IMS-Research Paper No. 4

The Implementation of Relationship Marketing
A Relationship-Based Examination of the EFQM-Model

Friese, A.; Funck, D.

Göttingen 2001

ISBN: 3-925327-68-1

Göttinger Handelswissenschaftliche Schriften e.V.
Konrad Adenauer Straße 10
37075 Göttingen

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Table of Abbreviations

B2B	Business-to-business
Cp.	Compare
EDI	Electronic data interchange
Eds.	Editors
EFQM	European foundation for quality management
E.g.	Exempli gratia
Enl.	Enlarged
EOQ	European organisation for quality
Et.al.	Et alii
Etc.	Et cetera
EURO	European union single currency
4 P's	Product, price, place, promotion
FTM	Full-time marketer
Ibid.	Ibidem
IMP	Industrial marketing and purchasing group
IMS	Integrative management systems
IN	Interaction/ network approach to industrial marketing
ISO 9000	International organisation for standardisation (quality management)
ISO 14000	International organisation for standardisation
Ltd:	Limited
MBNQA	Malcolm Baldridge national quality award
MS	Management system
No.	Number
P.	Page
PP.	Pages
Resp.	Respectively
Rev.	Revised
RM	Relationship Marketing
Vol.	Volume
W.p.	Without page

1. Introduction

1.1 Problem area

Over the past 15 years, a change has occurred in the way companies approach their customers and suppliers. More and more firms are beginning to realise that their most important assets are human assets – their customers, employees, suppliers and investors.[1] What has been neglected before, is now not only of central concern to business practitioners but also marketing researchers – namely how can a company attract and develop the right human assets and earn their loyalty? Loyalty is conceived to be of critical importance as a measure of value creation and as a source of growth and profit for any company.[2] Achieving and sustaining competitive advantage in an ever more global economy requires not only loyal customers but also a network of reliable partners. In today's world of rapid technological, political and social changes and faced with saturated, stagnant or shrinking national and international markets, a company's human assets become crucial for survival. Especially in services marketing, the significance of retaining customers has early been recognised as vital for organisational success. Also in industrial marketing, new developments are under way. Terms to describe the shift in thinking are: strategic alliances, strategic partnerships, channel partnerships, just-in-time partnerships and the like.[3]

These changes require a new analysis of present marketing approaches. Although marketing's position as market-oriented, integrated management is not questioned, the need to recall and concentrate on core elements of marketing is emphasised.[4] While the traditional marketing mix approach – a stimulus response model on exchange – focused it's attention on the allocation of resources, a (back) shift towards the creation of resources through **interaction** is demanded and overdue[5]. The idea of exchange relationships between market participants with a clear focus on interaction is stressed in a new/ old approach to marketing called Relationship Marketing. Relationship Marketing is regarded as an alternative approach to defining what marketing stands for. It revolves around relationships and is aimed at meeting the objectives of the involved parties. It is concerned with relationships between the organisation and it's markets and tries to overcome the traditional narrow, transactional, one-sale-at-a-time view of marketing.

[1] cp. Reichheld, 1996, p.viii.
[2] ibid, p.ix.
[3] cp. Morris/ Brunyee/ Page, 1998, pp.359-360.
[4] cp.Bruhn/ Bunge, 1994, p.47.
[5] cp. Low, 1996, p.23.

1.2 Purpose

As Relationship Marketing as a new concept is gaining momentum, a growing amount of academic research is devoted to multiple relationships. Initially conducted in industrial markets, it encompasses now also services and consumer marketing. But although the body of literature on Relationship Marketing is growing, there is little consensus about the definition and nature of it. It seems to mean different things to different researchers and moreover, it also appears to mean different things to different organisations.[6] Even though there is a general conscience about the importance of collaboration in the market place, changes are as yet attitudinal rather than behavioural. Firms are approaching relationships more tactically than strategically. Informality with respect to relationships is prevailing – structural agreements, formal goal setting or mutual mechanisms for measuring performance satisfaction are the exception rather than the norm. Companies are regarding relationships as a source of competitive advantage - just as flexibility. They want closer linkages to customers while, on the other hand, trying to keep their options open. Rarely, they define different types of relationships for different categories of customers and partners. Rather they have a general notion of relationships and apply it to all relationships partners. In short, relationships in practice are not approached systematically, they involve little in the way of non-retrievable investments and have resulted as yet in only modest infrastructure changes (organisational design) on the seller or buyer side.[7]

Just as the companies' efforts towards Relationship Marketing lack a clear strategic approach, academic research lacks clear advice as to the implementation of Relationship Marketing into a company's value base, strategies and structures. The purpose of this paper is therefore to find means to support a company in systematically applying and deploying Relationship Marketing. For this reason, it will be examined if Relationship Marketing can be implemented into a firm by means of an established management model. Such a management model could serve as a tool to implement Relationship Marketing into a company's actual strategies, structures and processes. For this purpose, the EFQM-model for business excellence will be introduced and subsequently examined as to whether it encompasses Relationship Marketing or not. Moreover, suggestions will be provided for the modification of the EFQM-model in order to fit Relationship Marketing demands.

[6] cp. Morris/ Brunyee/ Page, 1998, p.360.
[7] cp. Morris/ Brunyee/ Page, 1998, p.369.

1.3 Structure

Following the introduction, the Relationship Marketing approach will be introduced in chapter 2. After a short review of it's history, different definitions will be given and the concept will be delimited from transactional marketing. Further on, a look will be taken at the scope of market domains which can be subject to Relationship Marketing. A Relationship Marketing concept will be introduced, involving RM objectives, strategies and instruments. Subsequently, different theoretical approaches will be introduced which have contributed to the concept – namely behavioural approaches, the interaction/network approach to industrial marketing and two examples of new institutional economics theories. Further on, seven key factors of Relationship Marketing will be introduced. These factors are indispensable features which ought to be considered in a company that aims at encompassing Relationship Marketing. Following, a critical assessment of the current state of discussion will be provided and it will be pointed out, that Relationship Marketing can be understood as Relationship-oriented Management. It will be concluded that Relationship Marketing cannot be restricted to the organisational unit "marketing" – instead it affects all organisational units and layers and must be implemented into a company's value system, strategy and policy and processes – hence into it's management system.

In chapter 3, the term management system will be defined and practical implications of management systems will be explained. Following, the need to integrate different aspects (quality, environmental protection, occupational health and safety) into one management system will be explained. The EFQM-model for business excellence will be outlined and a look will be taken at the European Foundation for Quality Management, the European Quality Award and the model itself. It will be explained why the EFQM-model could be used to integrate different aspects and why it can be regarded as a helpful tool for the implementation of Relationship Management.

In chapter 4, a close examination of the criteria and sub-criteria of the EFQM-model with respect to the Relationship Management factors will be carry out and it will be determined whether these factors are implicitly or explicitly part of the model. It will moreover be explained, why and to what extent these factors should be included in the model.

In chapter 5, the results of the examination in chapter 4 will be presented and a résumé will be drawn. Following, a general assessment as to the aptitude of the EFQM-model to integrate Relationship Management will be given and suggestions for the modification of the model towards a Relationship Management model will be provided. This will be concluded by an outlook in chapter 6.

2 Relationship Marketing

2.1 History

The history of marketing thought dates back to only the early 1900s.[8] The relationship orientation to marketing, however, can be traced back to prehistoric times. Already in the earliest days of mankind, mutually beneficial relationships were at the heart of trade and exchange.[9] Back then, consumers and producers gathered together face to face to trade products. Direct interaction called for reliance and trust among these marketing actors. Ongoing trade relationships sometimes continued for generations as producers and customers trusted each other's families and clans.[10]

Only with the beginning of industrialisation, personal relationships between producer and customer became superfluous – they were no longer necessary nor possible. Instead, mass production, selling to an anonymous market and standardised ways of approaching and treating customers evolved. Very recently, however, a rethinking among practitioners and researchers alike has started. Due to several environmental and organisational development factors, a rebirth of direct relationships between producers and consumers has taken place. These factors are (1) rapid technological advancements, especially in information technology, (2) the rise and adoption of total quality programs by companies, (3) a growing service economy, (4) organisational development processes leading to empowerment of employees and teams and (5) an increase in competitive intensity which shifts the focus towards customer retention.[11]

Already in the late 1970s, the need to formally market to existing customers to secure their loyalty was recognised in services literature.[12] Berry, however, was the first one to use and thereby establish the phrase "Relationship Marketing[13]". He defined RM as *attracting, maintaining and – in multi-service organisations – enhancing customer relationships*[14]. He regarded the attraction of new customers as only an intermediate step in the marketing process. Turning indifferent consumers into loyal customers and solidifying these relationships were at the core of marketing.[15]

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[8] cp. Meffert,1998, p.3.
[9] cp. Owusu, 1997, p.4.
[10] cp. Seth/ Parvatiyar, 1995, pp.403-405.
[11] ibid, pp. 406-411, cp. also Palmer, 1994, pp.571-572.
[12] Berry, 1995, p.236.
[13] Following, the appreviation RM will be used for Relationship Marketing.
[14] cp. Berry, 1983, p.25.
[15] cp. Berry, 1983, p.25.

