978)⁶.

Third, the model recognizes that trust is different at each stage of the relationship between the parties. The parties in a relationship behave differently at the different stages of a relationship; you usually act different in the beginning of a relationship than you would after the relationship has lasted for a long time. You need to behave differently at different stages, as the circumstances change. If you want the relationship to sustain and evolve you need to act differently as the relationship develops (Lewicki & Bunker, 1995 p. 140)⁶.

In the Lewicki and Bunker (1995) model we find that trust exists at three levels, we have calculus - based, knowledge - based and identification - based. What the model proposes is that trust starts at the beginners level called calculative level; here they propose trust has a calculative nature. After a while trust may develop to the knowledge level, if they succeed at the previous level. And if they keep succeeding they will be able to move up to the identification level, “where the trust would be at its highest”(Hernandez and dos Santos, 2010).

4.4.6 Calculus - based trust:

This trust takes into consideration that when trying to maintain or serve a relationship; there are levels of vulnerability based on the calculated cost, the cost it takes to maintain or serve the relationship (Williamson, 1993)⁶. Calculative trust is based on the trade-off between risk and utility. If a person has two courses of action, both involving the same amount of risk, a person would choose the course that maximizes its utility. We can put this into a buyer-seller relationship, where a person is choosing a business partner. A buyer will work with a seller

that maximizes his utility, granted that the sellers he could choose from had the same risk. In an article written by Coleman, (1990)⁶ he compares the decision to trust someone with the decision to make a bet. Someone who decides to trust someone else knows what he might lose, what he might win and what his chances of winning. To help him decide if he want to take the bet, that means take the chance and trust in another person, he will look at his chances of winning. If the chances of winning are larger than his chances of losing, he will take the chance and trust that other person”(Hernandez and dos Santos, 2010).

In order to make calculus - based trust work in a professional relationship, a new definition has been proposed. Calculus - based trust can be “referred to a party’s expectancy that buying from an exchange partner is more advantageous than not buying from another party””(Hernandez and dos Santos, 2010).

4.4.7 Knowledge - based trust:

This trust is at times called relational - trust (Rousseau et. al., 1998)⁶. This type of trust is a trust that is developed between two actors as their relationship develops. “The trust develops with time as a result of the track record of interactions that enables both parties to develop generalized expectations about the others behaviour” (Shapiro et. al., 1992)⁶. It is normal that when you work with someone and that experience was good, you will want to work with that person again. Over time the trust between you will grow, the more you work together, as long as the experience was successful”(Hernandez and dos Santos, 2010).

Shapiro (1992) writes that you need regular communication and courtship in order to develop knowledge - based trust (Shapiro et. al., 1992)⁶. If the two parties have an open communication flow, where they discuss their needs, concerns and problems that will help them develop a well working relationship and knowledge - based trust. This way they are able to learn from each other and learn more about each other (Hernandez and dos Santos, 2010). Courtship cultures changes from country to country. In the US they expect the courtship to not last to long, and want the whole process to go by quick. In contrast, in Japan they expect the courtship to last for a long time, they want to really get to know their partner before they enter a business relationship with them (Shapiro et. al., 1992)⁶.

The more you know about your partner, the easier you will be able to predict his behaviour and needs (Lewicki and Bunker, 1995)⁶. “Trust is built by assessing the success rate in previous transaction and predicting the success rate in future transaction” (Hernandez and dos Santos, 2010). “The higher the success rates of past encounters, the greater the trust” (Hernandez and dos Santos, 2010). Because of this the definition for knowledge - based trust is: “the party’s belief that most of his previous transactions with an exchange partner were successful (Hernandez and dos Santos, 2010).

4.4.8 Identification - based trust:

This trust is based on the knowledge of “the partner’s desires and intentions” (Lewicki and Bunker, 1995)⁶. A relationship has trust, because all parties empathize and value each other’s desires, this way they can act on each other’s behalf’s (Lewicki and Bunker, 1995)⁶. With this type of trust we find the expression unconditional trust (Jones and George, 1998)⁶. This trust comes to live when a relationship goes from the stage where they just work together to the stage where “they identify with each other” (Jones and George, 1998)⁶.

In this type of relationship, where they have identification - based trust, the parties have sympathy for each other’s needs, desires and intentions. They also all agree on that they are going to act on each other’s behalf, and take care of each other. In this sort of environment, with unconditional trust, people feel more secure in disclosing information to its partners. This is because they trust that their partners will not use that information against them. In order to build a relationship with identification - based trust you need to base the relationship on knowledge and predictions of your partner’s preferences and needs, you both should also share these preferences.

We define identification - based trust by ”the degree to which a party identifies with the exchange partner because he believes that they share similar values, preferences and needs” (Hernandez and dos Santos, 2010).

4.4.9 The development of trust:

The development of trust goes through different stages. The early stages “calculus - based trust is very partial and fragile”(Shapiro et. al., 1992)”⁶. After a while they receive more knowledge about each other and they learn as much as they can about each other’s behaviour. Because of this the mutual trust becomes less fragile and does not necessarily get broken by shifting behaviour. As time goes by they start developing identification - based trust. Before they experience that trust completely, they go through the knowledge - based trust phase, where they get to know each other. At the identification - based trust stage is developed when one “not only knows and predicts the others needs, choices and preferences but also shares them” (Shapiro et. al., 1992)”⁶. At this stage the parties know each other so well that they feel they are one entity. Although the relationship goes through these three stages, it does not mean that all relationships are able to develop to the last stage. Sometimes the relationship goes back, maybe from knowledge - based trust to calculus - based trust. “At any time, one party may have three different types of trust in different degrees towards his partner” (Lewicki and Bunker, 1995)⁶.

4.5 Relationship theory with respect to inter-firm communication

How should a business govern its exchanges with other businesses? To find out about this must be one of the main motivations behind the literature and research on the area of contracting and relationships. At least it is a challenge for most businesses to find the best possible solution to guard itself from opportunism or environmental uncertainties. Exchanges go on everywhere and everyday between businesses, how you govern they can be crucial to the well being of your business. There are substantial costs associated with a delivery or deal gone wrong, let’s say because of i.e. opportunism. How do we protect ourselves from something like that?

4.5.1 Resource Dependence theory

The idea that organizations is or can be totally independent of their environment is hard to imagine. Most organizations get their raw material from somewhere else. They are dependent on reputation to keep sales up, they have to adjust and listen to government or social groups

and so on. This facilitates the idea that organizations become interdependent with the elements of the environment they transact with. This is described well by Pfeffer (1992): “Because organizations are not internally self-sufficient, they require resources from the environment and, thus, become interdependent with those elements of the environment with which they transact.” (Pfeffer, 1992). Further on it is mentioned something that lies quite close to the topic of our assignment; “This interdependence can lead to the development of inter - organizational influence attempts.” (Pfeffer, 1992).

Pfeffer and Salancik, as quoted in Pfeffer organizations (1992), he argues that three factors are important when it comes to whether or not an organization attempts to satisfy the demands of a given group: 1.Importance of the resource. 2. The extent to which the interest group has discretion over resource allocation and use. 3. The extent to which there are few alternatives. When two companies or organizations interact with one another in a relationship there will normally be differences between the parties. One of them will for instance have a long history and a lot of previously established customers, while the other one might for instance be a new emerging market participant. In such a relationship the older party probably will be less reliant on the newcomer because if the newcomer fails in the market, it will still have its original customers. In such a scenario it is interesting to talk about Power-Dependence.

Power-Dependence relations were neatly described as being constituted of two dimensions by Emerson (1962). “One dimension being Dependence; “The dependence of actor A upon actor B is (1) directly proportional to A’s motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside of the A-B relation.” (Emerson,1962). The second one is Power; “The power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A.”(Emerson,1962). These two dimensions are what build the Power-Dependence relation. Skewed alignment in this power-dependence is then a weakness or strength depending on what side of the scale the organization is. This is also easily applicable to our everyday observations in the market. If one company is in a monopoly situation, most companies in relation with it will become highly dependent upon their recourses. The proposition by Andersen and Nyhus (2009) then becomes very interesting; “P3: There is a negative relationship between the supplier’s dependence on the buyer and the probability that the seller uses blurring tactics (P3)” (Andersen and Nyhus, 2009).

From the proposition from Andersen and Nyhus (2009) came our next research question.

Research Question 3D: Is there a link between power-dependency and use of blurring?

