Supply Management: The Theoretical Foundation of the IMP Approach and its Contribution on Critical Purchasing Decisions

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ABSTRACT

Relationships between business actors are one the most valuable assets for a company. An intensive interaction between business actors is not only related to increased efficiency of performance but also lead to the development of strong resource ties between the actors involved in the business relationship. "*No business is an island*", this is one of the central issues addressed by Hakkanson and Snehota (2006), considering that businesses are "*part of the main*", and this is the major idea of the IMP theory. Relationships are the most valuable assets for companies, then without them there is no access to resources of others, no acquisition, of supplies the company actually needs, and there is no knowledge sharing to solve specific problems (Ford et al. 2011, p. 29). Similarly relationship plays also a major role within the field of supply management and the following thesis will primarily test the contribution of the IMP theory on four predefined purchasing decisions points, namely: make or buy, sourcing strategies, supplier selection strategies, and negotiation and contract awarding technics. Despite some limitation the IMP theory reveals as a useful tool to decide on critical purchasing decisions, whereas the major support is given for the decision on sourcing strategies and a lower degree of support for negotiation tactics.

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Keywords
Relationship, Interaction, Business Actor, Supply Management, Purchasing, Dependence, Power, Adaptation

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1. THE POSSIBLE CONTRIBUTION OF THE IMP THEORY IN DEVELOPING BUYER SUPPLIER RELATIONSHIPS TO PREDICT CRITICAL SOURCING DECISIONS WITHIN THE FIELD OF SUPPLY MANAGEMENT

An old pattern of relationships between buyer and supplier is majorly considered to be arm length and nowadays organizations tend to shift and focus more on a "collaborative strategic partnership" (Bensaou, 1999, p. 1; Sheth & Sharma, 1997, p. 75.) It is now well recognized that a good buyer-supplier relationship could increase the ability of a firm to compete in today's voluntary business markets. Competition exists, not only on an international basis, but also domestically. Therefore organisations need to join forces, which are majorly generated through long-term relationships, between suppliers and buyers. These relationships create added value for both parties since they could compete in dynamic business environments. There are several empirical scholars concentrating around the topic of buyer-supplier relationships, but there are only a few who provide a clear guideline, how to manage and maintain a strong collaboration. Han, Wilson, & Dant (1993) argue that the beneficial aspects on a long-term relationship represent multiple items, considering "(…) shorten product development time, lower manufacturing and operating costs, and manage quality and productivity improvements"(p. 331). These factors clearly show and reveal, how important it is to collaborate to gain a competitive advantage and to create a win-win situation. But organizations also need to be aware of managing the strategic collaboration effectively, by increasing the benefit and minimizing the risk of exploitation from the counterparty. Procedures and practices must be developed to ensure that buyer and supplier are not affected negatively (Zaheer et al., 1998, p. 21). The challenges related to a strategic collaboration might be classified as, lack of "trust" "level of uncertainty" and "level of overdependence", which might strengthen or weaken the relationship (Han et al., 1993, p. 334). Both, the benefits and drawbacks should be considered from supplier and buyer to facilitate the competitive position and to minimize the downside risk of exploitation. Therefore relationships tend to play a key role for increasing the potential of business efficiency between individual business partners.

In this context the application of the Industrial Marketing and Purchasing (IMP) theory within the current thesis is beneficial, since the theory focuses especially on the *relationship* between individual business actors, by investigating the elements and processes of business *interactions* and networks within industrial and supply markets (Hakansson, 1982, pp. 22-23; Ford et al., 2009, p. 2). The common theoretical framework is build upon two major pillars, which are simultaneously the core of the IMP theory: "Interaction-model" and "ARA-approach". On a general perspective, both models emphasis the importance of "relationship" and "interaction", but tend to approach different stages of the relationship between business actors. The major aim of the theory is also reflected by the authors Ford and Hakansson (2009), and they state: "[That] *the core of this idea is the business relationship and how those involved in it are connected to it, how they affect it and are affected by it*"(p. 185). This feature of the IMP theory will be tested on the possible application of four predefined purchasing decision points. International Business Administration students from the University of Twente established a purchasing year cycle, as a pre-work for the BSc thesis, which covers the four important decisions a purchasing department has to take.

The first decision point, the make-or-buy consideration, is from an organizational perspective, one of the of most crucial decisions to make within demand planning, which considers the question, whether to produce an item in-house or obtain it from external providers. Organizations rely on resources from external providers, due to limited resource availability in house, and this results in recognizing the importance of make-or-buy decisions within the field of supply management (Cánez et al., 2000, p. 1313).

Decision point two, deals especially with the categorical selection strategy by, defining sourcing procedures and applying purchasing levers to achieve cost savings and other objectives. Strategic sourcing tends to be one of most value adding activities within supply management. There are several beneficial aspects, which come along with strategically sourcing, including assurance of supply, ownership reduction, quicker time-to-market and technological competitiveness (Rendon, 2005, p. 9). The type of an appropriate sourcing approach is majorly dependent on two factors: strategic value of the commodity (e.g. costs, added value, critical to profitability and sourcing decisions) and the complexity of supply markets (e.g. pace of technological advancement, and monopoly or oligopoly conditions) (Kraljic, 1983, p. 111). Based on these factors, Kraljic (1989) developed a framework the so-called Kraljic matrix that describes how to put each commodity group into a specific sourcing category (Cousins et al., 2008, p. 47). This matrix serves as guideline for purchasing managers to support them in their decision-making processes.

Decision point three builds upon the previous decisions by identifying which supplier has the right competencies in accordance to the employed sourcing strategies. This consideration is the core topic of the third decision point, which considers the supplier selection strategies and making supplier portfolio decisions. Especially, in this case, purchasing departments rely on analytical supportive procedures. The previous parts have already identified potential suppliers and now the purchasers need choose the most suitable supplier.

The last purchasing decision point is related to supplier negotiation and contract awarding based on the previously mentioned decision points. Whereas the organization could make use between two types of negotiation tactics: Aggressive bargaining and competitive bidding (Perdue & Summers, 1991, p. 176). Similarly, two types of contract may be chosen in accordance to the corporate strategy of the organization: Fixed price contracts and cost based contracts.

The purchasing decision points clearly show that the traditional view of purchasing changed dramatically, towards the major role of assessing the potential of suppliers, evaluating and selecting suppliers with deciding on how to make a purchase (Monczka et al., 2010, p. 28-29) developing and monitoring supplier relationships (Ford et al., 2011, p. 7).

Noteworthy, in this context is that there might be the possibility that the IMP theory support purchasing professionals in their decision-making processes. This consideration is simultaneously the major purpose of the current paper, which especially tries to explore critical purchasing decisions within the field of supply management, by focusing on the IMP theory and its possible contribution on purchasing decisions. The key research question could be stated as follow:

"The possible contribution of the IMP theory to predict critical purchasing decisions within the field of supply management"

While the problem of managing business relationships tend to be recognized by researchers and purchasing professionals, it is also a major concern for practitioners, which gives the study a special perspective. This could serve as a guideline for managers and organisations to develop an understanding of, how to manage and maintain a strong collaboration between buyers and suppliers.

As a starting point the current thesis will explore the possible applicability of the IMP theory within the field of supply management. Next it will describe the origin and development of the theory. Followed by a precise description of IMP`s theoretical assumptions. Then the main body of the current thesis will introduce the IMP`s theoretical foundation and visualizing the important elements in a framework. The final part will test the possible application of the IMP theory on predefined purchasing decisions. The final chapter will describe the main findings of the study with additional suggestion for further research.