The services marketing literature with authors like Grönroos, Gummeson or Levitt was among the first to start research on RM.[16] Also in the 1970s, research on industrial relationships and networks of exchange relationships started – mainly carried out by the Industrial Marketing and Purchasing Group (IMP) including authors like Hakansson and Snehota. Consumer behaviour studies on brand/supplier loyalty even date back to the late 1960s. From the mid 1980s onwards, driven by a rapidly developing information technology, one-to-one marketing in form of database and direct marketing activities evolved.[17] Nowadays, RM is said to be at the forefront of marketing practice and academic marketing research.[18]

2.2 Definitions

By now, many marketing practitioners and scholars have contributed to the subject and have added to the world-wide discussion on RM. Currently, very different sets of ideas and theoretical frameworks are covered by the RM-concept.[19] Some authors refer to RM as a marketing tactic to attract and retain customers, others regard it as a new marketing paradigm but for most RM scholars it means a strategic choice.[20]

Grönroos, for example, defines RM as: *the process of identifying, establishing, maintaining and enhancing relationships**[21] *with customers and other stakeholders*[22] *at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises.*[23] According to the author, this definition represents a fundamental shift in the way of looking at marketing as a phenomenon as compared to the marketing mix.[24]

Ballantyne claims that RM is a new school of thought. He describes RM as: *an emergent disciplinary framework for creating, developing and sustaining exchanges of value*, between the parties involved, whereby exchange relationships evolve to provide continuous and stable links in the supply chain*.[25] While he stresses the win-win aspect and a long-term perspective* of RM like many relationship-

[16] cp. Bejou, 1997, p.728.
[17] cp. Möller/Halinen, 2000, p.33.
[18] cp. Berry, 1995, p.165.
[19] cp. Möller/Halinen, 2000, p.30.
[20] cp. Li/Nicholls, 2000, p.449.
[21] Following, the symbol ***** will be used to stress key RM-characteristics.
[22] The stakeholder approach was developed in the 1960s in response to the rising influence of non-shareholder groups on corporate life and policies. See: Peck/Payne/Christopher/Clark, 1999, p.24.
[23] cp. Grönroos, 1990, p.138.
[24] ibid, p.140.
[25] cp. Ballantyne, 1994, p.3 quoted in Gummeson, 1999, p.277.

authors, it can certainly be argued whether he is right about RM representing a **new** phenomenon in marketing.[26]

Although there is as yet no agreement on a definition of RM, it is – in a broad view[27] - seen as an attempt to involve and integrate* customers, suppliers and other value chain partners into a firm's developmental and marketing activities. Integrative relationships require overlapping plans and processes and close economic, emotional and structural bonds among the parties involved. Thus, RM represents a clear shift from traditional transaction marketing with arm's length relationships.[28]

2.2.1 Differentiation from Traditional Marketing

As pointed out before, RM is an alternative way of looking at marketing - in contrast to the mass–marketing orientation of marketing mix management. It is not another tool within the marketing mix. Rather, it assumes that marketing is built upon relationships which include on-going transactions.[29] When marketing is seen as based on relationships, new structures for analysing, planning, implementing, and monitoring marketing are needed. This requires changes in existing structures and behaviours.[30] Grönroos makes a number of propositions about the nature of these changes:

1. The traditional marketing mix consists of a number of predetermined decision–making areas (product, price, promotion, place). In RM, however, no such marketing variables can be predetermined. Instead, a firm must use all it's resources and activities that make a desired marketing impact (by creating value and satisfaction), no matter where in the organisation these are located.
2. In RM, not a prefabricated product (as is the case in transaction marketing) but a total service offering is the marketed object. Resources such as personnel, technology, know-how, the customer's time and the customer himself have to be developed and managed during the on-going relationship in order to produce a satisfactory service offering.
3. Marketing cannot be treated as a separate organisational unit. Instead, a RM-consciousness has to be developed organisation-wide. Marketing specialists, however, are still needed for traditional marketing activities but also as internal consultants for *part-time marketers*[31].

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[26] For the history of RM see chapter 2.1.
[27] Proponents of a narrow view restrict RM to customer relationships. Cp. Owusu, 1997, p.7.
[28] cp. Sheth/Parvatiyar, 1995a, p.399.
[29] cp.Grönroos, 1999, p.327.
[30] cp.Grönroos, 1999, p.329.
[31] Gummesson introduced the notion of Full-time and Part-time marketers. FTM's are those, which have been hired especially for marketing and sales tasks. PTM's are all those in the company and it's environment who influence a company's marketing. Cp. Gummesson, 1999, pp.50-51.

4. Because the implementation of RM relies upon the support of these part-time marketers, a firm must create an internal marketing process to help employees understand their marketing duties and to support them in performing in a customer–oriented manner.
5. For RM, a traditional marketing plan is not sufficient. Instead, marketing orientation must be instilled in plans of all organisational units and integrated through a market-oriented corporate plan.
6. An individualised market should form the basis for marketing decisions and activities. Much more detailed and individualised information stored in customer information files or other types of databases must be compiled.
7. Information about needs, desires, expectations and future intentions of customers as well as their quality and value perceptions should be obtained from continuous interaction* between customers and employees. Market research and statistics in the form of market–share statistics and ad hoc studies should only serve as support but not prime source of information.
8. To create an understanding for RM in an organisation and to implement a culture of RM, it may be useful to replace the term "marketing" for a more suitable one, which describes the task of managing the firm's relationships.[32]

If a firm wishes to implement RM, it will have to go through a transition from product-based transaction marketing to relationship marketing. This may begin with easily developed relational activities (customised sales letters, customer clubs, etc.) and reaches an advanced stage, when relationships themselves become prime focus of marketing. Maturity is reached when RM is appreciated as both a philosophy and a way of behaviour.[33]

2.2.2 Focus Groups of Relationship Marketing

Proponents of a broad definition do not limit RM to dyadic supplier - customer relationships but see RM as embedded in a network of multiple relationships.[34] Christopher/Payne/Ballantyne, e.g., identify six markets to which a company has to direct it's RM activities – as set out in their so-called *Six-markets-model*[35].

[32] cp. Grönroos, 1999, pp.329-334.
[33] cp. Grönroos, 1996, p.12.
[34] cp. Gummesson, 1999, p.279.
[35] Christopher/Payne/Ballantyne, 1991, pp.20-31.

Customer markets

The customer market domain is seen as the central market within the model. It is not questioned that customers must remain the prime focus of marketing activities. However, emphasis should be on building long-term relationships rather than on transactional marketing.[36]

Transactional marketing	Relationship marketing
Focus on single sales	Focus on customer retention
Orientation to product features	Orientation to customer value
Short time-scale	Long time-scale
Little emphasis on customer service	High customer service emphasis
Limited customer commitment	High customer commitment
Moderate customer contact	High customer contact
Quality is the concern of production	Quality is the concern of all

Figure 1: Transaction focus and Relationship focus[37]

The customer market domain includes three broad groups:

Buyers – these are direct customers of the manufacturer (i.e. wholesaler),

Intermediaries – are the retailers to whom the wholesaler sells the products,

Consumers – are individuals at the end of the distribution channel.[38]

With help of the *loyalty ladder*[39] different stages of relationship development can be identified:

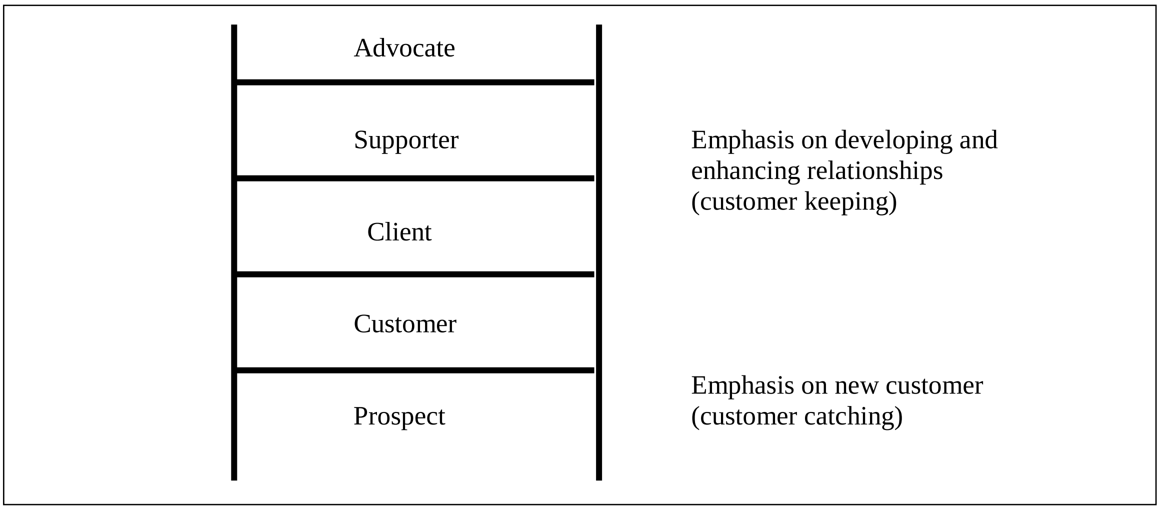

Figure 2: Loyalty ladder of RM[40]

[36] Payne, 2000, p.19.
[37] Peck/Payne/Christopher/Clark, 1999, p.44.
[38] cp. Peck/Payne/Christopher/Clark, 1999, p.34.
[39] ibid, 1999, p.45.
[40] Following a representation of Christopher/ Payne/ Ballantyne, 1991, p.22.