4.5.2 Relationship contracting theory

Something else that is worth discussing when it comes to information sharing between organizations is relationship-contracting theory. It consists of a description of two types of contracts, one being the classical written one, and the other the relational one. They are both described fuller further down below. However, it is relationship contracting that is interesting for this thesis. There is more room for opportunism with relationship contracts than with classical contracts because classical contracts are more likely to be successfully taken to court. Despite this we still see some forms of blurring and opportunism with written contracts as well. But the majority is probably accounted for in relationship contracting. In this category it is often possible to behave opportunistically without breaking any written contract or law, thereby leaving the only thing on jeopardy the relationship itself.

Classical contracts in their written formal form are weak in the sense that it cannot contain information about every possible happening or circumstance, as discussed earlier in the part with TCA. There will always be uncontrollable unforeseeable events that might occur. Until someone actually can tell the future, then this will be impossible to get protection from with a formal written contract. The contract would be unimaginable complex, and would have to describe every single event possible of taking place. Out of this we have gotten new thinking to the field, and research upon the subject called relationship theory. This is what takes place between two businesses upon exchange when no formal written contract is being formulated. There is mostly oral agreement, and the start of an ongoing process called a relational contract. "Clearly, characteristic feature of a relationship is its duration over the long term, where the parties to the relationship depart from spot-market-determined exchanges" (Seshadri, 2004).

Another interesting thing is that when it comes to relational contracts, it is easy to believe that there must be a balance in power and dependency. But Kumar, Scheer and Steenkamp (1995b) found that even when there are asymmetries in the mentioned factors, firms still engage in relational contracts. This happens as long as the weaker firm perceives the stronger firm as fair.

Opportunism is something that one time or another has tempted us all, it resembles for example the need for maximizing our own desires without thinking about long term consequences. In classical contracts there exists protection from these types of things, laws and the legal system. Breaking a written contract has consequences and is often easy to detect. On the other hand breaking some part of a relational contract might not be visible to the actors and therefore this type of contract must be based on, amongst other variables, trust. As Narayandas and Rangan (2004) hypothesize, interpersonal trust enhances inter-organizational commitment over time and high levels of trust and commitment can, in turn, neutralize the impact of initial power-dependence asymmetries (Narayandas and Rangan, 2004). Narayandas and Rangan (2004), believing that satisfactory performance and the subsequent development of trust and commitment are critical to successful relationship management, developed five important processes for establishing a good relationship:

Leveraging Relative Position and Power to Define Initial Agreement Terms

The powerful party will not formalize its position because it has other levers to protect itself. The weaker party needs to recognize and accept that a powerful firm will control a disproportionate amount of the initial available surplus.

Evaluating Performance and converting it to Interpersonal Trust and Interorganizational Commitment

Development of trust and commitment happen one episode at a time. Trust is built and maintained on the individual level and commitment is a broader organizational phenomenon. Actions inside the agreement are extremely important for building both trust between individuals and commitment between firms. Actions outside the agreement are important to jumpstart trust building between individuals.

Transferring Interpersonal Trust to Inter organizational Commitment

Individuals who build trust with each other will transfer this bond to the firm level.

Increasing Interpersonal Trust to Balance Initial Contract Terms

A higher degree of interpersonal trust will motivate to fulfil the agreement, but also to step outside and help the other party in times of need. Such an action will again boost trust and commitment. The flipside is that for the person that has mistrust toward the other part will become less motivated to hold up his end of the deal, and the relation will deteriorate.

Increasing Inter organizational Commitment to Balance Initial Power Asymmetries

If the powerful party takes out a piece of the surplus, then the contract will be more equal in terms of power balance than before. This will become a virtuous circle, strengthening the relationship. On the other hand, the opposite might also happen, leading to a vicious circle where negotiations will be more and more difficult and one party ending up perceiving the other party's demands as unreasonable. The relationship will eventually collapse.

When addressing the work of Mohr & Spekman (1994) we see that among the important things of a healthy relationship are trust, the willingness to coordinate activities, and the ability to convey a sense of commitment to the relationship. Quality of information shared is also extremely important (Mohr & Spekman, 1994).

However as important as trust seem to be when it comes to successful relationships, trust is also the first thing that is jeopardized when using blurring tactics. Thereby maybe the key component in the relationship is jeopardized and if discovered the relationship will probably end. This brings us to our next research question.

Research Question 3E: Is there a negative relationship between perceived level of trust and degree of blurring tactics used in the relationship?

4.6 Decision-making

We make decisions all the time in our day-to-day lives. Whether the question is what to have for dinner, or what colour to paint the children's bedroom, or what car to buy, we have to come to a conclusion. At least as long as flipping a coin does not make the decision; we can say that cognitive functions are in play.

Our cultural and humanly way of thinking has a lot to say when it comes to what decision is going to be made. As humans we rely on a lot of heuristics. Heuristics are shortcuts in ways of thinking that for the most times are pretty useful, but in some cases also leads to biases (Baron, 2008 p. 53).

The work done by Amos, Tversky and Kahneman (1974) was the first to identify three major heuristics or "rules of thumb". These three were anchoring, availability and representativeness. (Thaler and Sunstein, 2008).

There has been developed a long list of possible heuristics and biases in the human cognition. However not all of them are relevant for the topic of blurring. Since blurring deals with interference with information passing for economical gain, we will try to suggest some of the ones we believe are more frequently exploited in the market than others.

Anchoring effect (Baron p. 380, 2008 and Thaler & Sunstein, 2008 p. 23)

This stems from the typical tendency for people to under adjust their guess away from an initial number that is given. Even when this number is random, people seem to under adjust away from it when submitting their own guess. In a negotiation process we can imagine that in example the sales person might introduce a market price for similar products as the one he wants to sell. And by presenting this price a little bit too high, try to anchor the purchaser as to giving an offer not adjusted enough away from this initial "number".

Availability heuristic (Thaler and Sunstein, 2008 p. 24)

As humans we tend to consider things that recently have happened as more likely to happen again as supposed to if it had not happened recently. Then we tend to think that it is less likely to happen. What was for instance the chance of the volcano underneath Eyjafjallajökull

erupting in 2010? People will probably guess this to be higher now that it actually has happened, supposed to if they were asked about this in 2009. We can imagine several business areas that might try and exploit this cognitive shortcut, for instance the insurance business, by offering insurances playing with the fear of another eruption. An expensive insurance marketed against the airline companies?

The Status Quo bias (Baron, 2008 p. 297; Thaler and Sunstein, 2008 p. 34).

People tend to stick with their current situation longer than they might rationally like because of some inherent psychological resistance against change. Since inter-firm communication is primarily done between individuals, this bias like all the others is probably at work in business relations as well. This might be seen in several thought situations, in example where one firm sticks with a supplier despite having the opportunity to switch to another that would be cheaper, even when switching costs and every other cost is taken under consideration.

Default bias (Baron, 2008 p. 299).

When people have to make an active choice between alternatives, people tend to choose the default option more than other alternatives. This might be exploitable within business relations as suppliers could choose a product with higher than necessary price and quality as the default option, since purchasers often choose the default option.

Evaluability bias (Baron, 2008 p. 294).

People tend to evaluate options differently if the options are evaluated simultaneously, than if they were evaluated one at a time, with some time in between. This might typically be exploitable by offering two products with not too different production costs and pricing them out with a much higher price for the products with slightly better specifications. Typically people will tend to judge the product with higher specification as having a justified price, even though the relative difference in quality is not as large as the price difference.

The sunk-cost effect (Baron, 2008 p. 305)

If people already have put a lot of money/resources into a plan/investment then they will push forward even if they know that they will not make a profit, even at in example 80 percent completion. This is not rational because you could save money by walking away at 80

percent. This is typically a problem described in the transaction cost theory. Asset specificity deals with having spent a lot of resources/money on a relationship/product. Then the sunk-cost effect might keep you from withdrawal even if it would be rational to do so. Typically we could imagine this happening in long term relationships, where terms of the initial agreement are not that good anymore.

Framing effects (Thaler and Sunstein, 2008 p. 36).

When given a lottery ticket winning statistic; 1% of buyers win something you will be more likely to buy than if you are confronted with that 99% of buyers don't win. The setting in which you incorporate the "offering" has a lot to say. This might be just as much exploited in business-to-business relations as other areas. We imagine for instance offerings focusing on good aspects and downplaying the bad ones. Another probable event is salesmen trying to convince buyers through technical responsible people at the purchasing firm in order to win advantages with regards to technical specifications that are marginally better than competitor products.

Another phenomena or tactic worth mentioning is the "rule of reciprocation", which is a type of social interaction exploiting the feeling of obligation. This feeling to reciprocate a gift is very pervasive and is found to be a characteristic of most human culture (Cialdini, 2001).