2. THE THEORETICAL FOUNDATION OF IMP´s INTERACTION APPROACH

2.1 The Applicability of the IMP Theory within the Field of Supply Management

Several academic researchers already tried to apply the knowledge gained from the IMP theory to the field of supply chain management (SCM). Hakkonson and Snehota (1995) used the IMP theory in their research and relate it to SCM, to describe the development of relationships in business networks. Their findings reveal that the relationship between customer and supplier in SCM is a ruler for success, since customers average business purchases, as inputs from a supplier, accounts more than 50 per cent of the total turnover. Therefore the major aim of a relationship should be a cost reduction. Gadde, Håkansson, & Persson (2010) reveal that the assumption of overall performance of organizations in supply networks is only maximized if the cost of single purchases are kept at the lowest level as possible. Given this fact, suppliers and buyers need to build strong interpersonal ties to create a win-win situation (Gadde et al., 2010, p. 8). In addition there is a need for systematic interaction between suppliers and buyers to increase efficiency of performed activities, not only in the current relationship but also to other external actors (e.g. suppliers to suppliers, customers to suppliers) from the whole business network (Hakansson & Snehota, 1995, p. 18). The advantageous of an active interaction with suppliers is to create new and better ways of combining resources, which simultaneously increase the efficiency of business actors within the network itself (Hakansson & Snehota, 1995, p. 18). To highlight, that there is a need that organizations should interact with their business partners to find unique solutions for specific problems. Ford, D., Gadde, L. E., Håkansson, H., Snehota, I., (2011) reinforce this viewpoint by arguing that: *"(…) interaction may lead to the development of several different offerings within different relationships, each based on unique combination of product* [and] *service* (…)"(p. [ix]). These factors underline the importance of IMP interaction theorem within the field of SCM. Therefore by successfully managing the relationship, companies might reduce costs and increase revenues, leading to higher business efficiency

2.2 The Development of IMP Theorem to Manage Business Relationships

Relationship theories were not entirely new to the field of industrial marketing and purchasing. Different researchers already tried to describe the interaction between organization and business actors, but there major aim was to concentrate on intra-organizational problems with the involvement of several organizational units (Hakansson & Snehota, 1995, p. 18; See Van de Ven, 1976 , p.25). The major focus was on relationships among these organizations, on the contrary the IMP theory tries to focus especially on the relationship between each individual organization (Håkansson, 1982, p. 18). Hakansson (1982) set the first cornerstone in "International Marketing" by introducing the interaction approach, which was published in 1982 by John Wiley & Sons Ltd (Ford et al., 2011, p. [ix]). This was the start of a new era for several IMP-interaction models for explaining business relationships. Since than different relationship models on organizational interaction were established within the field of industrial marketing and purchasing. The "Actor-Resource-Activity (ARA) model", deals with the substance of a business relationship by investigating the actor bonds, resource ties and activity links between the so-called "quasi organizations" (Hakansson & Snehota, 1995, p. 35). The ARA-model will be discussed in detail in section 2.5. The next model developed under der footprint of the IMP-theory is "The Business Networking Model" considering interaction between multiple business actors (network), by delivering a specific toolbox for managers on how to take advantage from the interaction with the counterparties (Ford et al., 2009, p. 194). The root of IMP `s theoretical framework could be traced back to two significant organizational theories. These are Inter-Organizational Theory and the New Institutional Economic Theory (Håkansson, 1982, p. 18). Additionally, emerging trends within the field of marketing and purchasing literature were used to generate knowledge, for developing the IMP`s theoretical framework (Håkansson, 1982, p. 18). To get a general understanding why the IMP theory is build upon the two organizational theories, it is wise to explore their core focus first, before pointing out their difference towards the IMP theory.

The theoretical concept of the inter-organizational relationship framework describes the transactional procedures of organizational resources (e.g. money, physical facilities and materials, customer or client referrals, technical staff services) between business actors (Van de Ven, 1976, p.25). Van de Ven (1976) defines the inter-organizational relational framework as follow: "*An IR is defined as a social action system on the premise that it exhibits the basic elements of any organized form of collective behavior"*(p.25). According to the inter-organizational theory a relationship between organizations could be temporary or long lasting. The degree of relationship and the behavior between the organizations could be examined with the following factors: "*Collective and self interest goals*" and "*independent task divisions*" (Van de Ven, 1976, p.25). Noteworthy, in this context of inter-organizational relationship, is that the buyers tend to play a passive role and only react to external stimuli from sellers by choosing between buying or not buying (Håkansson, 1982, p. 19). This illustrates that the selling firm has a kind of dominant and active role in the buyer-seller relationship. On the contrary, the IMP theory predefines buyers and seller as equal players within the business market. Buyer and seller are actively involved in sourcing procedures to find suitable counterparties to do business with (Håkansson, 1982, p. 19). The next difference is that the IMP`s theory states that buyer-seller relationship is long term and close, with complex interaction patterns between the organizations (Håkansson, 1982, p. 22; Hakkansson & Snehota, 1995, p.276).

The second, organizational framework theory, on which the IMP`s interaction theory is build upon, is the New Institutional Economic theory. This theory focuses especially on the thoughts of micro-economic theories and deals majorly with transaction costs between organizations. Williamson (1979) defines the theory as follow:" *The institutional economics* [theory] *is preoccupied with the origins, incidence, and ramifications of transaction costs"* (p.233). Moreover he agues, if transaction costs could be neglected, the economic activity of organization is irrelevant, because the advantages of one organizational mode to hold over another mode will just be resolved by costless contracting (See Williamson, 1979, p. 233). This assumption is also closely related to IMP´s interaction framework since the theory reveals that there is close and complex relationship between the business partners. In order to reap the mutual benefits of the organizational mode, business actors need to focus on adaptation of processes or operations to neglect transaction costs (Håkansson, 1982, p. 22). This argument could be seen as the primary relation between the New Institutional Economic theory and the IMP theory. Whereas the IMP theory takes into account that the transaction cost are significant and consider a close relationship between business actors to avoid the general problem of costs. After exploring the development of the IMP theory it is wise to introduce the key assumptions of the theory.

2.3 The Major Assumption of IMP`s Theory is that Relationships are Characterized by Complex Interaction Patterns, Heterogeneity, Mutual Adaptation and Interdependence

The major aim of the IMP´s theory is to analyze business relationships between two individual organizations, but it rests also on the assumption that relationships are complex, long lasting and dependent by nature (Håkansson, 1982, p. 22; Hakansson & Snehota, 1995, p.276; Van de Ven, 1976, p.24; Gadde & Snehota, 2000, p. 306; Ritter et al., 2004, p. 175; Hakansson & Ford, 2002, p.133). As an example buyers and suppliers could have several relationships with different business actors, but the major task would be to maintain relationships with strategic important actors, than rather dealing with straightforward purchase or sale from unimportant actors (Håkansson, 1982, p. 22; Hakkansson & Snehota, 1995, p.61). The purpose of this assumption could be traced back to the cost of transaction theorem from the New Institutional Economic theory, which was already discussed in the previous part. To recap, it states that significant costs are involved in establishing and maintaining relationships, according to Hakansson and Snehota (1995) these transaction costs could be neglected if organizations mutually interact by adapting the resources to each other. If there is a successful interaction and adaptation of resources, the advantages could outweigh the drawbacks of transaction costs. Therefore the IMP framework only uses the important relationships and simply ignores those, who didn't have a complex substance (Hakansson & Snehota, 1995, p.276). This is also in line with the assumption that companies act "under norms of rationality" (Hakansson & Snehota, 1995, p.397) considering that they only engage in a relationship if the benefits are considerably higher than the costs. The future state of the relationship will change if the business actors have a complex interaction pattern, resulting in a level of mutual adaptation. This is also known under the theory of "*bounded rationality*" (Simon, 1972, p. 1972; Jones, 1999, p. 298), when individuals act within a relationship between two organizations they are actually reaching their own limits, but they also tend to develop the needed skills and capabilities to overcome those limits (Hakkansson & Snehota, 1995, p.276). Resulting in an extensive pattern of interaction, which create a strong tie or bond between the business partners. Both organizations in the relationship are beneficiaries, since they use the advantages of mutual learning. This aspect is also outlined by Simon (1972) than he argues that there are only two ways of organizational learning; learning from its members/counterparties or by observing new members/counterparties who have a depth of knowledge, which the organization didn't have before (Simon, 1991, p.125). Facing this assumption of organizational learning, the IMP theory predefines the relationship as long lasting, with complex pattern of interaction.