The highest step up the loyalty ladder is to be an advocate of the company. This provides a firm with a strong "mouth-to-mouth"[41] support and may ultimately develop into a relationship. It is important to notice, that it is in no way necessary nor desirable to build a relationship with every customer. The potential life-time value of a customer has to be considered before investing in the relationship and making commitments. It has been suggested by several authors[42], however, that there is a high correlation between customer retention and company profitability (a five percent increase in customer retention can yield an improvement in profitability of 20 – 125 percent). This is due to the fact that sales, marketing and set up costs amortised over a longer customer lifetime, expenditures of customers increased over time, satisfied customers were important sources for referral, they were less price sensitive and more willing to pay a price premium. On the other hand, retaining customers is an expensive task because it includes an increased service level and individual product and service offers to suit the customers. Therefore, careful customer identification[43] (according to lifetime profitability) and elaborate retention programs are needed.[44]

Supplier and alliance markets

In the last years, a significant change has taken place in the way companies view their supplier base and alliances. Alliances are now seen as horizontal partnerships (partners play a value-creating role within the firm's value chain) and suppliers are regarded as vertical partners (suppliers as extension of the firm). Suppliers and alliance partners are linked with the core organisation to create more cost-effective, timely and innovative offers for their customers. To manage these interlocking networks of organisations, some trends have emerged, e.g.: strategic outsourcing, supplier development (suppliers are brought into a firm's planning and strategy formulation process) and supply chain management. The reason for all these measures is to create win-win relationships* in the supply chain. Companies share information on demand and usage (vendor managed inventory) or link information systems (EDI) to achieve cost-effectiveness and competitive advantage. By establishing strong, high-quality relationships, common strategic goals can be pursued and thereby success in the marketplace ensured.[45]

[41] See Zeithaml/ Berry/ Parasuraman, 1993, p.140 for importance of mouth-to-mouth communication.
[42] See Reichheld, 1998, on the economics of customer loyalty and retention.
[43] cp. Goerdt, 1999, p.31-34 for the choice of relationship partners (relationship portfolio).
[44] cp. Peck/ Payne/ Christopher/ Clark, 1999, pp.45-49.
[45] ibid, pp.161-177.

Referral markets

Referrals are those sources that advocate a company by **directly** spreading positive “word-of-mouth”. Referrals include existing customers, networks, multipliers, connectors and third-party introducers which directly recommend a company to prospective customers.[46] According to research findings, customers who respond to personal recommendation as opposed to advertising tend to be of higher quality. They are more profitable and stay with the business for a longer period of time.[47]

Influencer markets

Influencer have a **direct** or **indirect** impact on the organisation such as: shareholders, financial analysts, business press and other media, user and consumer groups, environmentalists and unions. Each of these groups can have a significant influence on the organisation and should therefore be recognised as an essential component of RM.[48]

Internal markets

Every employee and every department in a company is regarded as an internal customer and/ or supplier. Therefore it has to be secured that operations are being optimised so that every individual and every department provides and receives excellent service. Secondly, all members of staff should work together cross-functionally and in a way to support a company’s mission, strategy and goals. Developing responsiveness, responsibility and unity of purpose are considered essential for improved market orientation.[49]

Recruitment markets

This market domain includes all potential employees who possess the required skills and attributes needed by a company. Furthermore, it includes commercial recruitment agencies, universities and other employers who have access to pools of potential employees.[50]

Kotler takes a similar approach towards RM but recognises ten *players* a firm has to establish and manage relationships with. These include distributors, suppliers, end users, the government, media,

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[46] cp. Payne ,2000, pp.20-22.
[47] cp. Reichheld, 1998, pp.48-49.
[48] cp. Payne, 2000, pp.20-22.
[49] cp. Payne, 2000, p.23.
[50] cp. Peck/Payne/Christopher/Clark, 1999, pp.8-9.

finance companies, the general public, etc. Not all of these have to create monetary profit for a firm but some of them are useful in facilitating the functioning of other relationships. For Kotler, building relationships belongs to his *Total Marketing* approach.[51]

Gummesson makes the broadest definition of RM to date. His 30R's model involves a multitude of relationships including not only parties but also properties of relationships. He derives his concept from the classical marketing mix (4P's), the network approach to industrial/business marketing, quality management, organisational behaviour theory and accounting (balanced scorecard).[52] His definition is accordingly a broad one: *RM is seen as relationships, networks and interaction*. Gummesson's 30R's include *classical market relationships* like the customer – supplier dyad but also suppliers' supplier and middlemen. In a second group, he describes *mega – relationships*. These include public authorities, media, political parties – in short: influencer groups which do not specifically belong to the market but have a large impact on market behaviour. A third group of relationships is called *nano – relationships*. These are internal relationships focusing on internal customers, profit centres, owners, investors, etc. Gummesson also introduced the notion of full-time (FTM) and part-time-marketers (PTM). The distinction between FTM's and PTM's has important consequences for the approach towards marketing. It implies that everyone can influence customer relationships and thereby add to the value-creation process. Not only FTM's and PTM's but all market participants are becoming co-producers in RM. Their common objective is to create a greater market value through interacting in relationships.[53]

2.3 A Relationship Marketing Concept

In order to outline the Relationship Marketing approach, it is not only necessary to delimit the concept by means of a definition and by identifying target groups. Moreover, as Grönroos pointed out, a corporate RM-plan is necessary to instill RM in all organizational units. Therefore, relationship goals have to be set and specified, implementation strategies to be determined and RM-instruments to be introduced.

[51] cp. Kotler, 1992, quoted in Owusu, 1997, p.6.
[52] See appendix viii for Gummesson's route to an RM-concept.
[53] cp. Gummesson, 1999, pp.243-245.

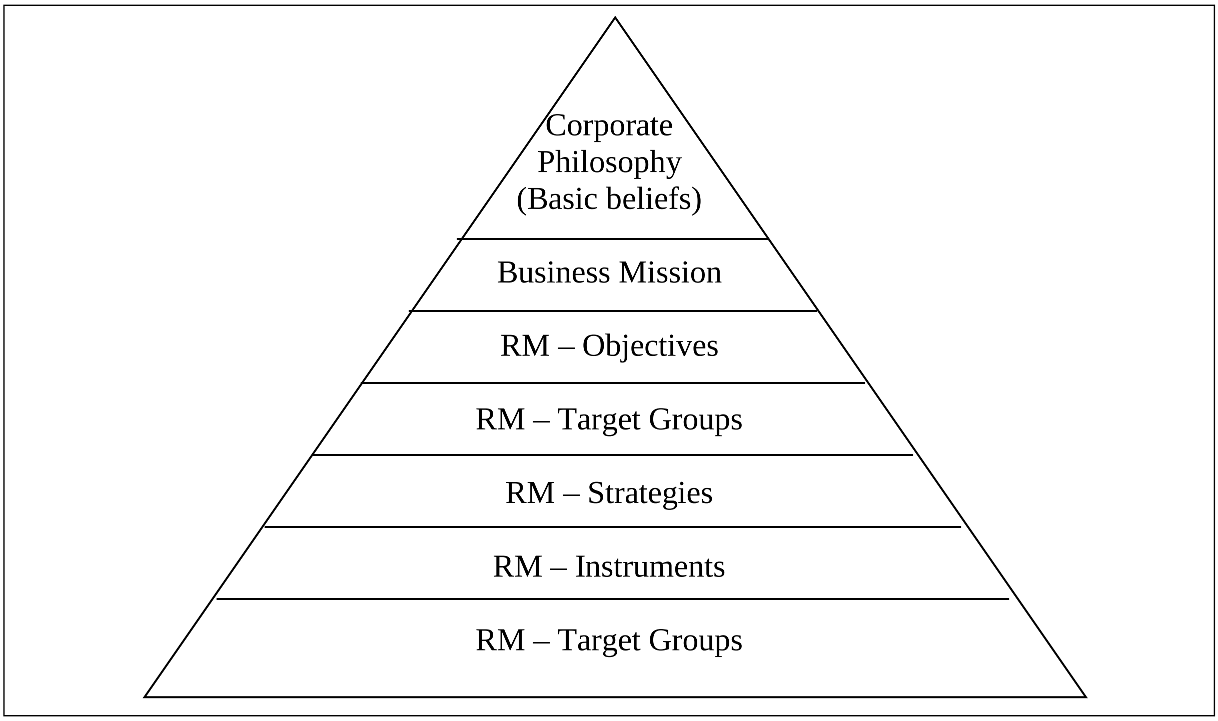

Figure 3: The Relationship Marketing Concept[54]

Corporate Philosophy

A corporate philosophy can be defined as a statement of purpose that distinguishes the organization from other firms and which outlines the scope of the firm's values and beliefs. Within RM, a corporate philosophy is of great significance. It creates a unity of purpose throughout the organization and influences relationship thinking, feeling and acting of all company employees. It provides the "ground" for the development of a relationship – oriented corporate culture. Genuine processes of re-thinking and re-feeling in terms of relationships can be initiated – especially among top-management – with such a philosophy. A corporate philosophy not only helps to legitimize RM but supports it's cultivation organization-wide.

Elements of a RM – philosophy could be:

- Long-term thinking*
- Process orientation
- Network – thinking
- Soft factors (trust, commitment)*
- Pluralism, openness, experimentalism, etc.
- Co-operation*.

A relationship-oriented corporate philosophy is by no means a universal strategy for RM. In addition, corporate planning is needed to activate the ground that has been created by such a philosophy.[55]

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[54] cp. Eckel, 1997, p.92.
[55] cp. Klee, 2000, pp.181-188.