Why do we discuss these phenomena? Well, it is interesting to identify some of the exploitable cognitive functions. If we could be informed about these and come prepared to a meeting⁸, then we would be somewhat protected against opportunistic acts with regards to exploitation of this. There might also be other heuristics and biases being exploited in inter-firm communication but for simplicity we will not elaborate on more than the above mentioned ones.

8. Meeting defined here as a meeting between two information exchanging firms where a potential deal is being negotiated.

4.6 Culture:

Many companies in Norway do business in foreign countries, and need therefore to consider different cultures when they are making transactions with these countries. At times this can cause problems, because the cultures are so different from their own. If we only make decision based on our own country's culture that will often lead to us making bad decisions (Internet 4, assessed 26.05.10, 20:23).

“How a company configures its activities across borders is largely dependent on how it deals with the fundamental tension between the opposite demands of globalization and localization” (De Wit and Meyer, p. 535). This means that the company is torn between the issue if they should produce one product for the whole world, or adapt it to the different cultures (De Wit and Meyer, p. 542). We could write an entire thesis about this topic alone, but we do not think that it is as important for our topic and will therefore just mention it in this one paragraph.

In order to analyse a countries culture, we can use Geert Hofstede's five cultural dimensions. These are: Power distance, individualism vs. collectivism, and masculinity vs. femininity, uncertainty avoidance and orientation. (Internet 3, assessed 25.05.10, 11:40).

Power distance “is the extent to which the less powerful member of organizational and institutions (like the family) accept and expect that power is distributed unequally” (Internet 4, assessed 25.05.10, 11:01). Here we divide between countries that have a small power distance (Denmark, Ireland) and countries that have a large power distance (Malaysia) (Internet 3, assessed 25.05.10, 11:08). In countries with low power distance there is more made more democratic decisions in organizations, people also get to consult in the decision, not just the people at the top. People are seen more as equals, not matter what formal position they have in the company. (Internet 3, assessed 25.05.10, “Subordinates are more comfortable with and demand the right to contribute to and critique the decisions of those in power” (Internet 3, assessed 25.05.10, 11:34). In countries with a large power distance the people with less power accept that fact and agree that there are people in the organization that makes most of the decisions (Internet 3, assessed 25.05.10, 11:37). “Subordinates acknowledge the

power of others based on their formal, hierarchical positions” (internet 3, assessed 25:05.10, 11:38).

Individualism vs. collectivism refers to “how much members of the culture define themselves apart from their group members” (Internet 3, assessed 25.05.10, 11:42). A country that is defined as being an individualistic culture, the people develops their own personalities and also decides which group they want to belong to (i.e. religion). This is a something that is expected from people, you are supposed to go your own way and not just follow the “herd”. (Internet 3, assessed 25.05.10, 11:45). If a country is defined as being a collectivism culture, “the people are defined and act mostly as members of a long - term group, such as the family, a religious group, a town, a profession etc” (Internet 3, assessed 25.05.10, 11:47).

In countries that are defined as being feminine, we find that people whom “value relationships and the quality of life” (Internet 3, assessed 25.05.10, 12:55). The people want more long lasting relationships. While countries that are defined as masculine, the people here “value competitiveness, assertiveness, ambition” (Internet 3, assessed 25.05.10, 12:57). They focus on earning a lot of money and also value the thought of owning a lot of material possessions. .

Under uncertainty avoidance we find both weak and strong uncertainty avoidance.

Uncertainty avoidance means “how much members of a society are anxious about the unknown, and as a consequence, attempt to cope with the anxiety by minimizing uncertainty” (internet 3, assessed 25.05.10, 13:07). In cultures with strong uncertainty avoidance the people prefer explicit rules, for example about what food to eat, what religion to join and what is legal or illegal (Internet 3, assessed 25.05.10, 13:08). In these cultures you also find that employees stay with the same employer for a long time. In cultures with weak uncertainty avoidance the people like “flexible or implicit rules or guidelines” (Internet 3, assessed 25.05.10, 13:15). Compared to a culture with strong uncertainty avoidance, the people here prefer informal activities. They also do not stay with the same employer as long as they do in a culture with strong uncertainty avoidance; the employees often change their work place.

Orientation can be divided into long - term and short - term orientation. A definition here is “a societies time horizon, or the importance attached to the future versus the past and the present” (internet 3, assessed 25.05.10, 13:21). In cultures which are defined as being long -

term, the people “value actions and attitudes that affects the future” (internet 3, assessed 25.05.10, 13:34). They focus on saving money and perseverance. In cultures that are defined as being short term, the people “value actions and attitudes that are affected by the past or the present: normative statements, immediate stability, protecting one’s own face, respect for tradition and the reciprocation of greetings, favours and gifts” (internet 3, assessed 25.05.10, 13:36).

These dimensions will affect how a company will do business in different countries, especially if the countries cultures differ. A company needs to consider these differences, and at times adapt to them. By using these dimensions we get “an insight into other cultures so that we can be more effective when interacting with people in other countries” (Internet 4, assessed 26.05.10, 20:26).

We decided to write a research question to find out if there is a link between a foreign culture and the use of blurring tactics.

Research Question 3C: Is there a positive association between cultural distance and the use of blurring tactics?

5. Method

A master thesis calls for a thorough methodological understanding in order to be as valid as possible. Thereby we had to keep this in mind while doing theory gathering and interviews.

Our first step in this assignment was to gather theoretical foundations to further build our thesis upon. We also needed to develop research questions and a goal for our assignment. Our focal phenomenon, blurring, is a relatively new theoretical construct. Even though it is related to opportunism, there is not a lot of research to find about it. Given this precondition, our angle of approach had to be of exploratory nature. A quantitative study without knowing if this is considered a common phenomenon in real life amongst business actors in the market would be to throw a rock in the dark. Therefore we had to approach this with a qualitative study to begin with. To approach this with a two-phased plan would have been great. We could have started up with a qualitative study and followed up with a quantitative study. But

given the time restraints on this master thesis, we had to restrict to doing the qualitative study first, and let others follow up with the quantitative study.

Our next step was to find firms willing to give a one-time interview. We have to give thanks once again to Gøril Hannås for letting us give a short presentation of our assignment in her class consisting of business people from the Vest-Agder district. This gave us a great opportunity to get contact information to possible interviewees. Further on some additional telephone rounds resulted in some further interviewees.

Going on with the process, the next thing to do was to create an interview guide to assist us in interviewing and to be a basis for mail development, for an e-mail being sent to candidates for them to get somewhat prepared for the interview. In this e-mail we presented the candidate for what the interview was about and the direction it would take. We gave information about that we wanted to know more about their relations, long-term and short-term. We informed that we wanted to know a little bit about the people making up the relationship, frequency of communication and frequency of exchange. We also talked a little bit about blurring and how it differs from opportunism, in the way that it deals with information distortion and information blocking. Finally we were very clear on the fact that everything was treated confidential and anonymous.

We tried to separate the different interviewee candidates into different categories. In fact most of them are representatives of the purchasing function in the respectable firms. We have got 4 with purchasing related experiences, and 1 representative from sales and 3 representatives from both categories.

Interviewees	Purchasing	Sales
A	X	X
B	X	
C	X	X
D	X	
E	X	
F		X
G	X	
H	X	X

Table 1: Experience distribution

This distribution of different experience basis gave us reason to prepare for the different interviews with different approaches. This leads up to the development of a more detailed interview guide and start preparing for the interviews, which ended up with scheduling and executing the interviews.

Interview candidates were randomized and given codes as shown in table 1 above. This was done to ensure total anonymity and confidentiality for the interviewees. The randomization makes sure that the order of appearance has no correlation with either time or other variables of the process of writing the thesis.

One planned interviewee withdrew from the interview when he found out what it was about. This is sensitive matters, and we feel this describes that pretty well. Not everyone wants to expel sensitive information like this, reasonably so.

5.1 Qualitative interviews

By choosing a qualitative interview, we open the window for getting a more in-depth understanding of inter-firm communication, processes, phenomena and forms of blurring occurring in relationships between firms. In order to get as much information as possible, we chose semi-structured qualitative interview to be our way of approach. Since our field of

interest contains a lot of specific information and constructs, we chose to, as mentioned, hand out a rough layout of the interview in advance by e-mail. This way we could ensure an efficient interview with regards to straightforward information and a more streamlined progress of interviewing. Further on, the topic of interest might be subjected to a cognitive phenomenon of not recalling incidents dated a bit back in time. Giving interviewees chance to gather thoughts and memories in advance was thought to increase the value of each interview.