Moreover business relationships have a heterogeneous feature, extending simultaneously if the combination of activities, resources and actors develops through active interaction between the organizations (Hakkansson & Snehota, 1995, p.136; Ford & Håkansson, 2013, p.1018). To be more precise Ford, Gadde, Hakansson and Snehota (2008) define resource heterogeneity as follow: "*Resource heterogeneity means that interaction is a means for value creation across company boundaries. Conversely, a company can increase the value of single heterogeneous resource and of its total resources through interaction"*(p.29). It could also be stated that the level of interaction between business actors decides upon the degree of adaptation. The result of each relationship and the role of the business actors become effectively unique (Ford & Hakansoon, 2013, p.1018). This condition and assumption needs to be taken into consideration if relationships between business actors are explored.

Subsequently, the second assumption of the IMP theory is the relationship dependency among business actors involved in the interaction processes. The previous part already set some fundamental assumption about the process of organizational learning. The following step will define the relationship dependency assumption between business actors, which tends to develop and increase when the actors are interconnected on a longer basis. Relationship dependency could be defined as "*business activities being dependent upon the interaction processes between companies"* (Svensson, 2002, p.172). This assumption is especially relevant for the current thesis, since it considers that the relationship dependency is a major issue within the field of supply chain management. The scholar from Svensson (2002) focuses primarily on the "*dependencies between business activities in supply chains*" (p.168). Empirical findings from their research evidentially proof that "*dependence between business activities in supply chains"* tend to require a strong corporation and coordination between buyer and supplier to achieve mutual objectives (Svensson, 2002, p.168). Results from the research could be used to relate the relationship dependency theory to the specific assumption of the IMP framework. One major idea of the IMP theory, which was already revealed in the previous section, is the assumption of developing long lasting relationships between business actors. This is primarily the result of relational interdependencies among the actors. Hakansson (1982) argue that interdependencies are based on "*mutual adaptations in technical, organizational, or knowledge dimensions*" (p.404). Moreover scholars provide evidence that outcome of relations between business actors are predefined by nature, for instance Hakansson and Snehota (1995) argue that "(…) *the outcome of nurturing relationships in general [is] negative, should there be another way, companies would have discovered it long ago from extensive experience*" (p. 397). Under the given assumptions relationships tend to be beneficial for both business actors.

After discussing the development and assumptions of the IMP theory, the following part will introduce the first pillar of the theory and try to shed light on the key elements and their interconnections.

2.4 The First Pillar of IMP´s Theoretical Concept -The Interaction Model-

2.4.1 Three Elements to Describe the Process of Interaction

The basic idea behind the interaction model is primarily related to the theoretical knowledge that between individual companies is an active interaction, which is a major characteristic of a business landscape (Ford et al., 2009, p. 27). According to Hakansson (1982) "*the marketing and purchasing of industrial goods is seen as an interaction process between two parties within a certain environment"*(p.23). The objectives of the interaction approach is not to focus on what is happening *within* the company, rather the focus is on what is actually happening *between* the companies involved in the interaction process (Ford et al., 2009, pp. 27 & 185). Whereby the process of interaction could be analyzed with "*three basic elements"*, and these are again subdivided into different factors (Håkansson, 1982, p. 23). The three basic elements are: The interaction process, The participants in the interaction process, The atmosphere affecting and affected by the interaction. The three elements of the interaction model are not independent and is a significant interplay between them. Together they form the main building blocks of the interaction model and are predominately the core of the whole conceptual framework (See Figure 1).

2.4.2 The First Element: Process of Interaction

The first element in the interaction model, which is going to be described, is the interaction process itself. This is crucial part of the whole concept since it reveals what is actually going to be exchanged between the participants involved in the interaction process. The scholar from Ford, Gadde, Håkansson, Snehota, & Waluszewski (2008) interpret the process of interaction as "(…) *a confrontation process that occurs between companies and which changes and transforms aspects of the resources and activities of the involved companies and of the companies themselves"*(p.3) to be more precise, "*Interaction is an important economic process through which all of the aspects of business, including physical, financial and human resources, take their form, are changed and are transformed"* (Ford et al., 2009, p.33). Resulting in four major types of exchange; Product or service exchange, Information exchange, Financial exchange, Social exchange. The following part will define each individual type of exchange (Håkansson, 1982, p. 23; Wilson & Moller, 1988, p. 574).

The product and service exchange is treated as the major type of exchange between organizations. For instance, Vargo and Lusch (2004) state particularly that "*tangible products are the fundamental components of economic exchange*"(p.8) and Hussain and Ranabhat (2013) go even a step further by emphasizing, "*Both quality of services and products in retail sector are considered to be vital for survival and success of the firm"*(p.2). Similar arguments are expressed by Powers & Reagan (2007) who point out that both business actors need to focus on improvement of product or service, in order to increase the number of satisfied customers, and this will result in more interaction between the actors, since they recognize the advantageous of the relation. Especially, product and service specification might influence the relationship in a positive or negative direction (See Håkansson, 1982, p. 23). For example buyers tend to have expectations about the product and if there are not fulfilled the process of interaction might be disturbed. This implication could predominately affect the strength of the relationship between the participants in the interaction process. According to Hakansson (1982) the exchange process will differ related to the level of uncertainty about the requirements or resources of the counterparty (Håkansson 1982, p. 234).

The second type "*Information exchange*" considers the exchange of information between organizations and the content could be related to technical, economical or organizational aspects, which tend prevail the exchange (Håkansson, 1982, p. 24). In most cases the exchange of information's is dependent on the level of trust between the organizations. Therefore the content of the information plays a significant role in the process of exchange. Hakansson (1982) support this viewpoint by pointing out, "*the width and depth of the information for each of these groups of questions should also be of importance"*(p.24)*,* similarly Caglio and Ditillo (2012) explain that a strong collaboration between a supplier-buyer relationship could only be generated if the organizations show openness towards sharing information (Caglio & Ditillo, 2012, p. 61). Empirical findings provide evidence for the benefits of information exchange. Noteworthy in this context is the scholar, "*Opening the black box of management accounting information exchanges in buyer–supplier relationships"*(p. 61)*,* which confirms the valuable benefits of information exchange, by arguing that the exchange of management accounting information between suppliers and buyers leads to stronger collaboration (Caglio & Ditillo, 2012, p. 61). Equally, Cheung, Myers and Mentzer (2011) state that relational learning in form of information sharing influence the performance of both parties and increase the share of benefits (Cheung et al., 2011, p. 1061). This in turn will increase the efficiency and effectiveness of the interaction process from both organizations, which is majorly related to the increased level of trust. The transaction process of information might be personal or impersonal between the business actors. The impersonal channel is majorly used for the transfer of simple belongings regarding basic technical and/or commercial data (Håkansson, 1982, p. 24). On the contrary personal channels might be approached, if soft data is transferred, for instance product specifications, contract matters or general information about the counterparty (Håkansson, 1982, p. 24). As a final remark the degree of formality related to the exchange of information could impact the interaction process and the whole relationship between the business actors (Håkansson, 1982, p. 24).