Business mission

The business mission is closely related to a company's philosophy. "Defining the business" is extremely important in order to pin down the global strategic thrust of any organization. The strategic field of operations in product and market terms is determined in this context. However, a fixation only on products is neither sufficient nor indicated. Next to a company's core products (hard/ software), a firm should also offer "brainware" ("experience" for the customer in order to differentiate from competitors) and especially "relationware" (long-term business relationships, which serve as indicators for effectiveness, efficiency and security of exchange processes for the customer). A corresponding business mission is sketched in the figure below.[56]

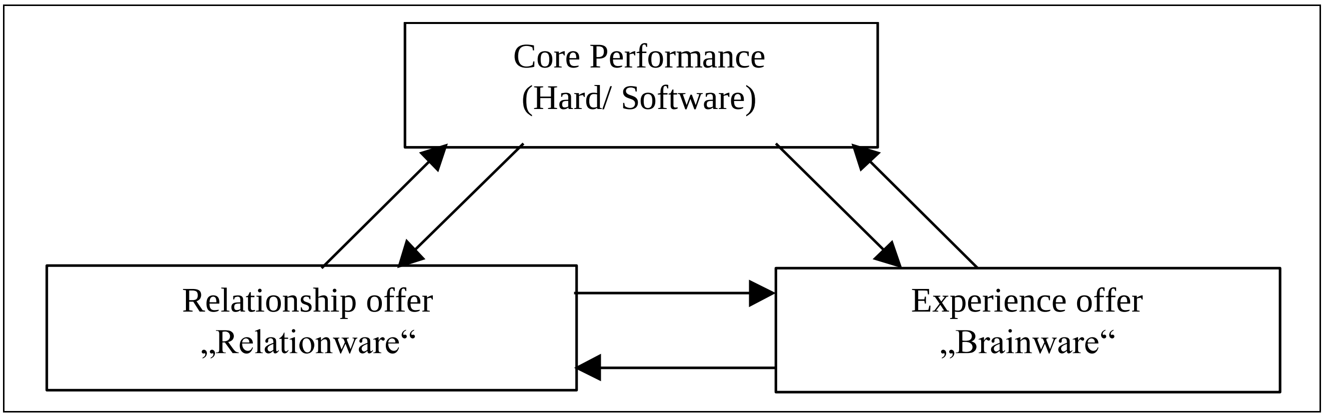

Figure 4: Relationware in the business mission of a company[57]

Primary objectives of Relationship Marketing

The principal objectives of RM are derived from the business mission. As with traditional marketing objectives, a distinction between economical (monetary goals of a company) and psychographical (antecedents for monetary goals which cannot be measured directly) objectives can be useful. Eckel[58] suggests the following economical RM-objectives:

Generation of synergies by

- Decreasing transaction costs
- Saving time
- Relationship security.

Relationships can be used to gain access to resources, which are otherwise not accessible. For example, relationship partners can support the company in entering new markets and thereby help reducing costs. Costs for searching and selecting as well as negotiating with new suppliers can rapidly decrease when relying on a familiar supplier base (for a detailed discussion of transaction

[56] cp. Klee, 2000, p. 201.
[57] cp. Klee, 2000, pp.195-202.
[58] cp. Eckel,1997, pp.102-108.

costs see chapter 2.4). Working time is saved when individual demands of a relationship partner are known and can be anticipated in advance. Secure long-term business relationships also reduce the business risk and serve as a protection against opportunistic behavior (for a discussion of game theory see chapter 2.4).

Psychographical objectives could be:

- Creating co-operation potential*
- Creating information potential
- Creating satisfaction potential
- Creating reference potential.

The willingness to co-operate can be seen as an essential prerequisite for the success of RM. The individualization of the interaction process and an accompanying integration of the relationship partner into the value creation process can only be achieved by means of co-operation. Information is another essential prerequisite, which is primarily gained by interacting with market partners. The value of information which is exchanged between relationship partners is invariably higher than the information received from a short-term transaction partner. Relationship partners know the kind of information sought by the other party. Reliance, validity, precision, relevance and completeness of the information are therefore on principal higher. Satisfaction serves as an antecedent for the stabilization of long-term business-relationships and can hence be regarded as another key goal. The importance of positive word-of-mouth or references is not questioned. A relationship to a well-known opinion-leader can help to demonstrate the quality of the service offer of the company and can serve as a proof of efficiency for potential customers.[59]

Derivative objectives of relationship marketing

These objectives specify the primary goals of RM and can be formulated according to each target group.

Objectives with respect to customers could be:

- Creating attractiveness, trust*, sympathies and appreciation.
- Individualizing the value-creating process and addressing customers personally.
- Integrating* the customer into the value-creating process.
- Decreasing the information asymmetry between supplier and customer.

Objectives with respect to the internal market could be:

- Increasing the acceptance of employees for the fundamental idea of RM.

[59] cp. Eckel, 1997, pp.102-108.

- Training of factual, social and communicative capabilities of employees in order to support internal and external relationship orientation.
- Increase of employee satisfaction and motivation.
- Development of a corporate identity and creation of trust and esteem among employees.

Objectives with respect to suppliers:

- Including suppliers in the corporate planning and decision-making process.
- Individual and emotional care for suppliers.
- Creation of trust*, reliance and competence.

Objectives with respect to other RM-target groups:

- Creation of trust*, awareness and sympathies in the social environment.
- Development of a positive attitude towards the company.
- Open information exchange through personal contact with the social environment.
- Integration* of RM-partners into the planning and decision-making process.
- Creation of a corporate identity that represents social consciousness, engagement and fairness.[60]

Relationship Marketing strategies

Looking at the relevant literature, a wide range of RM-strategies is suggested (Klee for example mentions: the customer stimulation strategy, product strategy, bonding strategy, integration strategy, etc[61]). In the majority of cases, however, these adopt traditional marketing strategies and sometimes only use a different label.

Nevertheless, one such traditional marketing strategy, called market division strategy (as introduced by Becker[62]), seems to be appropriate for Relationship Marketing needs. RM supports a differentiated approach towards customers, suppliers and other stakeholder groups. A market segmentation strategy is therefore indicated in order to fit the demands of each of the relevant RM-target groups. As outlined before, not every relationship is of the same value for a company. Therefore, segments of relationship partners have to be identified according to relative importance. These segments can then be approached with different levels of RM. Without such a segmentation, no precise decisions with respect to the extent and design of RM-measures are possible.

[60] cp. Eckel,1997, pp.108-113.
[61] cp. Klee, 2000, pp.195-202.
[62] cp. Becker, 1993, pp.224-248.

There exist a number of different segmentation methods and quantitative and qualitative criteria which can be used to distinguish segments. One such method, which is based on qualitative criteria, is called relationship portfolio. It uses the Portfolio-approach for the identification of relationship segments.

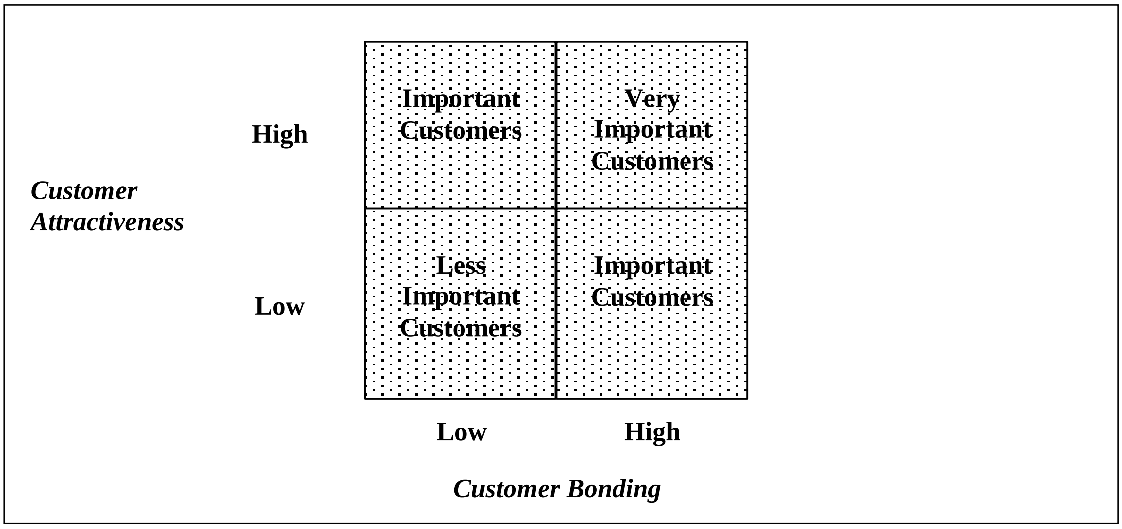

Figure 5: Relationship portfolio[63]

The criteria "customer attractiveness" and "customer bonding" (supplier/ internal customer attractiveness and bonding can be inserted interchangeably) open a two-dimensional room in which different customer groups can be positioned. Very important customers call for intensive relationship cultivation and care. For important customers, the enhancement of personal relationships and an increase of customer attractiveness should be the objectives. Less important customers should receive only little attention as the relationship potential is low and costs of RM-measures would be rather high.[64]

However, relationship portfolios have not been without criticism. Apart from the difficulties which arise with measuring qualitative criteria, such portfolios call for extensive (customer) databases.[65]

Relationship Marketing Instruments

Many authors rely on the well-known 4Ps framework when talking about Relationship Marketing instruments. They use communication (direct marketing, complaint management, customer newsletters, customer cards and clubs, etc.), product (quality management, individual service offerings, etc), pricing (customer credit cards, discounts, etc.) and distribution (electronic ordering, cross selling, etc.) instruments to approach relationship partners on a more individualized basis.

[63] cp. Eckel, 1997, p.124.
[64] ibid, p.124.

Vavra, for example, talks at length about measures (customer information files, events and proprietary magazines) to keep customers satisfied and loyal and calls this "Aftermarketing". All these instruments, though certainly useful in many cases, do not offer a comprehensive solution to the problem.

This paper tries to approach the subject in a different way by looking at the three core elements of any organization: people, processes and technology and how they contribute to successful relationship building, maintenance and enhancement.