In our preparation for the interview we were aware of our potential influence on the interviewee. Presentation, clothing choices and so on are important, so we adapted in such a way, that the influence on the interviewee hopefully was kept to a minimum. As presented by Esterberg (2002): "Because interviews are relationships between two (or more) persons, however artificial it might feel, social skills are crucial in regards to how good an interviewer you are. If the candidate do not trust you, or is discomforted in your presence, then the interview will probably go bad." (Esterberg, 2002 p.91).

By making the questions too strict, we would put us in risk of not obtaining valuable information. The questions were of course open ended, to avoid the interviewee answering something that is only similar to the truth. This way we would also ensure that the interviewee gets the opportunity to fill in on subjects that we might overlook. To have too high specificity in the interview questions you run the risk of passing by valuable information. Consider an example; getting the question: "What is your favourite fruit? Apples, bananas or oranges?" What do you reply if your favourite fruit is kiwi? Leading questions like this one illustrates, was avoided as much as possible.

Our ideal situation was thought to be one where the interviewee openly expel experience and knowledge of the phenomenon of blurring.

We are handling a delicate phenomenon when it comes to how this information obtained can potentially harm each business and interviewee. Therefore it was important for us to apply just an appropriate amount of steering on the interview. Of course, on occasion, we had to apply techniques, such as oral assurances ("remember that this interview is totally anonymous"); while on other occasions the interviewee trusted us sufficiently enough to singlehandedly reveal sensitive information of great value to us. Further on we tried to use

vocal encouragement methods when we wanted to progress into specific areas of interest. Primarily, by using the Norwegian language to encourage the respondents. We also wanted to not take too much control of the interview because of running the risk of influencing both the interviewee and ourselves. We did not want to influence them into answering in a special way, but wanted them to speak as openly as possible. By doing a semi-structured interview you run the risk of influencing in this way, therefore it gets increasingly important to be aware of these things. Adjustments had to be made according to each candidate's personality to ensure a neutral and good chemistry between interviewer and interviewee. As mentioned earlier the subject being studied is of sensitive matter, and might on occasion cross ethical lines and even the law itself. Therefore it was very important of us to not act in a way that might imply moral judgement or other provoking thoughts from our side.

Few of our respondents were not situated located, and we therefore had to use a telephone interview with these respondents. The ideal situation would be to travel to their offices and interview them there, but time and money restricted us from doing so. During the interview one of us took the lead and asked the questions, while the other one listened in and took notes. This type of interview worked well enough, but we did miss the effect personal interaction has on a respondent.

The telephone interviews were usually lasted less than the face - face interviews. This could be because it was more so called small talk in the face - to face interview, while the telephone interview went straight to the topic and interview.

5.2 Analysing results

The final step of this thesis was to analyse our results. We tried to organize different relationships and blurring examples into different categories. In this way it would be easier to see impacts of blurring on different properties of the different relationships. We made some tables to get a better view of impacts of relationship attributes on the subject of blurring.

5.3 Potential weaknesses in our qualitative study

One weakness regarding our interviews is the lack of recording devices. We made the decision to purely note down the whole interview (or at least as much as possible) by hand. This method is subject to validity issues because it relies on memory and interpretation of notes. While doing it this way, it was increasingly important to get to write down the whole interview in retrospect, as soon as possible. This is to try to avoid your own cognitive functions to bias and influence what you remember of the interview. Using a recording device would have been better when reviewing the pure technical aspects of conducting these interviews. But again, when handling such a delicate matter, touching and crossing boundaries of moral and at times law itself. It is important to keep in mind that using such a recording device might induce a discomforting feeling in the interviewee thereby constricting the information revealed.

A challenge in our thesis is that well-established long-term relationships with a good history normally do not show any evidence of blurring tactics taking place. This would be counterintuitive and the relationship would probably no longer exist. Therefore to examine this phenomenon in ongoing relationships probably will invite difficulties. If a spokesman responds positively on that they currently are undergoing challenges with regards to a relation using blurring tactics in meeting with them, then he would also admit a large problem with that relationship and it would probably rapidly deteriorate. Of course it is possible to overcome such relationships at any given time, but the chance that it already is deteriorated is large. Thereby we most of the time rely on the memory of interview candidates. So by focusing a bit more on historic relationships there might be a bit larger opening for such information to reach the surface of our thesis.

We experienced what made out to be quite a time consuming task of getting interviewee candidates and executing the interviews. First of all, the number of interviewees is a bit low. It would have been better if we could have gotten more interview candidates. This way we could have gotten a better view of differences between purchasing and sales, better understanding of different sorts of relationships. It would have been easier to draw indicatives with a higher degree of validity with more respondents. We might have gotten more examples of blurring tactics.

6. Results:

Our respondents came from companies located in Kristiansand, Oslo and Stavanger. We also interviewed a faculty member at the University of Agder, because of his experience with construction companies and the knowledge he had acquired from this work.

The companies varied in size, all from being large international companies to small Norwegian companies. One of the companies our respondent came from, were a consulting company and another one a sale company. However, most of our companies were industrial companies. The relationships in our study consist of mostly what's named by DeWit and Meyer (2004) as being Upstream or Downstream vertical relations. The relationships consists of a vertical assessment of the value chain, normally in our findings they were purchaser – seller relationships.

Interviewee	Gender	Age	Industry	Job/title	Size of firm	Relations
A	Male	50 – 60	Consulting	CEO	Small	Vertical
B	Male	50 – 60	Industrial	Purchasing manager	Large	Vertical
C	Male	30 – 45	Industrial	Purchasing manager	Large	Vertical
D	Male	50 – 60	Industrial	Purchasing manager	Large	Vertical
E	Male	50 – 60	Construction	Project Manager	Large	Vertical
F	Male	50 – 60	Industrial	Sales Manager	Large	Vertical
G	Female	40 – 50	Oil and Gas	Purchasing Manager	Large	Vertical
H	Male	30 – 40	Supply	CEO	Small	Vertical
I*	Female	50 – 60	Industrial	Sales Manager	Large	Vertical

Table 2 Interviewee information

*Interviewee I participated in the interview we had with interviewee F. But we were not able to separate the two entities in the interview, therefore decided we to treat the two interviewees as one person.

Because the concept is so new, neither of the respondents had heard about the concept. Therefore we started each interview with explaining the concept. We explained blurring tactics by saying that it is about hindering information that you do not wish to share with your relations. Further on we told them that it looks somewhat similar to opportunism. But that blurring separates itself from opportunism by dealing with information blocking and distortion, and not by observable actions. For instance we also tried to explain the phenomenon in different ways by translating the word blurring to Norwegian, or giving them a general example.

6.1 Degree of blurring in business relationships

	A lot	Little
Interviewee A	X	
Interviewee B	X	
Interviewee C	X	
Interviewee D	X	
Interviewee E	X	
Interviewee F	X	
Interviewee G		X
Interviewee H	X	

Table 3: Blurring in business relationships

We can see that 1 replied the answer “little” while the other 7 gave the answer “a lot”. That gives us a spread with 12,5% of the respondents answering “little”, and 87,5% answering “a lot”.

Most of our respondents felt that their exchange partners commonly use blurring tactic in their business relationships; actually almost every one of them felt that it was used a lot in business relationships.

Interviewee G felt that blurring tactics was not commonly used in business relationships. She was the only one of our respondents who felt that way. She had never heard any stories from other people, and had even talked to her colleagues to see if they had some experience with blurring. She got the same feedback from her colleagues; they could not see that it was common in the business world. She did mention that she could not be sure that this never happens, but could not remember if she, herself, had experienced it.

All the other respondents believed differently, they believed that blurring tactics is normal behaviour, and most of them could tell us stories about tactics they had used themselves or others had used.

Examples of this to further illustrate:

Interviewee D and F talked about a tactic they use, where they try to blur who actually has the right to make the decisions.

Example D1:

Interviewee F said that they at times blamed the slow decision process on that it was the board's decision; therefore they had to wait for them.

Example D2: Interviewee D said that they try to cloud the information about who has the right to make the decision, it could be them, but they try to make it look like it was not their decision.

Most of our respondents strongly believed that blurring was very normal in the business world, and that most people have used it at one point in time.

6.3 Degree of blurring in our sample’s relationships.

	A lot	Little
Interviewee A		X
Interviewee B	X	
Interviewee C	X	
Interviewee D		X
Interviewee E		X
Interviewee F	X	
Interviewee G		X
Interviewee H	X	

Table 3: Blurring in their business - business relationships

Here we observe a spread throughout our sample with a 50/50 distribution.