The third type of exchange describes the financial aspect. Management theories are majorly influenced by Economics, which tend to argue that the prevailing mission and purpose of businesses is the aim of maximizing profits (Jordi, 2010, p.195). Financial

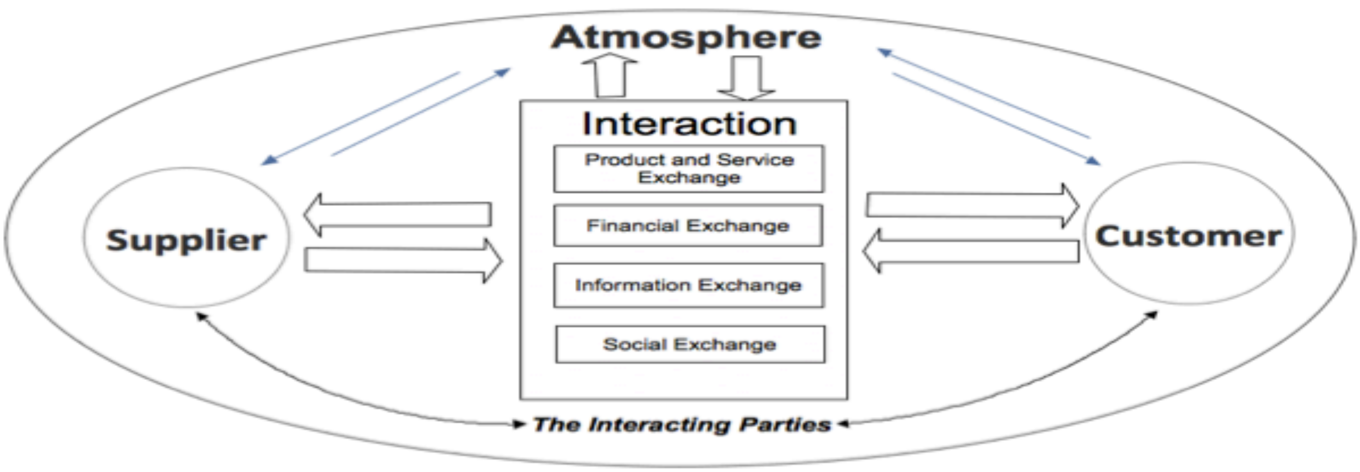

Figure 1: -The Interaction Model-
Source: Based on Hakansson (2009, p. 23-31); Ford et al. (2009, p.31)

resources might play a major role between the business actors, but this depends on the amount of money exchanged. Equally, Hakannson (1982) argues that, "*the quantity of money exchanged is an indicator of the economic importance of the relationship"*(p.24). Furthermore, it should also be noted that the exchange of money bears also the risk of currency exposure if the exchange rates fluctuate. The scientific validity is proven by the economic researcher Jorion (1990), who argues that the value of a company could be highly affected by fluctuating exchange rates and there are major source of uncertainty (Jorion, 1990, p.331). This viewpoint is largely shared by Hakansson (1982) by considering that companies need to pay attention on the need to exchange money, since transaction from one currency to another increase the risk of uncertainties (Håkansson, 1982, p. 25).

The final exchange type "Social exchange" could be defined as follow: "*The exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two parties"* (Homans, 1961, p. 13). The process of social exchange has also a major impact on the interaction between the counterparties. In case, the degree of social activity simultaneously determines to a certain extent the level of uncertainties between business actors (Håkansson, 1982, p. 25). Hoffmann, Schiele, & Krabbendam, (2012) reinforce this viewpoint by stating, "*An action of one partner leads to the response of another partner, but this response is uncertain*" (p. 6) and Molm (2003) argues in the same direction with claiming that "*All forms of exchange* [between business actors] *involve uncertainty and risk*"(p. 10). Noteworthy in this context is that social exchange, if used effectively, has a good deal of advantageous. The benefits could be reaped if procedures such as limitless sharing of knowledge, expertise and experience among business become effective (Agneessens & Wittek, 2012, p.333). By sharing these factors organizations might outweigh their disadvantage related to own limits. Moreover the core function of social exchange considers the long-term process in which the function of exchange builds a strong tie between the organizations (Håkansson, 1982, p. 25).

2.4.3 The Second Element: The Participants

The second element of the interaction model describes, "The participants involved in the interaction process" are actually dependent elements on the process. The observed participants involved in the process could be classified as, manufacturers, distributors, retailers, suppliers, customers, competitors, collaborators or individuals. But in the current paper, for the of simplicity and generalizability, the term "*business actor*" is used to cover all possible participants within the model, which is also in line with the scholar from Ford, Gadde, Snehota, & Waluszewski (2009) and Hakansson (1982). While the process of interaction is dependent on the business actors, the organizational characteristics of each individual actor will also influence the process. Different organizational factors tend to have an effect on the process. Whereby the major influencing factors could be classified as *technological advancement* (Handfield et al., 1999, p. 59; Zsidisin & Smith, 2005, p. 46; Liu et al., 2013, p. 82; Nguyen & Mutum, 2012, p. 402; Jean et al., 2010, p. 63; Håkansson, 1982, p. 27) and *firm size* (Frohlich & Westbrook, 2001, p. 190); Hendricks & Singhal, 2005, p. 706; Cao & Zhang (2011), p. 165; Krause et al., 2007, p. 537; Devaraj et al., 2007, p. 1206, Håkansson, 1982, p. 27). The following sections will discuss, how each factor might influence the interaction process.

The technological advancement of the interacting business actors might decide on the success or failure of the interaction process. Technical expertise of business actors is seen as a critical factor in the interaction process (Håkansson, 1982, p. 26). Similarly, Ford, Gadde, Hakansson & Snehota (2008) emphasize "*The interaction processes may be sufficiently critical to one or both of the companies from technological perspective"*(p.5). *Thus*, there is need that both actors need to exchange technological expertise in order to increase the technical capabilities of the interacting counterparty. Hakansson (1982) argues that the aim of the interaction process could be described as "*tying the production technology of the seller to the application technology of the buyer*" (p. 26) and as a result the difference between the production technologies implies the general condition for interaction. This concept is also used in the scholar "Collaboration and Technology linkages: A strategic supplier typology" by Kaufman, Wood and Theyel (2000) and they developed a conceptual framework with comparing the linkage, between supplier and buyer, on two dimensions: technology and collaboration. And their empirical findings show similarities towards the relational aspect of technology and interaction. The findings consider that there is a significant linkage between advanced technologies and collaboration between business actors. They conclude " (…) *firms that employ both advanced technologies and collaborative methods promote innovations in product design and manufacture"*(p.655). Moreover they argue that is majorly related to the fact that the relationship between business actors reached a condition of mutual adaptation, which is related to the intensive interaction, leading to increased level of trust and reduction of uncertainty (Kaufman et al., 2000, p. 655). The term dependency has a paramount impact on the whole process and will be further discussed in the Atmosphere section together with the important variables, which play a major role on the appliance of purchasing decisions.

According to Hakannson (1982) the size and power of the business actor determines his basic position within the interaction process (Håkansson, 1982, p. 27). The size of a firm could be measured in many ways, but usually scholars tend to use the relative *number of employees* (Devaraj et al., 2007, p. 1206; Frohlich & Westbrook, 2001, p. 190; Kumar et al., 1999, p. 12) as primary measurement level to determine the size of a firm. Whereas power could be defined as follow: "*the ability of an actor to influence another to act in the manner that they would not have otherwise*" (Emerson,1962, p.32). As a result, the firm size and power of a business actor tend to have influential impact on the interacting counterparty and the interaction itself. Hakannson (1982) underlines this statement by arguing, "*In general, a large firm with considerable resources has a greater possibility of dominating its customers or suppliers than has a small firm*"(p. 27). On the contrary this reveals that the smaller counterparty, related to firm size, is more dependent on the other party. Noteworthy in this context is the significance of the relation between power and dependence of business actors within the process of interaction. The scholar "Power-Dependence Relation" from Emerson (1962) explains the idea of power relations between organizations by revealing "*power resides implicitly in the others dependency*"(p. 32). Accordingly, the factors, power and dependency could be seen as factors affecting both elements: the business actors and the interaction process. To get a better understanding about the power-dependence relation and the implication for other elements within the interaction model, the following chapter on the *Atmosphere* element will discuss both factors in more detail.

2.4.4 The Third Element: The Atmosphere

The purpose of this section is to explain the main factors of the relationship *Atmosphere*, which could be conceptualized as the product of the interaction between business actors and as an influencing element, on defining the future prospects of the relationship. In the same way Atmosphere is the outcome and simultaneously the condition for human interaction (Hedaa & Törnroos, 2007, p. 2), which is closely linked to the factors of exchange and the characteristics of business actors.