People

People are probably the most important factors for a successful Relationship Marketing. Employees are significant as "relationship agents". Especially front desk staff has to handle a multitude of tasks, which are concerned with shaping and cultivating relationships. These employees have to support customers before, during and after the sale. They need sales and marketing skills, telephone courtesy, the ability to solve problems and handle complaints and be stress resistant. Apart from product and service knowledge they need social and communicative competences and a thinking in long perspectives. They need to be good team players.[66] Moreover, they need to be integrated into a company's formal and informal organisation in order to support a corporate philosophy and culture that is directed towards building and maintaining relationships. The same is true not only for front desk but also back desk staff, middle management and, even more importantly, for top management. All these people need to think, feel and act in relationship terms because interfaces to RM-target groups exist almost everywhere within and outside the organisation. This shows the importance of sophisticated human resource management. Employees have to be considered as internal customers. This involves an internal marketing, which not only creates a relationship atmosphere within the organization but which also implies monetary and non-monetary incentives and the possibility to take part in further education.

Processes

Processes can be regarded as a series of related actions which are intended to produce a desired result. A process needs a certain input and produces - by means of transformation - a certain output. An input could be a customer request and the output would be the satisfaction of this request. This may ultimately lead to the bonding of the customer to the company.

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[65] cp. Eckel, 1997, p.125.
[66] cp. Ahlert, 2000, pp.262-263.

As customers are triggering the value creation process, they may as well be involved in this process. They could be a valuable source of information in the process of generating innovative service and product ideas. They may also be involved in the actual product development process and work closely together with the " Research & Development" department. The same is true for suppliers and other stakeholder groups. Additionally, the total service offer should be designed with respect to relationship aspects. The kind of product and service offered directly influences what kind of interaction between the company and the customer as well as other stakeholder groups is necessary and how the interaction pattern will look like. Depending on the kind of the total service offer, a decision has to be made about who is going to sell the product (Sales persons, technicians, maybe other employees of the organization?). The range of additional services offered determines how many departments within the organization have to work together (an inter-organizational network is necessary). By bundling services and products, customers may be forced to buy on larger scales and this automatically increases their buying power and influence over the organization.[67]

A close examination of the value creation process is therefore extremely important in order to find activities which are highly RM-relevant. By analyzing the value creation process, co-operation potential can be unveiled and the integration of relationship partners promoted.

Technology

When a company interacts with customers, suppliers and other stakeholders on a continual and consistent basis, then it is essential that the information collected from these continuous encounters is easily accessible and well-structured to be of use. Technology can, however, only be of help if it provides adequate support for the underlying business processes. Technology has to support processes and the people following these processes. It also has to support interfaces with customers and suppliers, etc. This can be done by means of a contact management system. For example, a specific link at the company homepage can be used by customers to submit an order or a complaint. There has to be link between the customer interface and a database system storing the incoming information. This interactivity can go even further. A technical application called "Computer-Telephony-Integration" (CTI) uses automatic call line identification to directly relate the customers telephone number to the customers existing personal file in the customer service database. This allows for a wide range of opportunities to shape and improve effectiveness and efficiency of business relationships. For the use of customer information see figure 6.[68]

[67] cp. Klee, 2000, p.250-251.
[68] cp. Ahlert, 2000, p.264.

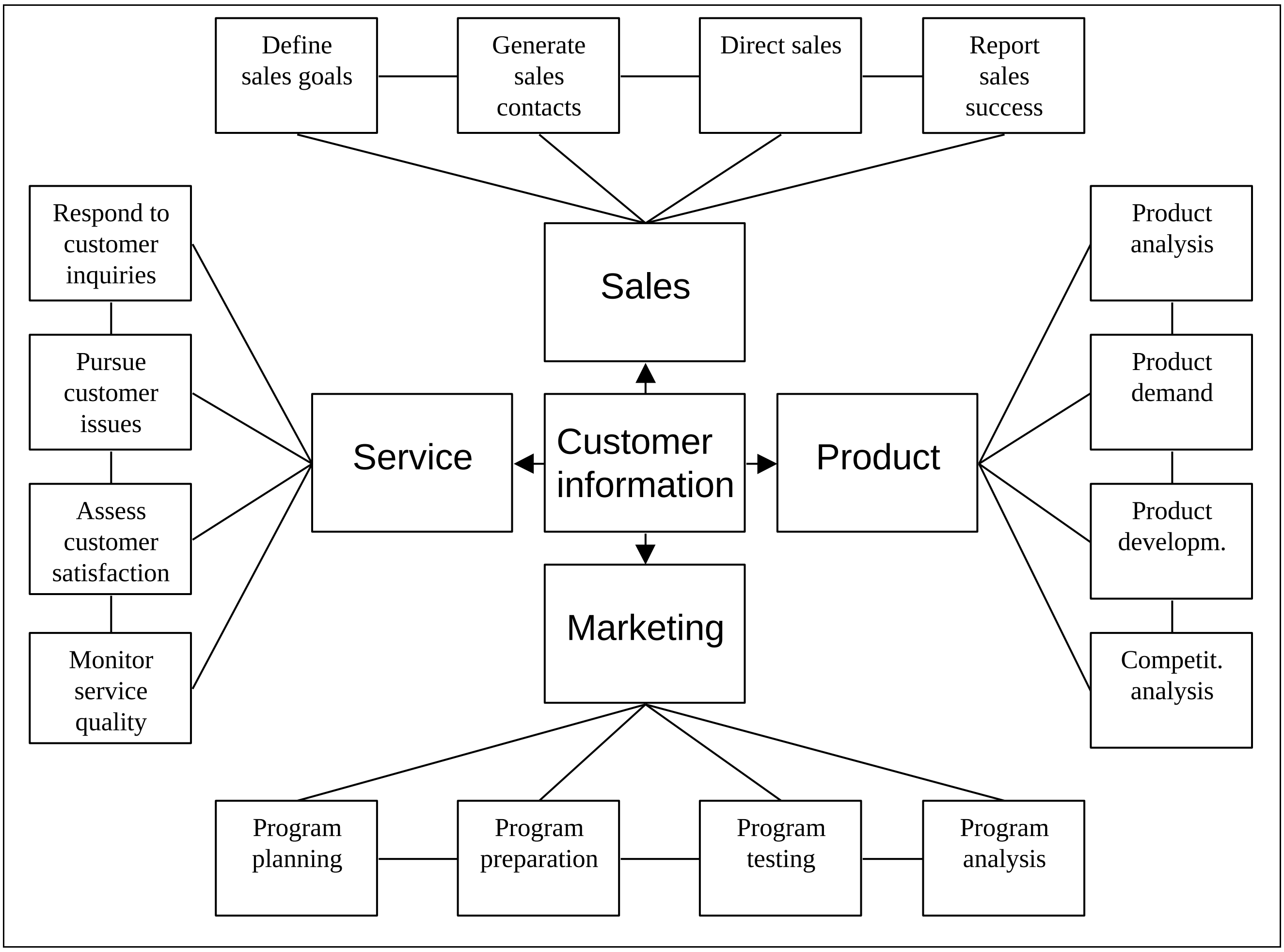

Figure 6: Opportunities for using customer information[69]

2.4 Theoretical Approaches Contributing to the RM-Concept

2.4.1 Behavioural Approaches

Most contributions to the RM-concept are based on a behavioural perspective of relationships. Relational constructs like trust, commitment and satisfaction all attribute to this behavioural perspective.[70]

Morgan and Hunt suggest that customer trust* and commitment* are key variables for relationship success.[71] Both of these variables have a strong impact on effectiveness and efficiency of relationships and on customer retention.[72] Every kind of exchange relationship presupposes trust. Trust is especially important in situations of risk – when one party is dependent on another and the

[69] cp. Ahlert, 2000, p. 265.
[70] cp. Henning-Thurau/Hansen, 2000, p.4.
[71] cp. Morgan/Hunt, 1994, pp.20-38 quoted in Henning-Thurau, 2000, p.132.
[72] cp. Klee, 2000, p.112-113.

outcome is uncertain. Trust is a reciprocal construct – which means that gains* are mutual.[73] Commitment works in a similar way. If a relationship is important, then both parties are dependent on it and have to commit themselves to making it work. In services marketing, three levels of dependency and commitment are proposed. On level 1, customers are only attracted by low prices and switch to another company as soon as the price advantage vanishes. On level 2, the relationship has deepened. There is not just a price-relationship anymore but also direct communication and face-to-face contact with the customer. Level 3 adds a structural dimension. The involved parties have pooled resources together and are therefore highly committed to making the relationship work.[74]

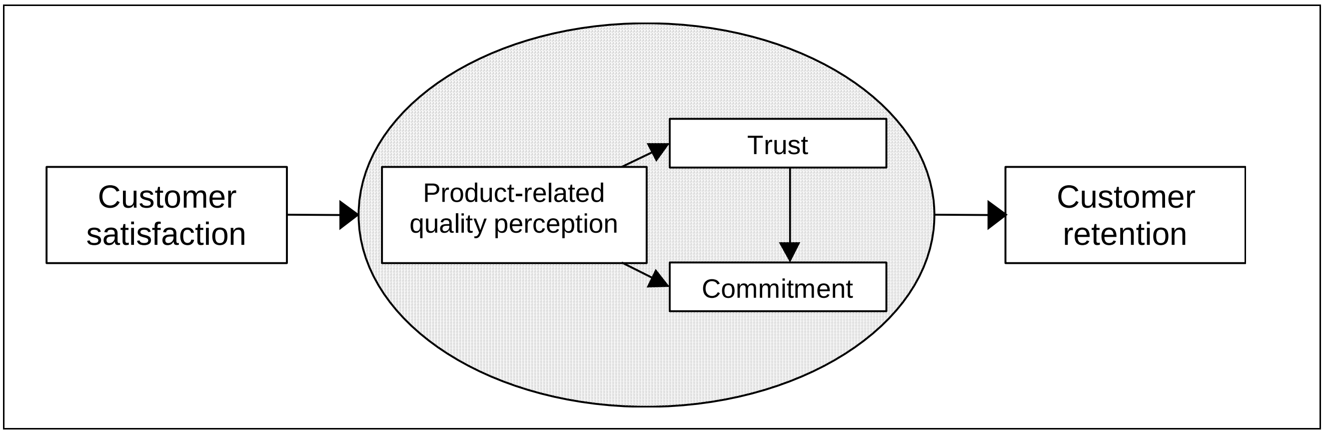

Figure 7: The relationship-quality model[75]