With this question we got very diverse responses, quite the opposite of what we got in research question 1A. Half of our respondents felt that blurring tactics was commonly being used in their own business-to-business relationships and half did not think that these tactics was very common in their own relations. They did not say that it doesn’t happen elsewhere, the meant it could and does happen, but it was not common in their own relationships. The other half felt that is was normal practice in their relations, and a way to get ahead, competition-wise.

Interviewee G, who felt that blurring tactics was not common in the business world, also did not think that it was common in their own relations. This respondent felt that their company had long lasting trusting relationships, where they did not use these sorts of tactics. They also only had one possible choice in several suppliers, which meant that there was no point in trying to “trick” them in to thinking that they had more choices. The suppliers knew that they were their only choice, and so they focused on being open with them and the respondent said this lead to a power balance between them. The respondents believed that the company’s focus on ethics stopped them from using too much blurring tactics.

Interviewee B and C did mention that a few of the tactics or all could be seen as being on the border to unethical, but it was not many of the tactics they felt bad about using. These tactics were just something that you needed to be a part of. However some of the tactics is crossing the border of legal activities and for instance interviewee B reported that he did not feel comfortable using the tactic where they manufactured fake offers in order to get a better deal.

Most of the respondents were able to tell us stories where they believed they were using blurring tactics, and could also tell stories about other people, colleges or business partners.

Respondents A and E said it was the industry they were in, which was the reason why they did not experience much blurring tactics. Interviewee E's industry was the contracting industry, and this respondent "blamed" the law, which hindered people in using such tactics. This industry has had problems before, and because of this they have developed very efficient laws in order to control the industry. Opportunism happens, but he did not feel blurring was as common in his industry.

Interviewee A said that he was not in an industry where they needed such tactics. He was part of a consultant firm, and here there was no room or need for blurring tactics. But he did know much about blurring from his clients, and had therefore valuable knowledge for us.

Interviewee D, who did not feel that there was a lot of blurring in their own relations, said that their firm was focused on being open with their relations. Nevertheless he did mention some part of the negotiation process where they were not as open, in example when they were asked to mention names of who had the right to make the decision. This is something that they normally do not know, they do not reveal who has the decision power when making a deal.

6.4 Type of knowledge/information blurred and how

Category	Content	Form
A	Profit-margin	Agent not informed of profit margins, Saying that this is as low as they can go (final price).
B	Number of competitors/ Power dependency	Forging offers from suppliers, giving hints that they have more to choose from. Pretending that more suppliers actually fit specifications than actually is the case.
C	Total cost	Main price with extra costs (extra cost bias?), Elevator operators with low price but high service cost.
D	Decision maker	Not revealing who has the final decision making responsibility
E	Blurring of economical goals	Rule of reciprocation

Table 4: Content and Form

As we can see from this table, information that gets blurred varies from price to decision making.

Form	Interviewee
Agent not informed of profit margins, Saying that this is as low as they can go (final price).	Interviewee E and B
Forging offers from suppliers, giving hints that they have more to choose from Pretending that more suppliers actually fit specifications than actually is the case	Interviewee H, C, B Interviewee D, G and A
Main price with extra costs (extra cost bias?), Elevator operators with low price but high service cost.	Interviewee A and F
Not revealing who has the final decision making responsibility	Interviewee B, D and F
Rule of reciprocation, blurring that the real goal is to get a sale by offering gifts or similar.	Interviewee H

Table 5: Form and Interviewee

Table 5 shows which one, of the interviewees, believes that certain information often gets blurred.

Example C1: Interviewee A and F believed that extra cost was information that could easily be blurred, both by themselves and their relations. Interviewee F said that they usually set a price for a product, but blurred the information about all the extra cost it will take to get the best possible product. They started with focusing on the starting - main price, but ended up recommending several upgrades and changes.

Example C2: Elevators

Interviewee A mentioned an example with elevator suppliers. He said that they have the possibility to sell the elevator at a low price, because they can charge more for service on the

elevators in the future. He said that the most important thing for an elevator company is to get the elevator in to a building; they can do this by lowering the initial price. After the elevator is installed, the owner will turn to the elevator company for service. Here do they not have to lower the price. The respondents company had done a survey about this topic, and discovered that most of an elevator company's revenue comes from service on existing elevators.

Interviewee B, D and F also thought that the information about who has the decision right is also something that often gets blurred.

Example D3: Interviewee B said that they often blurred the purchasing process by pretending that they had to go by the management, before accepting an offer. This was done in order to get the price that they wanted. They would say that "we of course would not mind accepting the price, but that the manager will not let me go over this figure".

Example D4: Interviewee F said that they often hide behind "company policy", to make the other part give in and take the deal they want. They also often put an "escape hatch" into a contract. This is a part in the contract, which says that they will need approval from the board of directors before they can go through with the deal. This way they are able to back off from the deal, if they change their mind later.

Example B1: Faking offers was a tactic that several of our respondents reported as a common tactic to use. Information about where the company stands, when it comes to power in the relationship, was very common to blur. Interviewee H, C and B admitted to using such a tactic, and felt that it was a pretty common. They would use this to get a better position in a negotiating process with a firm, if they actually only have one supplier, they would try to hide this information from the suppliers. This way they could be able to get a better deal, than they would if the supplier knew they had more power and were in a better position.

Example E1: Interviewee H could tell us about a very frequent use of "the rule of reciprocity". He had very good experiences with this as it seemed to increase sales with a lot. He gave us an example of if one sale-representative goes out to meet 10 potential customers without bringing a gift; he might end up with as few as 3 sales. But if he brings a

gift, and presents it in advance of the selling-process he has experience with normally ending up with twice as many.

6.5 Under what circumstances is blurring likely to be used?

We have discovered information about several areas where blurring are more likely to be used. We try to address them one dimension at a time by visiting further research question following in order below.

6.5.1 Asset specificity and blurring

One of the respondents, interviewee B did mention that they try to work close with one of their partners to help them develop their products better. They bought their product, made a good contract and let them go without the problem of competition for a period. By doing it this way they can concentrate on developing the product, making it even better. In the end they would get to buy an even better developed product for their own company. As far as we know, neither part invested anything special into this relationship, except for time. They could have tried to find a better company to work with, but chose to help this company out. If the company they “helped out” decided to cheat its partner, than the firm would loose the time devoted to the relationship, time they could have spent working with another company.

None of the other respondents mentioned anything about investing in their partners, and therefore none of them mentioned asset specificity. Most of them kept their exchange partners at an arm’s length, and they did not invest much into the relationships. Most of them had long lasting functional relationships, but there were never mentioned investments into these relationships, other than time that is.

Because of this we are not able to answer this research question properly, since we do not have enough information from our respondents. This might partly be due to a general lack of firms applying asset specific investments in their relationships in Kristiansand, or it might be due to our sample consisting mostly of vertical purchaser - seller relationships.

6.5.2 Relationship length and blurring

Several of our respondents mentioned that they had quite a few relationships, which they have had for a long time.

In what type of relationships is blurring most often believed to appear?			
Candidates	Long-term	Short-term	N/A
Interviewee A		X	
Interviewee B		X	
Interviewee C		X	
Interviewee D		X	
Interviewee E		X	
Interviewee F		X	
Interviewee G			X
Interviewee H		X	

Table 6: Blurring in short term or long term relationships.

Nearly all of our respondents answered “Short-Term” which gives us a spread of 87,5% voting “Short-Term”, and 12,5% voting “N/A”.

Interviewee H mentioned one relationship that they have had since the 1990`s. This respondent felt that the longer the relationship lasts, the better the relationship would be. He said that the longer the relationship lasts, the more trust will be developed between the parties and that will in the end lead to a more stabile relation. But the public sector is not allowed to use the same partners over again. This restriction does not apply to the private sector; here they can stay in a relationship for as long as they want. The respondent said that it is common for some of the private actors to stay in long-term relationships with its suppliers. “Some people believe that the public sector should also be allowed to establish long - term relationships like they have in the private sector. Because then they are able to build effective networks.” - Interviewee H

Most of our respondents had the opinion that with their long - term relationship it was less blurring involved, and they also said that they thought there were more blurring in short term

relationships. One of our respondents said that he thought that it is easier to divulge information they might not want the other part to know, in short - term relationships. Sooner or later in a long - term relationship your partner will find out if you have used any blurring tactics and that could end up with the relationship being terminated.

One of the respondents, interviewee C, said that they keep their less important relationships on an “arms length”, these are relationship they can easily replace. But the more important relationships, which they cannot easily replace, are kept closer. Another respondent, interviewee H said that he felt it was important with mutual respect in long - term relationships, so it wouldn't be so tempting to use blurring tactics.