Three types of correlated factors characterize the relationship atmosphere of the interaction model. The first factor considers the power-dependence relationship of business actors, the second states that the relationship between business actors is characterized by competition or cooperation, and the final factor, observe the relational aspect of business actors in terms of distance and closeness (Håkansson 1982, p. 26; Emerson, 1962, p.32; Sutton-Brady, 2000, p.2; See Hedaa & Törnroos, 2007, p.2). Each factor could be assigned to one or another business actor in the interaction process, depending on their individual characteristics, for instance, technology advancement and/or firm size, which was explored in the section before. The following example will precisely illustrate how the factor power-dependence could be assigned to the one or another business actors (labeled as A and B). If the business actor A is highly dependent on business actor B, actor B has substantial power over A, "because power resides implicitly in the other´s dependency" (Emerson, 1962, p.32). In the same way, B´s dependence on A could be high or low, and this has an impact on A´s power over B (Ritter et al., 2004, p.178). For instance, the source of power could stem from holding resources the other needs and from controlling the alternative ways to obtain the required resource (Hallen et al., 1991, p. 31). Mostly, dependency on activities of others is seen as a negative aspect but this is an essential part of interaction, which is also emphasized by Ford, Gadde, Hakansson & Snehota (2008) by stating that "*companies also seek to build the dependence of others on themselves in order to achieve stability in their interactions over time with consequent gains in efficiencies"*(p. 27). Similar findings were observed by Ford and Hakansson (2013) and they point out that "*companies work together, to develop, to adapt and to bet their future on the success of their counterparts*"(p. 1023). On the contrary the disadvantage of relational dependency is the forgone opportunity cost of the single relationship. But there might be also the possibility that neither A nor B are dependent on the other party, which implies that there is no need to manage an interaction or relationship. In addition, it might also happen that both A and B are dependent to each other, in this case none of both has power over the other, this could be considered as a relationship of mutual dependency (Emerson, 1962, p.32). All types of power-dependency relationships have their own advantages (e.g. economic benefits, lower costs, higher profits,) and disadvantages (e.g. opportunity costs), but these are basically predefined by the individual characteristics of business actors and exchange types within the interactive process. Next to this there are also other factors, which tend to explain the atmosphere of the interaction model. Thus the following section will explain the second type, on conflict or corporation between business actors.

The level of cooperation and competition on the interaction process might reveal the relational strength and/or the intensity of interaction between the business actors. Both, cooperation and competition tend to coexist in the relational atmosphere of businesses (Hakansson & Snehota, 1995, p. 18). The cooperative relationship considers the exchange of activities and resources among actors (Bengtsson &Kock, 1999, p.178). Cooperation could be defined as the willingness of business actors to work towards common goals or benefits, whereas competition refers to the lack of goodwill to work towards joint objectives "*a lack of will to co-operate towards joints goals*" (Sutton-Brady, 2000, p.4) or "*The result of failed cooperative strategy is competition*" (Coleman, 1987, p. 76). Similarly Hakansson and Snehota (1995) suggest that competition could be a possible source of tension and conflicts in a business relationship and this aspect is especially observed, when the goals of business actors differ significantly (Hakansson & Snehota, 1995, p. 18). This is also in line with Sutton-Brady (2000) who points out that lack of corporation causes problems and than finally creates conflicts. The tension and conflicts between the business actors may be solved, but they tend to have a counterproductive influence on the development of the relationship (See Sutton-Brady, 2000, p.4). However scholars also suggest that "*Some amount of conflict might even be necessary in order to keep the relationship between two companies healthy*" (Hakansson & Snehota, 1995, p. 18). Noteworthy in this context is that all relationships between business actors will have a "*mixture of both positive and negative dependencies containing cooperative, competitive, and conflictual elements*" (Ritter et al., 2004, p.178.). Thus each type of relationship will have its own advantageous and disadvantageous, but business actors need to focus on the interaction process to reap the best outcome of the relationship. Interaction is critically influenced by the characteristics of business actors towards cooperative or non-cooperative actions (Andersen & Kumar, 2006, p. 522). But there are also the factors like distance and closeness, between the business actors, which need to be considered, to verify the intensity of exchange. This aspect will be treated in the following section.

The factors closeness and distance will affect the interaction process and are also affected by it. Noteworthy in this context is that closeness or distance is not related, to the geographical location of the individual business actors, rather the focus is on aspects of interrelation between both parties. Therefore a high level of interdependence over a certain time period, majorly characterizes closeness between business actors, which is basically related to the concept of social bonding (Conway & Swift, 2000, p. 1393). Similarly, distance might be defined as the difference in perception on the business activities between business actors (Hallen & Wiedershiem, 1999, p. 350). In addition, scholars also reveal that the level of closeness in business relationships is not really dependent on cultural diversity, in other words "*The inter-firm atmosphere thus renders the cultural differences unimportant*" as an example the communication between two business actors: "*We do not speak French",* the Swedish purchasing manager said and the French buyer answers " *We can just say*, *je t'aime*" and that is sufficient (Hallen & Wiedershiem, 1999, p. 352). This could be seen as an important example to verify that closeness is not really a matter of cultural differences between business actors. There might be several reasons for business actors to build a high degree of closeness with the interacting counterparty as well as to avoid such closeness. It might also be related to dependence or power of the counterparty, which require a close relationship, to exploit beneficiaries. But on a general perspective " *All relationships do not need to be founded on close personal relationships but the relationship needs to reach a business friendship level*" (Wilson, 1995, p.18). Therefore the management of a close relationship should be considered as creating a well-defined collaboration, where both business actors receive mutual advantageous. This is a crucial aspect to consider within the interaction approach, that the interaction process should generate a win-win situation for both actors, without exploiting the counterparty. The following chapter will accordingly discuss this aspect within the second pillar of IMP´s theoretical foundation.

2.5 The Second Pillar of IMP´s Theoretical Concept -The ARA approach-

The Activity-Resource-Actor (ARA) model offers a conceptual framework to explain the process and outcomes of interaction of business actors in a network environment (Ford et al., 2009, p.33). The model states that three layers could describe the outcome of a relational interaction between counterparties and these are: activity links, resource ties and actor bonds (Hakansson & Snehota, 1995, p. 18; See Ford et al., 2009, p. 33). Like the interaction model in terms of interconnection between the four elements, the ARA framework also suggest that each of its layers are interconnected and each affects and is affected by the other layers.

The Activity layer tends to link the activities between the business actors. There are several activities, which are more or less integrated or linked together, for example production, logistics, administration, deliveries, commercial and information handling (Ford et al., 2009, p. 33). These links are developed to facilitate an efficient activity pattern between operations of business actors, who maintain a relationship. In this way the activity pattern between the business actors will become "*more or less systematically and tightly linked*" (Ford et al., 2009, p. 33). Similarly, interactions and exchange processes between business actors, tend to develop a relationships that "*link the resources and activities of one party with those of another*"(Håkansson & Snehota 1989, p.190). This concentrated linking of activities may imply that one or another business actor needs to adapt the own activity structures to build the linkage. This could also be considered when the activity patterns of the two business actors change over time, they need to modify or adjust the interaction activities (Håkansson & Snehota 1989, p.195).