Customer satisfaction is a result of high product and relationship quality. Henning-Thurau and Klee argue that relationship quality is a central determinant of customer retention.[76] They conceptualise relationship quality as a three-dimensional construct. Dimension (1) is a customers' performance-related perception of quality. Dimension (2) is a customers' trust in the ability and the willingness of the supplier to deliver the performance. Dimension (3) is the customer's commitment to the relationship with the supplier.[77] Positive quality perception serves as an antecedent of both trust and commitment and trust in turn positively influences the degree of commitment.[78]

[73] cp. Pohlmann, 1995, pp.43-44.
[74] cp. Gummesson, 1999, p.17.
[75] ibid, p.133.
[76] cp. Henning-Thurau/Klee/Langer, 1999, pp.112-113.
[77] cp. Henning-Thurau, 2000, p.132.
[78] ibid, p.132.

2.4.2 The Interaction/ Network Approach to Industrial Marketing

The Interaction/ Network Approach (IN) to industrial marketing was developed by the IMP-Group (International/ Industrial Marketing and Purchasing Group) at Uppsala University/Sweden in the early 1970s.[79] Research has quickly spread to major universities throughout Europe, later to Australia and to a lesser extent to Asia and the USA. The IMP-Group carried out comprehensive research, e.g. studies on about 1,000 relationships between industrial suppliers and customers in five western European countries.[80]

The IMP researchers found that firms in industrial systems are engaged in various kinds of production, distribution and use of goods and services. Such systems are described as *networks* of connected *relationships*. In these systems, there is a division of work between the companies. Accordingly, they are dependent on each other. It is necessary to co-ordinate the activities of the various firms. This co-ordination takes place in the form of *interaction** between actors in the network. Exchange relationships with other firms have to be established in order to gain access to external resources. In these relationships, bonds of various kinds are developed, e.g. technical, planning, social, economic, legal and knowledge bonds (examples could be: adjustments of products and processes, logistical co-ordination and acquiring knowledge about the counterpart, etc.). All over the network, there are strong incentives to co-operate* but also counteract with other firms (depending on common or conflicting interests). Therefore, efforts will be made to form some sort of alliances to strengthen one's own position in the network. Thus, in every network there exists a power structure. Different firms are provided with varying power to influence the actions of other firms. This power structure affects the development of the network as a whole.[81]

Interfirm relationships are key elements in the *industrial network model*. This is due to the fact that considerable time and effort is required for establishing a relationship and that such relationships have a strong impact on the involved parties. Interfirm relationships are based on a mutual orientation of firms towards each other. This includes mutual knowledge about and trust* in each other, the awareness of each others interests and subsequent interaction* between the parties. Relationships are established, developed and maintained* through interaction. Interaction takes place through episodes between two parties. Examples for episodes could be: the placing of an order, the delivery of this

[79] See Mattson, 1997, pp. 451-452 for research background of the Interaction/Network approach.
[80] cp. Owusu, 1997, p.12.
[81] cp. Forsgren/Hägg/Hakanson/Johanson/Mattsson, 1995, pp.20-22.

order, the handling of a complaint, etc. Interaction consists of two closely related processes: exchange processes and adaptation processes. The exchange processes include product, information and social exchange. Exchanges between firms will always include all three aspects of exchange. Adaptation, on the other hand, is the process of adjusting to a partner. Firms can adapt to each other by modifying products and processes, by adapting logistically (e.g. the development of joint delivery systems) or by modifying planning and scheduling systems. As a rule it can be said that more intensive exchange will lead to stronger adaptations. Adaptations also strengthen bonds between firms because companies are becoming more dependent on each other and switching costs increase. But adaptations can also take place by adjusting to each others attitudes, knowledge and strategies – maybe even business ethics, technical philosophies and expectations of future developments. All of these adaptations are pointing towards a long-term perspective of interfirm relationships.[82]

The *model of industrial networks* as introduced by Hâkanson and Johanson contains three basic variables: actors, activities and resources. (1) Actors perform and control activities and/ or resources. Individuals, groups, parts of firms or even entire firms can be actors - thus actors can be found on different organisational levels. (2) Activities occur when actors combine, develop, exchange or create resources by utilising other resources. (3) Performing activities requires resources. Business exchange provides access to resources which are controlled by actors. Exchange makes it possible to co-ordinate activities and to combine resources of several actors.[83]

The co-ordination and mobilisation of a companies' relationships and the use and enhancement of the resources of both companies through interaction are crucial for a firm's network position and hence it's competitive advantage.[84]

RM has clearly benefited from research done within the Interaction/ network approach to Industrial Marketing. In industrial and B2B marketing, the importance of establishing co-operative rather than adversarial relationships with suppliers, distributors, customers and technological partners and maintaining these long-term relationships has been stressed very early. But whereas the IN approach applies primarily to industrial and inter-organisational contexts, RM can be applied to all marketing contexts – including services and consumer goods.[85]

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[82] cp. Forsgren/Hägg/Hâkanson/Johanson/Mattson, 1995, pp. 22-25.
[83] cp. Johanson, 1994, pp.153-158.
[84] cp. Owusu, 1997, p.25.
[85] cp. Owusu, 1997, p.25.

2.4.3 New Institutional Economics Theories

There is a number of economics theories dealing with the development and success of co-operation among firms. Two of them will be briefly introduced in this chapter as they offer good explanations for a company's choice of alternative organisational solutions.

Transaction Cost Theory

At the heart of transaction cost theory is the assumption that any kind of economical activities causes costs – so-called transaction costs.[86] *In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations* (...). *These operations are often extremely costly* (...).[87] Transaction costs are those, which arise with the preparation, processing and control of transactions (namely costs of search and information, negotiation and decision, supervision and control).[88] They not only cover monetary aspects but also invested time and effort of the involved parties.[89] According to transaction cost theory, a company will seek to minimise transaction costs.[90]

If alternative business relationships have to be evaluated, transaction cost theory can offer a useful tool. A transaction is characterised by certain environmental factors, e.g. asset specificity, uncertainty and frequency.[91]

(1) If specific investments are needed in order to carry out a transaction with a business partner (asset specificity is high), transaction costs are usually high. Bonds between the involved parties are rather strong in such cases (because sunk costs – those which are irreversibly lost when choosing one alternative - are high).[92]

(2) If uncertainty and high market complexity exists, certain precautions have to be anticipated and/ or adaptations have to be made. Hence, transaction costs are high.[93]

(3) If frequency of business transactions is high, transaction costs are usually (but not always) low.[94]

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[86] cp. Brand, 1990, p.1.
[87] cp. Coase, 1960, p.15 quoted in Brand, 1990, p.17.
[88] cp. Brand, 1990, p.17.
[89] cp. Eckel, 1997, p.75.
[90] cp. Piber, 2000, p.105.
[91] cp. Williamson, 1979, p. 239 quoted in Brand, 1990, p.22.
[92] cp. Klee, 2000, p.52, see also Eckel, 1997, pp.79-80.
[93] cp. Schäper, 1996, p.63.
[94] ibid, p.63.

According to transaction cost theory, co-operative* long-term* business relationships are favourable to transaction costs when asset specificity, uncertainty and frequency are high (not, however, in the exceptional case that all three environmental factors are extremely high).[95] RM can benefit from transaction cost theory in several ways. First of all, it helps to decide whether spot transactions (transaction marketing) or RM are indicated in given circumstances. Secondly, it calls for the design of relationships in terms of efficiency. Thirdly, it includes the effects of relationship bonds. Bonds are due to high asset specificity and lead to high switching costs. Transaction cost theory can thus help to substantiate RM in (industrial) markets.[96]

Game theory

Game theory is concerned with decision-making situations which are characterised by the following aspects:

(1) The result of a decision depends upon several involved parties.
(2) Every party is conscious of this interdependence.
(3) Every party knows that the other involved actors are equally conscious of this interdependence.
(4) Every party considers points 1-3.) when arriving at a decision.[97]

Essential in game theory is the understanding that mutual trust* and co-operation* are better for both parties than arriving at a decision which is optimal only for one party.[98]

The most frequently cited example of game theory – prisoners dilemma - works with a simplified model with only two actors. By acting selfish, each of the two could achieve an advantage at the other one's expense. If they do so, however, it will actually lead to a disadvantage for both. On the other hand, if they act considerate and take into account the other one's interest when arriving at a decision, they will both profit* from it.[99]

Game theory contributes to the explanation of co-operative behaviour. It suggests that opportunistic behaviour does not pay in the long run and co-operation is the most promising strategy for the involved parties. Co-operation should be a plus-sum game with trust and a long-term perspective on the relationship attributing to it's success.[100]

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[95] cp. Klee, 2000, p.52.
[96] cp. Klee, 2000, pp. 52-56.
[97] cp. Holler/Illing, 1991, p.1.
[98] cp. Piber, 2000, p. 134.
[99] cp. Schäper, 1996, p.75.
[100] cp. Schäper, 1996, p.79.