Most of our respondents think that it is important to keep functional and successful long - term relationships and that it is a bad idea to use blurring tactics in these relationship. They felt it is too important to take a risk with such tactics, because there is always a chance of getting caught. Another respondent, interviewee H said that they used a lot of blurring tactics when it came to new customers; he also mentioned that this was especially normal with customers they were not dependent on. If they had a large customer, who gave them a lot of business, they would not try to use as many blurring tactics, as they would if the customer were smaller and less important. He did mention that they have to work hard to get customers, because they have large, international companies, to compete against.

6.5.3 Cultural distance and blurring

The majority of our respondents did do business with foreign companies, the countries varied with many countries, for instance Brazil and the Netherlands.

All the respondents, who already claimed that blurring existed in the Norwegian market, meant that it also exists in foreign market. Some even believed that it could be worse in some foreign countries.

Interviewee F mentioned that in some of the cultures they have experienced it is important to get to know the people you collaborate with, it is important to have a relationship with them.

This relationship could be more than just a business relationship; it could be a more personal relationship. In some cultures they want to get to know the people before they start working with them. The same respondent also mentioned that at times they look passed cases that would break Norwegian regulations, just because it is easier. Because if they meddle, they would be part of the whole situation, and it is simplest to just look passed it.

Interviewee F also said that in some cultures, they are very dependent on having so called “door openers” which are people or organizations that help them break in to that country’s market. People, who know the culture, know how it works and what they can and cannot do. Some countries are too difficult to enter with out any local help. This company has done some work with relations from Brazil, and experienced that if they wanted something done they had to pay for it. The bureaucracy in the country caused a lot of problems for the company.

Interviewee B mentioned that in some cultures/countries the people were very good at pretending they were offended when they start talking about the price. This is a tactic they use in order to get the price that they want. The same respondent said that people in Germany are very concerned with title and interested in who is actually in charge. This is of course something they have to consider, when they are negotiating a deal with a German firm.

What we found information about in our interviews is that several of our respondent felt that blurring tactics are being used in other cultures. They could not tell us any examples of blurring tactics; although they did have a lot of examples about opportunistic behaviour. Still, they were sure that the use of blurring tactics was not something we only found in the Norwegian market. They did not see any reason why Norwegian suppliers, costumers etc would be less honest than international ones.

Interviewee C mentioned an experience from China, one of many similar incidents when travelling around the world. When the HSE – Health Safety and Environment – management representatives came to overlook the Chinese factory, they were going to overlook the whole factory in normal activity. When entering one of the departments, that normally should occupy 80 men, no one was at work at that time. In addition everything was very neat and tidy, something that must be contrary to a normal day in full activity. This was done to create better picture of standards, than what was real.

6.5.4 Power-Dependency

Purchasing related examples:

Example B2: As our Interviewee D said: “Our main focus is to establish a situation in which it seems as though there is a high degree of competition between suppliers, even though this might not be the case”. Information about the power-dependency upon the focal supplier is thereby blurred.

Example B3: Another one of our interviewee’s, candidate D, can tell us that buyers who are facing a lot of different suppliers usually behave more opportunistically. They often pretend that they are going to be faithful buyers even though they easily change supplier upon a better offering. They have themselves experienced this.

Example B4: Interviewee B reports that they too try to blur information about how dependent they are at times, when sitting in a negotiation meeting with suppliers. They tend to construct an image as if they are not dependent on the supplier at all, that they just as easily can pick another supplier even though no such other supplier exists. They might create fictional offerings by manufacturing papers and deliberately letting them sticking out of a folder, so that the supplier will see it and get a feeling that they have to give them a good offer/price. Another example of power-dependency blurring this interviewee was practicing was pretending that real suppliers were able to deliver what they demanded, even though they were slightly out of the specification range.

First of all interviewee B told us that he firmly believes there is a connection between how dependent a firm is on another, and if it will use blurring tactics. He believes there is more blurring from a part that is not that reliant on the other part of the relationship. This interviewee B also reported a good example of power-dependency related blurring from a supplier:

Example B5:

A Norwegian supplier told buyers that they were a monopolist supplier of this good. They were the only one in the world that could deliver these goods. The prices that interviewee B had to pay seemed very high, despite information from the supplier tried to persuade them

that this was not the case. Interviewee B's company began to search for alternative suppliers and found one capable of delivery in another country. Thereby it was possible, without information distortion/blocking, to create an image of competition in the market. As a consequence the prices fell with 40% from the existing supplier. This is an example of opportunism in the form of overpricing. However, they supplier were blurring their position in the market. They were in fact not a sole supplier. There were alternatives suppliers available in the market, besides them.

The buying company then faced a dilemma, should they stick with the previous long-term relationship in spite of the opportunistic behaviour they had shown? Or should they switch to the new one? They changed to the new supplier, partly in retaliation to the former and partly to strengthen what seemed to be a more honest supplier. What happened later on was that the new company failed to deliver; they had been blurring their capacity for deliverance. Interviewee B's company never got any information about deliveries going to be delayed, they just suddenly were.

Sales related examples:

Example B6: One of our respondents, interviewee F, has met dependency-blurring in negotiating processes as a seller. Normally it would be very difficult for a supplier to know whether buyers manufacture false offers or if the ones presented in reality are valid. In this one case they were going to a negotiation meeting in another country and they got knowledge from secure sources in advance, that some suppliers wouldn't be able to deliver (there shouldn't be any offers from these competitors), but despite this, there suddenly were offers from these suppliers presented in the meeting. Then they knew that they were blurring their dependency of getting the deal with interviewee F's firm.

6.5.5 Trust and blurring tactics

Interviewee B said that in the Norwegian market there was little price-collaboration, because the Norwegian market is small, and the companies know each other, therefore this also involves trust.

Interviewee H: “The longer the relationship lasts, the better it gets and more trust is developed between the parties. These relationships, in the end turn out to be a more stable relationship.”

6.5.6 Judgemental errors and biases

We draw on literature about judgment, human cognition, and decision-making with biases, and try to identify some biases in our material/findings.

Status Quo Bias:

We see indications about the status quo bias being exploited in several of our studied relationships.

Status Quo bias was observed by 5 out of 8 respondents, giving us a spread of 62,5% having observed it on at least one occasion. While 37,5% did not have any experiences about it.

Interviewee B seemed to experience attempts to exploit the status quo bias when he realized that prices were unnaturally high with his old relationship. The prices were not adjusted until they put a competitor’s offer on the table in meeting with the old supplier.

Example SQ1: Our interview candidate A also was familiar with that people oppose change. And that exploitation of this status quo bias was fairly regularly exploited in the market. Many firms had a weak purchasing strategy in the sense that they too seldom went out into the market to search for alternative suppliers. He/she described an example known in the insurance business. A practice until recently, though still might exist, have been to treat existing customers differently than new customers. Customers who frequently change insurance company find the bonuses constantly increasing, while a faithful customer experiences a lower increment in bonus. This is relevant for both the private market and business-to-business exchanges. This is typically exploitation of the status quo bias because the insurance companies speculate in the cognitive error that makes us devoted to sticking with our already established insurer. “It’s the same with banking; new customers often get better terms than long-term faithful customers that don’t threaten with changing banks.” He told us.

Example SQ2: Another example given by interviewee C: is that some car manufacturers are known to change relationship managers every so and so year, to protection against such biases amongst others. They don't want a situation where they end up sticking with a provider just because they have used them before. With new relationship managers so and so often, they can evaluate current relationships with fresh eyes each time.

Interviewee G has established a protection against this bias with setting the deals out on new negotiations every five years. This is to open up for new suppliers getting a chance, and to make the supplier less prone to try and exploit the status quo bias.

Interviewee D has a similar approach to keep from getting caught up in the status quo bias. They practice renegotiations every third year.

Default Bias:

Our Interviewee H seems to have experiences with the default bias both when it comes to purchasing and sales. Further on he says this kind of tactics is an established practice in vertical purchasing-seller relationships. The default bias is exploited in both long-term and short-term relationships, maybe to a slightly more profound degree in short-term relationships. It is clearly seen when it comes to purchase sizes.

Example DB1, from purchasing:

Standard quanta are presented to purchasers, and it is not clearly stated if it is possible to deviate from these standard quanta, even though it really is. According to Interviewee H's experience that is. When the relationship gets older, then opportunities to adjust packages to own liking present themselves.

Example DB2, from selling:

Interviewee H practices many of the same tactics when selling as he is presented for when purchasing. He offers standard packages without any room for negotiation and set the default quanta's as being an above medium package. In addition the default is set to be products with a good profit margin as opposed to the ones most reasonable for the customers. Interviewee H deals mostly with short-term customers. He says that long-term customers are allowed more insight and adjustability when it comes to such orders. With new customers an established

practice is to offer standard packages, and purposely not inform of other products or quantities unless they ask.