Resource ties create connections between several resource elements (e.g. technological, material, knowledge and resources) of two business actors (Håkansson & Snehota 1995, p.39). The resource ties could be seen as a result on how the relationship between business actors has developed, similarly the resource ties tend to represent a resource for the company in itself. Noteworthy in this context is that, dependent on the development of the relationship between business actors, "*the resource ties become more or less adapted and more or less mutually tied together as their interaction develops*" (Ford et al., 2008, p. 14). The resource ties create the need that business actors tend to adapt their own facilities or try to develop capabilities to exploit the tangible or intangible resource from its supplier or customers. As an example mutual adaptation may consider tangible assets such as machinery, building or land, but it could also be related to intangible assets, for instance intellectual property or know-how. The major advantage of resource adaptation is that it tends to be more efficient related to resource usage (Ford et al., 2008, p. 14). Moreover scholars point out "*that the systematic confrontation of resources also underlies the development of new joint resource combinations in the process of innovation*" (Ford et al., 2008, p. 14), revealing the advantages of resource ties between suppliers and buyer. Whereas changing resource ties, may require business actors to have a certain level of technical knowledge in order to take part in development projects, which consider learning and teaching as primary tasks (Ford et al., 2011, p. 85).

The final layer, Actor bonds, from conceptual framework determines the network position of the business actor involved in the process of interaction (Ford et al., 2011, p. 85). The network position of the business actor could be investigated, for instance by the number of suppliers and the relational involvement with them, which tend to be good indicator for the actors network position (Ford et al., 2011, p. 85). Network position is predominately affected by the interaction between suppliers and buyers, which will change or alter related to the intensity of interaction. Similarly the bonds between the actors characterize how they interact and how they pay particular attention and interest on the counterparty. As a result this aspect consider that the business actors becomes *mutually committed* (Hakansson & Snehota, 1995, p. 45). But, noteworthy in this context is that the atmosphere of the relationship plays also a significant role in the relationship. The interaction approach already suggested some core factors, which influence the relational atmosphere is the interacting business actors. The ARA framework comprises similar determinates for describing the atmosphere, and these are, level of trust and commitment and on the contrary factors like power, conflict and control (Ford et al., 2011, p. 85; Hakansson & Snehota, 1995, p. 45. Previous chapters already stated, that the atmosphere is affected and affects the relationship of the business actors. In case the relational atmosphere of the ARA framework suggest that actor bonds have "*an effect on what the parties know about each other and what they can exchange*" (Hakansson & Snehota, 1995, p. 45).

Before moving on to describe the layers of the framework, it is wise to discuss briefly the broader similarities and the differences between the ARA framework and the interaction model, which was discussed in the previous chapter. On a general perspective, if both frameworks are compared, it seems that they are independent. But they have actually some similarities, which need to be considered to understand the general concept of interaction. The scholar from Medlin and Törnroos (2011) also tried to identify the commonalties, by integrating both models into one framework, and their findings reveal that there is a possibility of nesting the interaction model within the ARA framework (Medlin & Törnroos, 2011, p. 2). This is especially the case when the core, the interaction process within the interaction framework is observed. Having determined the core of IMP`s theory related to the discussed conceptual framework, the next step is to identify, the empirical evidence of the theory.

2.6 Empirical Evidence of IMP Theory: Confirmation of Strategic Validity but Fail to Meet Conceptual Applicability in the 21st Century

The basic idea of IMP´s theoretical framework was to develop a model, which could be used, to study the interaction of business actors (Hakansson, 1982, pp. 22-23; Ford et al., 2008, p.2). Since now the IMP theory almost survived decades of managerial and academic scrutiny (Sood & Pattinson, 2011, p.2). But what about the validity and applicability of the framework, even in the 21st century, where social media (e.g. Facebook, Twitter, Blogs) plays a dominant role related to interaction processes. Whereas, "*The increasing dependency of consumers on social media spills not only into business but also into communications between businesses*" (Sood & Pattinson, 2011, p.2). By putting this into relation with the IMP theory it becomes clear, why this issue could be a major problem for the applicability of the interaction framework. The interaction model was introduced in 1982, within the field of marketing and purchasing, at that point in time face-to-face interaction was the major source of communication. Nowadays business partners tend to communicate and source via social media, by primarily using transactional systems (Sood & Pattinson, 2011, p.2). The process of interaction and relationships between business actors has changed and shift towards the usage of social media. Bearing this in mind there is a significant call for the modification of IMP`s conceptual framework to cope with new edge communication patterns. Pattinson and Sood (2011) claim that the model is simply outdated and they especially propose a Social IMP Model or Social Media Interaction Framework.

The process of internationalization and globalization of markets is a major topic among researchers. Various scholars explain the importance of globalization and existing marketing and purchasing literature emphasize the implications for global businesses (Monczka et al., 2010, p.187; Hsu & Pereira, 2008, p.188; Casson, 2013, p.8; Chen et al., 2012, p.1544; Quintens et al., 2006, p. 170; Trent & Monczka, 2003, p. 26). Theories and business models need to take also into consideration the process of internalization. There might be the possibility that the theory lacks validity if the initial environment, on which the theory was developed, has ultimately changed. This is especially the case for the IMP theory. While the IMP theories literature provides interesting insights about relationship management in the western world they are actually neglecting the focus on international relations. Gemünden (1997) argue that the IMP theories are dealing with "*less and less international themes*"(p. 9), this is also claimed by Fang & Kriz (2000) they argue that the IMP theories "*could be accused of loosing touch with business reality*" (p. 3) because, they ignore the culture influence in their theoretical concept. Fang & Kriz (2000) claim that the IMP´s major mission is to focus on relationships between organizations and if this is true they have "*to face up to the reality that culture always exists in the background through its fundamental impact on the behavior of people who are at the center of business relationships"* (p. 3). The application of the IMP theory was majorly on organizations from western countries. Wilson and Brennan (2010) also reinforce the viewpoint by arguing that the literature on theoretical reflection of IMP considers particularly the "Western" perspective, without broadening the horizon by including also Asian countries in their prospects (Brennan & Wilson, 2010, p.12). Moreover they point that the IMP theories generally override the impact of cultural diversity, as an example the conceptual part neglects the personal connection "*guanxi*", which plays a significant role within the Chinese mentality. The major claim of the authors' is that the IMP´s theory should also be applied on Asian countries and in general the focus of the theoretical application should shift to an international basis.

While IMP scholars provide interesting empirical findings in the field of relationship management, they neglect overall contributions to specific scholars, on management strategies. Baraldi, Brennan, Harrison, Tunisini and Zolkiewski (2007) tried to explore the claim, by comparing the IMP theory with five important schools of thought in strategy. The empirical findings in their scholar "*Strategic thinking and the IMP approach: A comparative analysis*" predominately illustrates that that there is a high degree of similarities, in terms of strategic processes and methodological applications, between the school of thoughts and the IMP theory (Baraldi et al., 2007, p. 879). Even if the focus of the IMP theory is on relationship management, similarities could also be found to key strategic models from Igor Ansoff, Michael Porter and Henry Mintzberg (Baraldi et al., 2007, pp. 890-891). The empirical evidence reveals that the IMP theory has a broader focus than assumed with encompassing many perspectives including the ability to explore management strategies. Paliwoda (2011) emphasize the importance and scientific validity of the IMP theories by pointing out "IMP has established a tradition of challenging, investigating, sharing and discussing findings (…)" (p. 1055). Moreover he reveals in his scholar "*Critically evaluating the IMP research contribution*" that IMP`s interaction model was an enrichment for academia and practitioners to understand the processes and elements within end user markets. Thus the IMP theory is a valuable contribution and this will be tested in the next chapter on exploring the applicability of the IMP theory on critical purchasing decisions.

2.7 IMP`s Application on Critical Purchasing Decisions

2.7.1 *IMP´s relational atmosphere as major support for decision-making*

The major aim of this section is to explore the possible application of the IMP theory on the predefined critical sourcing decisions within supply management. This section will try to relate the main ideas and from the theoretical concept of the IMP theory to the four basic purchasing decisions, which had to be made during a purchasing year. As a starting point it is wise to recap the core of the IMP´s theory to. The general idea of the IMP theory is to analyze business relationships by considering the process of interaction between business actors. The interaction process affects and is affected by the relational atmosphere, including the factors: power-dependence, competition-corporation and distance-closeness. These factors play a major role when classifying the characteristics of the relationship between the business actors. Similarly relationships between supplier and buyers have also significant characteristics or business patterns, which play a major role within in the field of supply chain management. Therefore the following sections will try to identify if there is a possible application of the IMP theory on critical purchasing decision.