2.5 Success Factors of Relationship Marketing

Reviewing chapters 2.2, 2.3 and 2.4 unveils that there are a number of key factors, which define RM and at the same time are critical for it's success (these factors have been marked with * at the respective points). These factors cannot only be found in the definitions introduced in chapter 2.2. They are also prevailing in chapter 2.3, in which a RM-concept is outlined and objectives, strategies and instruments are introduced. Also the different theoretical approaches, as summarized in chapter 2.4, point to the same critical success factors for RM. These success factors are in detail:

- A shift in focus from transactions towards **interaction**.
- The importance of identifying, establishing, maintaining and enhancing – hence **cultivating relationships**.
- A long-term perspective – **longevity**.
- **Mutual trust and commitment**.
- The need for mutual **beneficial (profitable) relationships**.
- **Co-operation** and collaboration.
- The **integration** of relationship partners into the organisational network.

These factors are not only derived from theory, they are also used to define Relationship Marketing. Moreover, they are part of an RM-philosophy and they represent important RM-goals – hence help to integrate RM successfully in an organisation. These factors can therefore be regarded as core elements of RM and are critical for the implementation success of RM in a company.

	Behaviour Theory	Interact./ Network Approach	New Institut. Theories	RM Definitions	RM Philosoph. Goals
Interaction		*		*	
Cultivation of relat.		*		*	
Longevity			*	*	*
Trust/ Commitment	*	*	*		*
Mutual Profitability	*		*	*	
Co-operation		*	*		*
Integration				*	*

Figure 8: Theoretical and practical importance of RM-key factors

Interaction[101]

Many regard RM as opposite to transaction marketing. While transaction marketing is focused on single transactions with no past history between parties and no future, RM is focused on exchanges which have a history and assume future interactions. Discrete transactions start and end sharply and each transaction is independent from another and is guided most of all by the price mechanism. Interaction, in contrast, implies that relational exchange occurs over time and each transaction within the exchange must be regarded in terms of history, anticipated future and social and relational context. While price, quality and product are precisely defined in transactions, this may not be the case in relational exchange. The focus may shift from the substantive aspect of the exchange towards a process management perspective. Efforts have to be made in planning and structuring relational exchange and exchange processes (joint participation is necessary).[102]

Cultivation of Relationships

There is wide agreement among RM scholars that at the heart of the concept there is the need to identify, establish, maintain and enhance promising relationships. While relationships between a

[101] Interaction is this context is not only the exchange of information between two communication partners (cp. Lischka, 2000, p.32) but it is understood as all relational exchange, which occurs in the course of the relationship. It is characterised by: a long-term orientation, exchange process planning, mutuality of interests, increased interdependence and it entails personal relations and constantly changing power balances (MacNeil, 1981, quoted in Li/ Nicholls, 2000, p.455).

company and it's customers forms the ground for all marketing, much of the current thinking is still dominated by impersonal exchange through mass production and mass distribution. The prime focus of RM is therefore to individualise contact to customers. This is called mass customisation and is described as addressing the needs of every selected customer in a better way.[103] But not only customers but all relevant stakeholders of a company become objects of RM. They all become co-producers and are therefore part of the value creation chain of a firm. Members of a company's relationship network are not seeking a particular exchange but they are aiming at a greater market value for all through the relationship.[104]

Longevity

Closely related to the interaction criterion is the need for a long-term perspective of relationships. Increased interdependence between two parties and joint planning and conducting of activities within the relationship presuppose a long-term view. It takes a long time to build a relationship (see the loyalty ladder construct) and partners learn only over time how to handle a relationship and how to benefit from it in the best way. In case of business relationships, for example, it needs in depth knowledge about the other business, it's customers, systems and decision making. This is a kind of knowledge that only long-lasting collaboration can produce[105]. Hence, a long-term relationship can be more effective for all parties in terms of productivity, cash flow, growth and profits (depending, however, on the investments necessary to establish and maintain the relationship).

Mutual trust and commitment

Any kind of relationship is build on trust. Trust can be seen as having confidence in another party and on this basis relying on it in exchange situations. Confidence is developed gradually in a business relationship. It is due to positive experiences, which reduce uncertainty and vulnerability between the parties.[106] By relying on another party, dependency increases and a strong commitment is necessary to make the relationship work. Commitment has been defined as the belief that ongoing relationships with other parties are so important that this justifies maximum efforts at maintaining them.[107] Partners have to be able to count on each other – customers make a commitment by trusting the supplier's service/ goods offer and by purchasing from him and suppliers have to trust in customers' purchase

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[102] cp. Li/ Nicholls, 2000, pp.453-455.
[103] cp. Sheth/ Parvatiyar, 1995a, p.401.
[104] ibid, p.413.
[105] cp. Reichheld, 1996, p.23.
[106] cp. Berry, 1995, p.242.
[107] cp. Morgan/ Hunt, 1994, p.23 quoted in Liljander, 2000, p.168.

intentions and their credit worthiness. Trust is therefore a mutual construct just as commitment is necessary from both sides. Trust and commitment have been described as bonds of psychological and social kind[108].

Mutual beneficial (profitable) relationships

As Reichheld put it ”the secret to partnership is compensating each partner with a shared interest in the value he or she helps to create”[109]. Advantages of such value-sharing relationships can be significant because all partners are motivated to create as much value as possible.[110] Therefore, relationships should be mutually satisfactory[111], they should lead to win-win situations and a plus sum game (hence profitable relationships) rather than win-lose situations and a zero sum game. All involved parties should find the relationship meaningful and worth of maintaining and enhancing it.[112] Game theory supports this idea by postulating that opportunistic behaviour will not pay in the long run. Most profitable are solutions, which are satisfying for all parties.[113]

Co-operation

While transaction marketing fostered the belief that competition and self-interest are crucial for value creation, RM does assume the opposite. RM believes that mutual co-operation and collaboration lead to higher value creation. It has even been suggested, that competition is inherently destructive while co-operation is inherently productive. Transaction marketing considers independence of actors to be vital. The freedom to chose transactional partners at each decision point (and thereby preserving one’s self-interest) leads to efficiency. However, transaction cost theory postulates that searching, negotiating and other activities of transactions create costs and thus lead to inefficiencies. Co-operation between partners reduces transaction costs and generates at the same time higher quality. Interdependence and co-operation are seen as supporting higher value creation.[114] Practices like ECR, resource sharing between partners and early investments of partners in the product/ service offer development all facilitate greater effectiveness.

[108] cp. Liljander, 2000, pp.168-169.
[109] cp. Reichheld, 1996, p.287.
[110] ibid, p.287.
[111] cp. Bauer, 2000, p.32-38 for the development of satisfaction in business relationships.
[112] cp. Gummesson, 1999, p.10.
[113] cp. Schärper, 1996, p.77.
[114] cp .Sheth/ Parvatiyar, 1995a, pp.399-400.

Integration

In order to develop and produce a total service offering, a large number of activities and technologies of different organisational units and also external resources have to be combined. Efficiency of these value creating processes can only be secured, if the numerous interfaces between processes inside and outside the company are managed. Integration is seen as one way to manage interfaces across the boundaries of the organisation.[115] Integration goes beyond co-operation in that external partners are becoming part of the core organisation. As pointed out in 2.2.2, there are various ways to integrate external partners horizontally and vertically into the organisation. This can be done by means of electronic exchange of information (EDI) in order to achieve time, cost, service and competitive advantages. In an organisational perspective several solutions are currently being discussed, e.g. concepts like process ownership, team organisation, strategic centres[116] and others. All these measures have a common aim: mutually advantageous organisational structures and increased efficiency and effectiveness of the value creation chain.

The above introduced criteria describe key variables of RM. Any company that aims at implementing RM in the sense of Relationship Management into it's values, strategies, structures and processes (and accordingly into it's normative, strategic and operative management) should therefore consider these criteria as fundamental.

2.6 Critical Assessment of the Current Scientific Discussion

Relationship Marketing has become a fashionable term and is used by researchers and practitioners for a variety of phenomena. Many authors postulate that customer loyalty and retention are key goals of RM.[117] With this, they limit the scope of RM to dyadic buyer-seller relationships. They neglect the fact that mutually beneficial relationships with **all** relevant market domains have to be established. The goal should be the creation of a greater market value for all involved parties through interaction in relationships. This makes customer retention just one objective among a number of equally important objectives with respect to the network of relationships of a company.

However, if not only dyadic but multiple relationships are included into the RM concept, some authors demand a clarification as to whether a distinction is necessary between exchange

[115] cp. Piber, 2000, p.168.

[116] For a detailed discussion of process ownership, see Piber, 2000, pp.227-229, for team organisation, pp.230-234 and strategic centres, pp.236-237.

relationships in a market context and complex relationships in a network-like business environment. They argue, that different relational complexities call for different treatments and consequently different types of RM.[118]

The matter of RM-instruments is another widely discussed aspect. Although the classical 4P's marketing mix has been found to be insufficient when it comes to building and sustaining relationships – it is still the framework most scholars restore to when identifying RM instruments.[119] It can be questioned though, whether a new RM label for the same product, communication, pricing and distribution measures will do in the long run. Grönroos is certainly right when he calls for the use of <u>all</u> available resources and activities for RM purposes – no matter where in the organisation these are located.[120]

To truly understand the essence of RM, however, one has to realise that it represents first and foremost a shift in management philosophy. It is not merely a synonym for direct or database marketing and it is not just about establishing customer clubs and customer cards (a popular fallacy especially among practitioners). It is not only about developing partnerships, networks and alliances (although relying on it). It is not another instrument in the marketing mix toolbox.[121] It includes all these aspects and yet it is much more than that. It is a philosophy about planning and managing activities in the relationships between a firm and it's customers, distributors and numerous other partners. At it's core, there is the idea of co-operation and trusting relationships with customers as well as stakeholders of the company. Collaboration within the company should replace the specialisation of functions and the division of (marketing) labour.[122] RM should not be restricted to the marketing department, it should be market-oriented *Relationship Management* and hence be the task of top management and everyone within the company. In *Relationship Management* everyone assumes relationship-responsibility.