Evaluability Bias:

We found that several of our interviewees had examples of being tried exploited when it comes to this.

Example EB1: Interviewee A describes a situation with a potential long-term supplier where the supplier had to choose between different types of paper products. They were given information about the product at one time. When choosing which one to buy, additional information came into the process, thereby giving them less chance to evaluate the terms on a well thought through level. The specification about the product was so advanced; there were many price elements on one product, that it was impossible for an outsider to keep eye on total costs and to evaluate alternatives. They blurred information about total costs by exploiting the evaluability bias.

Interviewee A also describes a situation in which purchases have become more and more advanced over time. There are less of the easy-to-compare products nowadays than it was some time ago.

Example EB2: Interviewee candidate B can tell us about what is a common practice among suppliers when trying to secure a deal. They seek to get the technical community in the buying firm to support their product. They try to do this partly with the availability bias, by making products less comparable to others, but also with a pure opportunistic act by establishing good relationships with the technical decision maker, if they can identify such a person.

Framing effects:

Sales representatives:

Example Framing1: Our interviewee F tells us about a tactic they use upon sales to new and existing customers. They consequently emphasize the good aspects of their products, and downplay the less good qualities. They also tell us about often try to get in contact with the

technical representatives of the other firm, so they can use framing effects in such a way that technical qualities about their products will win over the economical ones.

7. Discussion

We first of all would like to acknowledge weaknesses about the size of the data pool. But as we discovered during our period writing this thesis, gathering willing candidates and executing in-depth interviews are rather time consuming affairs. However, we got a hold of a small but good sample, consisting of mostly purchasing managers, but many of them had experiences with other areas of business, such as sales, as well.

Our sample was made up, as shown in Table 1 and Table 2, with businesses that had mostly vertical aligned relationships, and most often purchasing-selling relationships. This is perhaps both because of the positions the different candidates had and maybe also because these are the relationships that might have the highest frequency of interaction. It is also quite understandable that our sample will influence the findings in our following research questions. Clearly our sample is no representative of the market as a whole, but maybe it can be a closer to representation of vertical purchaser-seller relationships.

Research Question 1 A: To what degree does the exchange partner believe that blurring tactics are commonly used in business relationships?

As we can see from the findings in Table 3 most of the interviewees answer that they believe use of blurring tactics in business relationships are very common. Only Interviewee G felt that blurring tactics was not very common in business relationships at all. This might indicate that blurring in fact is a phenomenon worth visiting more within inter-firm communication research. It might indicate that there really is a lot of blurring, but we have to consider the fact that, although we tried to explain the phenomenon as good as we could. There is room for error here. Blurring is of such an abstract theoretical construct that some of the incidents they think of when answering a lot might be mixed up with opportunism. This is impossible to say however, and we have to go by our findings that strengthens the notion about blurring being a fairly common business phenomena.

We were given several examples as to both blurring and opportunistic acts, and have tried to sort them out, and separate blurring from the forest of opportunistic acts.

Research Question 1B: To what degree does the exchange partner believe that blurring tactics is being used in their business/business relationships?

Drawing on Table 3, we get an interesting finding in light of what respondents answered on Research Question 1A. There seem to be a discrepancy when it comes to a belief about others practicing this phenomena opposed to own experiences with it. This can maybe be explained by that there is a unwillingness to open up to two students writing a masters degree in fear of being exposed. A fear of a lack of anonymity control might cause respondents to positively answer that most people take part in blurring tactics, while not admitting that they are themselves doing it on a larger basis. Research Question 1A was formed as a projective technique with this in mind. And Research Question 1B as a kind of “control” measure for this.

However it must be said that 50% answering that it has happened/or happens in their own firm in fact can be said to indicate that “most people do it”. At least the two findings aren’t working against each other.

Another thing worth mentioning is that a couple of respondents, hence A and E, said that the industry that they were in were the reason for them not answering a lot of blurring. A is in the consulting business, hence he doesn’t have a lot of blurring happening to his own relations, even though he daily deals with this sort of thing consulting for others. E is a member of the University of Agder, a lecturer, and thereby he doesn’t deal with a lot of blurring on a day to day basis. He had, despite this, a lot of experiences and knowledge to contribute with.

Research Question 2: What type of knowledge/information is believed being most likely to be blurred by the exchange partner?

We were able to identify some types of content being blurred more than others. Non-specific examples of blurring the profit-margin were very common. Both Interviewee E and B could elaborate on this. Further on several of the other interviewee’s also mentioned this. It was something that was very common in the deal-negotiation process. That might be natural when looking back at that our sample mostly consists of vertical purchasing-seller relationships.

Blurring of power-dependency was also quite widely experienced. According to Example B1 it was pretty common to do this in different ways. One of the more “serious” ways of trying to alter ones relative power/dependency upon the other part was to manufacture fake offers. These examples demonstrates that blurring about such characteristics is successful in portraying oneself as being a stronger market participant relative to the other part than what might be the case. The fact that the tactic concerning fake offers can be found in several industries and companies might be because it is a simple and effective way of blurring this sort of information. The respondents mentioned that this was not a tactic they have only used ones, but one that was common in several negotiation.

Another tactic that seems to be a successful way of getting an edge over the other part in the relationship is by blurring total cost. It seems to be a fairly common tactic for getting a deal. While offering a low intro price and not informing about higher follow-up costs you are consciously blurring total costs. The fact that several of the respondents having had experiences with this may indicate that this as well is a successful way of getting hands on a greater earning on a short-term basis.

Blurring information about who was the decision maker in the purchasing process was another common tactic in our sample. This was done to protect oneself against biases and to slow down the purchasing process.

Our final blurring is a typical tactic of blurring the real goal, normally in this setting an economical one. Blurring of this goal when related to sales was done by using “the rule of reciprocation”. This was reported as a rather good tactic for sales. Norwegians gets easily blinded by these types of approaches.

An important implication of these findings is that blurring tactics seem to operate and exist in inter-firm relationships. They must be somewhat successful, at least over the short-term, to have survived as tactics still being used.

Research Question 3A: Is there a link between asset specificity and use of blurring?

As presented in Table 1 and Table 2, our sample relationships mostly consist of vertical purchasing-seller connections. This might be one explanation behind why we did not get the

results we had hopes for. To invest a great deal of money into a vertical relationship, you would gradually come nearer to vertical integration, taking the supplier into your own internal value chain. This is perhaps not such a common phenomenon in the area of business we explored.

Some of our interviewee's actually mentioned that they consciously kept suppliers at "an arm's length", which is kind of an opposite tactic from investing in the relationship. By applying this tactic you would want to keep a little distance so that you can easily change if there were to surface a better alternative. Most of our respondents did not show any interest in investing in their relationship, especially not an investment that could be seen as being asset specific.

Conclusion: Because of the lack of information concerning asset specificity we do not feel we can answer this research question.

Research Question 3B: Is there a negative link between the length of the relationship and blurring?

Drawing on the findings from table 6, we see that most of our respondents think that blurring will occur more in a short-term than a long-term relationship. This could be because they have developed a trusting relationship with these relations and they do not wish or see the need to use such tactics. One would think that the relationship has been successful, since it has lasted for a long time, and therefore they do not want to take the risk of using blurring tactics in order to hide information from their relations. Even though there might be no investment in specific assets (refer to research question 3A), there might be a lot to lose if one gets caught using blurring tactics in a long-term relationships. Especially there has been invested a lot of time developing trust and good-will amongst each other in the relationship. And starting this process all over with a new part might be costly after all.

Another aspects with regards to the projective interpretation is that this results might indicate that respondents typically are more inclined to use of blurring tactics in short-term than long-term relationships themselves as well. The respondents elaborated on these themselves, several of them saying that there was less blurring involved with their long-term relationships.

Conclusion; Our findings seem to indicate that there actually might be a negative link between long-term relationship and use of blurring.

Research Question 3C: Is there a positive association between cultural distance and the use of blurring tactics?

A few of our respondents mentioned that cultural differences could in fact be affecting the use of blurring tactics. They also mentioned differences they had with doing business with other cultures, different from their own.

Most of our respondents felt that blurring tactics was something that was used just as much outside Norway than within. They also mentioned that a higher degree of cultural difference probably would affect the relationship in several ways. Even though we were presented for different examples from different cultures, they didn't have a lot of experience that cultural difference enhances the use of blurring tactics.