2.7.2 Make-or-Buy Decisions: Rather In-house Production than Sourcing from External Providers

The first decision point considers the make or buys decisions, which especially deals with the decision, whether to produce an item in house or source it from external providers. Make or buy decisions basically determine the level of vertical integration of a given company, and decisions are majorly related to which activities the company will perform in-house and which are done by external providers (Walker & Weber, 1984, p. 374). IMP`s contribution on make or buy decisions is relatively limited, since the decision is majorly related to demand planning and it requires more convenient methods, for instance a spend analysis would be more appropriate in this case (Wagner, 2005, p. 139; Kilger & Wagner, 2008, p. 133). But there is the possibility that the IMP theory could guide the purchasing manager towards choosing the right supplier if outsourcing is performed. The IMP theory is concerned about the broader strategic purchasing problems, for example, it points out that intensive interaction or in general close relationships between suppliers and buyers will create the opportunity to access and exploit the resources of the counterparty, which implies also the linking of activities and resource based processes (Hakansson & Snehota, 1995, p. 45). Therefore if a decision is made to source from an external provider, the IMP theory reveals that organizations should rely on external providers rather than producing in house. The argument is based on the reasonable chance that organizations may create beneficiaries through access and linking activities, which increase also the overall efficiency of both, supplier and buyer. This might be reached through knowledge sharing or specific process orientation (Hakansson, 1982, p. 26). Moreover it could be argued that in house production bears the risk of being, locked in into a specific technological process, which could hinder future developments of the organization (Hayes and Abernathy, 1980, cited according to Gadde & Håkansson, 1994, p. 28).

But it set also the assumption that the relationship needs to develop over time to reach a status of adaptation or cooperation. Next to this, IMP´s conceptual framework is deeply rooted in school of thoughts on micro-economic theories, and especially the common ground of IMP`s concept was build upon Williamson`s (1979) theory of transaction cost analysis. This grounded theory was already discussed in a previous chapter, but the current discussion makes it necessary to reinforce the core idea, which states that transaction cost will only occur if a market transactions or exchange takes place (Allen, 1991, p. 912). This notation is in so far important since, the decision on performing activities in house or sourcing for externalities bear also transaction costs. Especially, this aspect is also treated within the scholar from Hakansson and Snehota (1995) suggest that interaction costs could be neglected if business actors develop closer connection and interaction, so that beneficiaries outperform transaction costs**.** The authors also point out that a closer relationship has the advantages of efficient handling of distribution, negotiations and administration (Hakansson & Snehota, 1995, p. 30). Noteworthy in this context is that IMP`s core concept is build on the interaction element, which is characterized by four major types of exchange (Figure 1). The most important type to consider for a make or buy decision is the social exchange between business actors. The exchange is characterized by uncertainty (Johanson & Mattsson, 1987, p. 44). Similarly uncertainty plays also a paramount role within demand planning, and the IMP theory point out that exchange processes will differ related to the level of uncertainty about the requirements or resources of the counterparty (Håkansson, 1982, p. 23; Walker & Weber, 1984, p. 374). Moreover the theory argues that there is a need for closer connection with the counterparty, in order to " *reduce the uncertainty associated with that input or output by increasing its control over the other company"*(Håkansson, 1982, p. 30). Thus related to demand planning it will increase the control over the counterparty and improve the chances of a business actor to forecast and determine, to a certain level supply risk (Håkansson, 1982, p. 30).

2.7.3 Selecting Sourcing Strategies: Source Through Strategic Lever or Rely on Power- Dependence Characteristics

This section set the focus on the second decision point, categorical sourcing strategies, by considering the selection of an appropriate sourcing strategy determined by specific tactical levers. Kraljic (1986) developed a matrix to allow purchasing managers to put a certain commodity into a specific sourcing category (Cousins & Spekman, 2003, p. 47). If the application is performed with making use of the possible contribution of the IMP theory, the first issue need to be considered is that theory states that relationships should seek for mutual adaptation. Customers and suppliers will exploit efficiency improvements through mutual adaptation, this again will lead to cost reduction and increased revenue streams for both (Ford et al., 2011, p. 85). Moreover, the IMP theory also predefines that resource ties are majorly build to identify new ways to integrate and develop the resources of customers and suppliers (Ford et al., 2011, p. 85). This is also in line with choosing the right supplier to build strong resource ties, by exploiting the suppliers' physical and/or intellectual resources (Ford et al., 2011, p. 85). Therefore the choice of the strategic lever is beneficial, since resource ties, activity links and actor bonds also emphasize the focus on product optimization, supplier integration and process improvement (Schiele et al., 2011, p. 330; Ford et al., 2011, p. 85). Accordingly, if this information is used to determine one specific sourcing lever, the choice should made upon the strategic lever, which is the most appropriate choice since it focus predominately on partnership and emphasize the increased role of a specific supplier in a relationship. The strategic lever is also considered, when both business actors are dependent on the operations from the counterparty, which is also known as mutual dependency (Caniels & Gelderman, 2005, p. 144). On the contrary, bottleneck items are characterized by low value and market complexity, thus firms should seek to assure supply continuity (Kraljic, 1983, p. 111-112). Similarly the IMP theory also states the organizations are dependent on their environment, for instance, on obtaining access to specific inputs or resources (Håkansson, 1982, p. 26). In this case the IMP theory suggest two possible solutions, on the one hand, decrease the level of dependency or just in general avoid overdependence on resources or activities from a certain supplier (Håkansson, 1982, pp. 19-21; Hakansson & Snehota, 1995, p. 30) This may include reducing the uniqueness of a specific supplier or developing contingency plans to reduce the exposure on supply disruption (Tang, 2006, p. 36; Håkansson, 1982, p. 89). In case, it is also advantageous to implement multiple sourcing policies to generate greater freedom of supply (Håkansson, 1982, p. 89). On the other hand, accept the dependency on a certain business actor, if the beneficiaries of the relationship outweigh the drawbacks. As an example the business actor might have important technological know how or the specifications of the product or services require complex manufacturing or service processes, which imply a dependent condition, when there is no alternative source. The condition could be used to exploit the counterparty's physical and/or intellectual resources.

2.7.4 Supplier Selection Strategies: Firm Characteristics Decide Upon Supplier Domination or Self Adaptation

Decision point three implies appropriate purchasing decisions on supplier selection strategies and developing supplier portfolio decisions. The previous section already illustrated that the factor dependence is critical in selecting an appropriate sourcing strategy. But in this section not only dependence plays a major role but also the power of a business actor is important to consider, when selecting a potential supplier. IMP´s theoretical contribution towards supplier selection is given by the identification of the characteristics of business actors. The previous chapters already stated that there are two types of characteristics of business actors, and these are classified into firm size and technological advancement. If potential supplier selection is performed according to the IMP theory the decision should be based on technological capability and firm size. Whereas, technical issues could be seen as critical success factors in buyer-supplier relationships, this is also underlined by Gadde, Huemer and Hakansson (2003), who point out "*When it comes to technical development, each individual firm is also increasingly reliant on relationships with others"* (p. 359). Furthermore, the resource ties within IMP´s theoretical framework also suggest that technological issues are important to consider, since suppliers need to hold the required technical knowledge to build strong ties (Ford et al., 2011, p. 85; Håkansson, 1982, p. 11). If the technological expertise between supplier and buyer is separated on a high level this will have major implications on the relationship. Exemplary, the company, Bang & Olufsen hold relationships with system suppliers for significant joint technological development and key suppliers who provide key technologies, which are important for B&O`s final operations and products (Ford et al., 2011, p. 85). Therefore, supplier's technology advancement is a key indicator on potential supplier selection. But the technical perspective alone is not sufficient to determine an appropriate supplier selection strategy. Therefore, the firm size reveals the ultimate power of a supplier and should be take into account, when selecting a potential business partner (Håkansson, 1982, p. 27; Monczka et al., 2010, p. 167). The IMP theory suggest that in the process of interaction there might be possibility of a power-dependence relation between counterparties, whereas the power of business actor A over B is directly related to dependence of B on A (Håkansson, 1982, p. 30). By applying this issue on the current discussion on supplier selection, the IMP theory suggests two distinct ways of possible supplier selection. The first, if the firm has enough power, measured by technological advancement and firm size, they should seek to dominate the supplier and minimize their own dependencies (Caniels & Gelderman, 2005, p. 142). This is true when the organization intentionally choose smaller supplier to exert greater influence, and especially when the organization hold a large share of suppliers total business (Monczka et al., 2010, p. 179). On the contrary if the company knows upfront it is a supplier-dominated relationship, the company should try to adapt its own facilities in terms of technological and operational processes (Ford & Håkansson 2013, p. 1023; Ford et al., 2011, p. 85). This constellation is also known as a locked-in-partnership, where the buyer has an unfavorable position compared to the supplier and is unable to eliminate the situation (Caniels & Gelderman, 2005, p. 144). But the IMP theory also reveals that there might be the possibility that buyer and supplier have a conditional relationship of mutual dependency. If this issue is known upfront, the buying organization is more likely to seek for cooperation rather than for cut throat competition, which is generally the case in the leverage quadrant (Caniels & Gelderman, 2005, p. 144).