From the example provided by Interviewee C in the results section, we see that blurring clearly is not just a Norwegian phenomenon, and according to this respondent blurring of similar types were very common when dealing with cross-cultural relationships.

Concluding thoughts: It seems like our respondents have little experience with cross – cultural relationship, at least not enough to give us a better view of the relationship between cultural difference and the use of blurring. Although they have some examples of blurring used in a different culture, this is not enough to suggest a link between cultural distance and the use of blurring tactics.

Research Question 3D: Is there a link between power-dependency and use of blurring?

When reviewing the examples found about power-dependency blurring we see that this is an important area. To establish a high sense of market-competition is important for purchaser, so that suppliers don't register and behave as monopolist. This is the main motivation behind blurring of market position. The seller may also participate in such tactics to make the purchaser believe that the seller has a form of monopoly. This way he takes a risk by getting

exposed, but if he values the extra income by getting a better deal, then he might execute blurring tactics.

Tactics like used in Example B5 goes against the law and is especially risky, even though a lot of participants seem to value the possible earnings higher than the possible risks.

There seem to be a lot of blurring going on between firms out of balance; we have no observations as to if there are more blurring when the power is skewed vs. when it is balanced. However, all of our interviewee's responded that they believed there were more blurring and opportunism when power was skewed vs. balanced. Further on we could not find information about any blurring tactics being used when firms were participating in a balanced relationship. This is of course no evidence to conclude either way. But nonetheless our findings in this dimension open up for that it might be a correlation here. This should be further investigated with some sort of quantitative study.

Research Question 3E: Is there a negative relationship between perceived level of trust and degree of blurring tactics used in the relationship?

Our basis for evaluating this question is a bit fragile. Only one of our respondents gave us a clear indication that trust in fact is correlated with reduced levels of blurring in relationships. However, most of our respondents valued long-term relationships as being more trustworthy.

The respondent, who gave us the indication, was in a different type of industry than our other respondents. We cannot be sure, but that might be a reason for why he was the only one to give us such a clear indication.

We do not feel that the one response we got from the respondent is enough to establish a link between perceived level of trust and the degree of blurring tactics used in relationships. But with more research in other types of relationship, we might be able to discover a link.

Research Question 4: Are there observable attempts to exploit judgmental errors in inter-firm relationships?

Status Quo Bias:

To start out with Interview B's experience: Prices were unnaturally high and not adjusted until a competitor's offer was presented. This indicates speculation in the status quo bias, the already established supplier probably hoped for interviewee B to stick with them even though he found other alternatives. Discovering that this might not be the case, they tried to keep him by dropping prices.

62,5% of our sample has experiences with the Status Quo Bias. That makes it seem as though this is something quite regularly exploited in the market.

We found several examples of the use of this blurring tactic, and also some examples about interesting protections against this bias. Interviewee G, and D has incorporated norm in their firm, an established rule that every relationship is reconsidered every so and so years. This hinders the status quo of getting a grip of the relationship responsible.

Default Bias:

Example DB1 and 2: The default bias seems to operate at two levels here; first a standard package is offered which is neither the "biggest" or "smallest" quantum possible of ordering. A package in between is normally the default. Second, in reality it is normally possible to order whatever quantum you would like, given that you adjust to transportation specifications, nevertheless this is normally not a choice.

It seems as though the default bias is something that might go on in a lot of business to business sales. We did not get a lot of examples regarding this bias in our interviews, but we imagine that it might be more common than initial thoughts suggest. And further research would be interesting.

Evaluability Bias:

It might be difficult for a person to evaluate conditions and specifications when not having comparable specifications at the time of decision. Example EB1 and EB2 illustrates for us that purchasing can be a rather difficult process in the sense that some products might become more and more advanced. Thereby, increasing the possible use of the evaluability bias. We have two respondents giving us examples of such exploitation in real life, and we infer that this also is happening from time to time.

Framing Effects:

Framing effects might be the one effect most known to us in our everyday lives. With television commercials or similar, with good reason, tend to emphasize and put weight on the good elements of their product. And make sure that it is presented in such a way that the less positive things seem less probable. In example, that 20% of the slim-pill eating participants lost weight, instead of saying that 80% will not lose any weight at all.

So do we find this applied between businesses in our sample? Even though our sample for analysis consists of most purchasing (6) and some sales representatives (2) it might be so that the purchasing representatives have noticed sales people trying to take advantage of this framing effect.

We find a few experiences with framing effect in our sample, but it is very little and not sufficient to imply anything. However it seems as though it is being used in different ways to promote sales; Only emphasizing good sides of their product, downplaying service-costs, and appealing to the technical representatives by framing a product as being high-tech.

8. Managerial Implications

”Organizations need to be competitive in their relationships with others” (DeWit and Meyer, 2004 p. 369). Yours and your partners objectives are often very different, because of this it is important that when you are in a relationship, that you also go after your own agendas (DeWit and Meyer, 2004 p. 369). You need to at times confront your partner, and demand your own interest being taken care of. “Without the will to engage in competitive interaction, the

organization will be at the mercy of more aggressive counter-parts – e.g. suppliers will charge excessively for products, buyers will express stiff demands for low prices, governments will require special efforts without compensations, and rival firms will poach among existing customers.” (DeWit and Meyer, 2004 p. 369)

Of course not all firms are in a position to act very competitive. A firm need to have the power to actual fight against its competitors, and have the power to actually win the fight. A firm needs resources and resource dependency in order to achieve the power its needs to compete. Resource dependency is the most common source of power for most firms. If a firm is very independent and also have resources that other firms are dependent on, that means that the firm has a lot of power and can use this when it compete. The more independent you are, and the more dependent your competitors are, the more you have (De Wit and Meyer, pp. 369 -370).

A firm cannot just compete with their competitors, at times it is necessary to cooperate with them. Sometimes a firm is not able to succeed by working alone, and has to cooperate with other firms. Often it’s beneficial for both parties to work together, and although they might have some different interest they do have a common goal to work together towards. If a firm is not willing to work with other firms, they most likely will miss out on some great opportunities (De Wit and Meyer, p. 370).

A big problem with cooperating with other firm is opportunism. Opportunism includes blurring tactics. A firm might not be as truthful as they appear, and may try and take advantage of the partnership or alliance (De Wit and Meyer, p. 370). One-way to “overcome the lure of opportunism is to build a long term commitment to one another” (De Wit and Meyer, p. 370). This should be mentally, with words and through inter-dependence with each other (De Wit and Meyer, p. 370). For this to even be a possibility, to engage in such a dependent relationship, there has to be trust between the parties. They “need to trust each other’s intentions and actions” (De Wit and Meyer, p. 370).

For a company that is not in the best power position towards its partner, needs to be aware of blurring tactics. It could easily be that the partners feel so secure with their power, that they would be willing to risk the relationship by using such tactics. Some might even think that if

they do get caught, their partner is more dependent on them, than they are on their partner. Therefore, if the relationship ends, their partner would suffer more. Especially in a relationship where one of the parties is dependent on the other for its resources, that party needs to be aware of blurring tactics. In such a relationship, that partner is often more dependent on its partner than the other way around.

All parties should also be aware of bounded rationality, and their own cognitive limitations. A good idea would be to read books and articles about the subjects, so that you can be prepared. This way you can know what to expect and you could also be prepared and maybe have the ability to overcome the limitations. In example you might not fall for the same “tricks” you would before, like the one where the seller emphasize the good aspects of a product, while downsizing the lesser qualities. Here you might be able to see what they are doing, and look at the product specifics for what they are.

As we can read from our results, one of our respondents has been able to find a way to protect them self from a bias. In order to establish protection against the status quo bias, they negotiated new deals every five years. The same should be sought after with the other biases as well. Ways to protect against them. In example, demanding to have a possibility to evaluate all alternatives at the same time to hinder the evaluability bias, and so on.

When collaborating with a foreign firm, it is important to consider the different cultures. If you are in business with a firm that has a considerable different culture than your home country, you need to learn about that culture and consider its aspects when working with that culture. It could be in example if you are doing business in a Muslim country, that you should not choose a female employee to handle that account. This might be seen as very discriminating in your country, but could be a very important and sensitive aspect in the foreign country.

9. Future Research

Our research has been successful in discovering different blurring tactics in relationships amongst Norwegian firms. We have also been able to find some links between some of our dimensions and blurring. There is still a lot to research to be done, and therefore we encourage others to continue with the research. Research especially, with respect to asset specificity, trust and cultural differences should be further studied, but also with other dimensions from our research. We hope that our thesis may help someone with a quantitative study, and from there discover more about this subject.

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