2.7.5 Supplier Negotiations: Power – Equality or Power-Inequality Dictate Negotiation Tactics

The final decision point is related to supplier negotiation and contract awarding. Previous section already provides insights of the possible applicability of IMP´s theory on make-or-buy decisions, sourcing strategies and supplier selection. This section especially deals with possible negotiation tactics and the decision on suitable contract types. IMP´s contribution on negotiation tactics is rather limited, it don't offer specific guidelines for negotiation tactics, therefore the issue is dealt more objectively by illustrating possible decision. Starting with negotiation, the term could be defined as "*the decision-making process through which a buyer and a seller establish the terms of a purchase agreement*" (Pedue & Summers, 1991, p. 175 cited according to Dobler et al., 1990, p. 212). Negotiation tactics employed by the buyer could be broadly classified in two major areas: Problem solving and aggressive bargaining (Pedue & Summers, 1991, p. 176). The contribution of the IMP theory in negotiation tactics is related to previous discussion on power-dependence relationship. Negotiation power is an important element to consider than it will give one party a favourable position over the other and the probability will increase to achieve the predefined objectives. When a business actor has enough power, in terms of firm characteristics, the negotiation tactic is basically aggressive bargaining, which is also in line with the leverage strategy to exploit purchasing power (Caniels & Gelderman, 2005, p. 142; Kraljic, 1983, p. 111-112). Whereas, power-equality between negotiating counterparties, they will make use of problem solving tactics, then the outcome is more likely a corporation or mutual adaptation with the focus on an intensive interaction in the future. Since more or less both parties are dependent on the activities from the other party. The second option will be more favourable for both business actors, in order to reap beneficiaries in terms of resource ties and activity links. The following table summarizes the main findings of IMP`s contribution on the four purchasing decisions.

Table 1: Summary of the contribution of the IMP theory on critical purchasing decisions

Theory	Decision Points in Supply Management			
	Make-or-buy decision	Selecting specific sourcing strategies for each commodiry	Selecting supplier and making supplier portfolio decisions	Supplier negotiations and awarding contract
IMP Theory	Build resource ties: Rely on external providers to exploit physical and itellectual resources	Favourably: Souring through strategic category or rely on power-dependence characteristics	Dominate supplier if power inequality exists, otherwise go for adaptation	Objective view: Power-equality or power-inequality dictate negotiation tactics

3. DESPITE SOME LIMITATION THE IMP THEORY REVEALS AS A USEFUL TOOL TO DECIDE ON CRITICAL PURCHASING DECISION.

It has become increasingly important to understand how the relationship and interaction between business partners predominately affect the purchasing decisions made within the field of supply management. Several scholars emphasize the function of business relationship and maintaining and managing theses relationships could be described as a key function, which significantly affects the efficiency and effectiveness of an organization. The results of the theoretical application of the IMP theory on purchasing decisions provides significant new insights for supply management. The core of the theory lies in the interaction between business partners, which affects and is affected by the surrounded atmosphere. Whereas IMP`s theory is grounded on two major frameworks, the Interaction model and the ARA approach, both describe the key variables and their interrelation. These variables and the relation between these variables build the basic element for exploring the possible application on the four purchasing decision points, which is actually the major purpose of the current thesis.

The main body of the thesis especially dealt with the operationalization of the key variables from the IMP theory. These theoretical foundation was used to explore the application possibilities of predefined key purchasing decisions, which could be classified as: make or buy decision, the selection of sourcing strategies for commodities, supplier selection strategies and developing supplier portfolio decisions, and supplier negotiation and contract awarding. Then the final part tested the possible application of the IMP theory on the decision points.

The first decision point, the make-or-buy decision is one of the most important factors to consider when performing demand planning. Here, the IMP theory contribution is given by determining the appropriate choice between in-house production or sourcing from external providers. The IMP theory suggests that it is more beneficial to source from external providers, since there is the opportunity to access and to exploit the resources of the specific counterparty. This will result in a higher level of interaction, which than in turn will lead to mutual adaptation. Next to this in-house production bears the disadvantage of being locked into a specific technology, which hinders the development of the organization. Considering all the points the IMP theory reveals that organizations should rely on external providers and neglect in house production.

IMP`s contribution on the second decision point is generated through giving advise on selecting a specific sourcing category. The Kraljics (1986) matrix is widely held as one the most appropriate frameworks to put commodity groups into specific sourcing categories. In this case especially the strategic category was the major lever, which was advised by the IMP theory. This advice is primarily related again to the implication that business actors seek for mutual adaptations and try to build strong resource ties. However the characteristics of business actors tend to influence the sourcing strategy, which implies that power and dependence are also key indicators for the choice of a specific sourcing category.

Decision point e is related to the right type of supplier selection strategy. IMP´s contribution related to this decision point is a power-dependence relation is the major indicator for selecting an appropriate supplier. If the firm has enough power in terms of firm size and technological advancement it should select suppliers, which could be dominated and if not they should seek for cooperation to exploit suppliers physical and intellectual resources.

The final decision point considers is related to negotiation and contract awarding. This decision point was dealt more objectively, since the IMP theory didn't offer any specific negotiation tactics. Therefore, if one business actor has enough power he should basically use aggressive bargaining and if there is power-equality between negotiating partners, they will use problem-solving tactics. According to the IMP theory the choice is dependent on the firm characteristics.

Despite some limitation the IMP theory reveals as a useful tool to decide on critical purchasing decision. But noteworthy in this context is that the study also has obtained critics from different scholars. One aspect of the theory, which has been criticized from Hedaa and Törnroos (2007), was the claim, if companies as business actors could create and have an "atmosphere" with other business actors as a result of interaction processes (Hedaa & Törnroos, 2007, p. 5). Moreover they argue that the concept of the relational atmosphere was not been fully studied to a notable degree (Hedaa & Törnroos, 2007, p. 7). Similar critics were made by Möller and Wilson (1991) who claim, "It is obvious that atmosphere is a complex construct which has yet to be fully conceptualized and operationalized" (Möller and Wilson, 1991 cited according to Hedaa & Törnroos, 2007, p. 5). But within the current thesis the relational atmosphere was operationalized to a certain degree with explaining all the interconnection between the elements and variables. As a result the framework especially considered being a useful tool to guide both, purchasing managers and practitioners in decision-making processes. Whereas future research could try to investigate additional factors which may influence the interaction and relation between business actors. To guide future researchers, they may investigate the external influence on the business interaction and the applications of the purchasing decision, e.g. such as market structure or internalization.

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