[117] See for example: Vavra, 1992, Henning-Thurau/ Hansen, 2000.
[118] cp. Möller/ Halinen, 2000, pp.43-45.
[119] See for example Hansen, 2000, pp.8-10, Goerdt, 1999, pp.88-101, Eckel, 1997, pp.126-147.
[120] cp. Grönroos, 1999, p.329.
[121] ibid, p.333.
[122] cp. Grönroos, 1999, p.333.

2.7 Towards a Relationship Management Perspective

RM has been said to present a shift in marketing thinking. It is based on the fundamental notion that marketing has to be concerned with managing the interfaces of a company and it's environment. Employees from all organisational units and layers and moreover, relationship-partners such as customers, distributors and other stakeholders are working together to jointly contribute to value creation. This points to the all-embracing idea of RM. As explained earlier, RM can not be seen as limited to the organisational unit "marketing and sales". It affects a company's ethics and philosophy, tasks of top-management, strategies, structures and processes and also the formulation and assessment of business results. It assumes a process management approach with traditional department boundaries being torn down and with a workflow in which everyone contributes to the value creation process. This also includes the formation of partnerships and networks horizontally and vertically in the distribution channel and supply chain. Supply chain management, vendor managed inventory and electronic data interchange are just some features of this new development.

One key question certainly has to be answered in this context. How do business vision and values, strategies, structures, processes, control, personnel and reward systems, etc. of a company have to be adapted and modified in order to fit Relationship Management requirements? Issues of Relationship Management implementation still need to be addressed by scholars and practitioners since they form a largely ignored area in RM research.[123]

One way of approaching this problem will be introduced in this paper. It will be examined whether a management system could be a means to implement Relation-ship Management into an organisation, whether Relationship Management thought is already part of an existing management model and how the integration of Relationship Management into an established management model could look like.

[123] cp. Henning-Thurau/Hansen, 2000, pp.16-17.

3 The European Model for Business Excellence

3.1 Management Systems

3.1.1 Terminology

The term *management* was first used in the Anglo-American literature in the 1940s and has since been adopted into German language.[124] Following a system-theoretical approach (as supported by the St. Gallen Management Concept) *management* can be defined as the *leadership of social or socio-technical systems*[125]. Accordingly, *management systems*[126] can be described as *systems to manage productive, social entities*[127]. Ulrich mentions the aspects *design, control* and *development* as three basic functions of management. *Design* in this sense is the construction of a system and it's maintenance as a purposeful entity. *Control* is described as the determination of goals and the establishment, execution and supervision of purposeful activities of a system. *Control* and *design* of social systems are activities within the framework of a long-term and never completed *development* process. Such processes must be deliberately designed and controlled as they lead to organisational learning and a corresponding change of knowledge, attitudes and capabilities within the company. [128] The purpose of any MS would thus be to influence and adapt an organisations' behaviour to the extent to keep the organisation viable and capable of development.[129]

There are a number of different approaches which deal with the definition and conceptualisation of MS. Schwaninger, for instance, distinguishes between four categories:

(1) Approaches which use the term in it's narrow sense for certain aspects of human resource management or organisation (top level management and management-by techniques),

(2) Specialised approaches which use term MS in the sense of information system or which use it for certain management functions like planning and control of organisations, etc.,

(3) System-oriented approaches which are focused on the design of MS. Ulrich, Ansoff, Bleicher, Hahn and Kirsch/ Maassen belong in this category.

(4) Pragmatic mixtures which are mostly based on practical experience.[130]

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[124] cp. Pischon, 1999, p. 95.
[125] cp. Ulrich/ Probst, 1984, p. 80.
[126] Following, the appreviation MS will be used for management systems.
[127] cp. Ulrich/ Probst, 1984, p.80.
[128] ibid, pp. 80-87.
[129] cp. Schwaninger, 1994, p.16.
[130] cp. Schwaninger, 1994, pp.28-33.

All of the above approaches, however, are criticised for being on a rather abstract level and for missing practical recommendations for implementation.[131]

Two of the system-oriented approaches will be explained in more detail as they offer good examples for the organisational embodiment of MS.

In Bleichers contribution to the subject, he acknowledges that both MS and organisational structures are structures of strategic management. MS support and complement the framework, which has been defined by organisational structures. MS are diagnosis, planning and control systems. They help to set up strategic programs, to convert these programs into detailed operational projects and to realise them.[132]

In the approach of Kirsch/ Maasen, MS are described as additional organisational layers or organisations which support managers on different levels and in different areas. This implicitly means that employees of a company can fulfil tasks both in the basic organisation and in different MS – therefore work in various layers of the system.[133] MS are overlapping the everyday business routines like a foil. They have their own structure and processes, which together with the basic organisation forms matrix-like features. The extent to which basic organisation and MS are connected can vary considerably. This raises the question, if an organisation is led by MS or if these systems are merely rituals, which could easily be left out without any noticeable change within the organisation. [134]

It is important to emphasise that some authors distinguish between the terms: *management system*, *management model* and *management concept*. For reasons of clarity the frequently discussed definition of Seghezzi will be introduced and subsequently be followed in this paper. He defines a *management concept* as the immaterial – intellectual framework of any MS. Examples for such management concepts are the St.Gallen Management Concept or Total Quality Management. A management model, on the other hand, is a detailed description of a company's structure and processes and can be used as an orientation for the conversion of a concept. A model is a meta-plan, which can be used to produce, install and start a MS. It helps to institutionalise a MS. Such models are the ISO 9000 or ISO 14000 standards. Also the EFQM – model, which will later be discussed in detail and which will form a basis for the attempt to integrate relationship aspects, belongs in this category. MS are regulations and processes, which have been introduced into a company and which

[131] cp. Schwaninger, 1994, p.33.
[132] cp. Bleicher, 1991, cited in Ulrich, pp. 4-11.
[133] cp. Kirsch/Maassen, 1990, p.128, compare also: Reglin, 1993, p.123.
[134] cp. Jeschke, 1992, pp.82-85.

therefore exist in reality. Systems can have been planned in a concept and described in a model before. [135] It is the task of top management to identify the specific content, which is supposed to be carried into the company with the help of MS. [136]

In this paper, it will be discussed whether the RM-concept has found it's expression in a current management model or not. Further on, it will be examined whether an established management model could serve as a tool for the implementation of RM. As pointed out before, a management model can serve as a meta-plan for the introduction of a MS. A MS, in turn, helps to influence an organisation's behaviour to the extent to keep the organisation viable. It is therefore a perfect means to carry relationship thinking into a company and it's everyday routines.

3.1.2 Practical Importance and Implications of Management Systems

Today's society is characterised by an increasing complexity in ecological, economical, social, cultural and technical aspects of life. Especially with regard to organisational and technical complexity the need to assign responsibilities arises. This is primarily important with regard to harmful by-products of the manufacturing process. Moreover, technical developments influence and change the life of people. Key words like: modern information and communication technologies and a corresponding change of attitudes and lifestyles highlight the problem. Management systems can serve as tools to manage this complexity. With the help of MS, responsibilities can be ascribed in complex organisations and for complex technologies. Management of complexity by means of clear documentation, assignment of specified tasks, documented control, improvement cycles after the discovery of deficits, etc. are common to all MS – not matter whether these are concerned with quality, environment, social or health management.[137]

Further on, MS can help to answer demands of internal and external stakeholder groups. For example, the call for the protection of the environment has led to the introduction of environmental management. Many MS are concerned with the conditions which are needed to handle the value creation process rather than with the actual core product of an organisation. This value creation process should not be harmful for the environment, life and health of people should not be threatened and there should be a contribution to the welfare of society. By implementing MS, companies demonstrate their willingness to consider these aspects and to not only regard the value creation process from a purely techno-economical perspective. MS are hence not primarily concerned with

[135] cp. Seghezzi, 1996, cited in Pieschon, 1999, pp.96-97.
[136] cp. Funck/ Alvermann/ Mayer/ Schwendt, 2000, p.5.
[137] cp. Ahrens/ Hofmann-Kamensky, 2001, p.14-15.

economic or calculative reasoning but with demands from stakeholder groups (companies as corporate citizens).[138]

MS can also promote the development and maintenance of trust. MS signal that the company is obliged to work according to (high) standards. Necessary internal precautions are made, their compliance is controlled and quality and conscientiousness of the organisation is proved by means of documentation. In other words: a company takes responsibility with respect to customers, suppliers, officials and the general public by implementing MS.[139]

In a recent survey of the Department for Marketing and Commerce at Göttingen University, 3,273 experts (company representatives, certification bodies, academics and consultants) from Germany, Sweden and UK have been questioned about MS. As presented in Figure 7 below, the ISO 9001 standards for quality management and the ISO 14001 standards for environmental management are the most well-known of all MS according to experts. Surprisingly, also the EFQM-model for business excellence is known by three-fourths of all interviewed persons. Moreover, approximately 95% of all companies had implemented a quality management system and still over half of all companies had implemented an environmental management system (varying according to countries).

This highlights, that MS have not only received theoretical support but that they are of increasing importance in practice. For the above mentioned reasons, they may serve as ideal tools for the implementation of Relationship Management in companies.

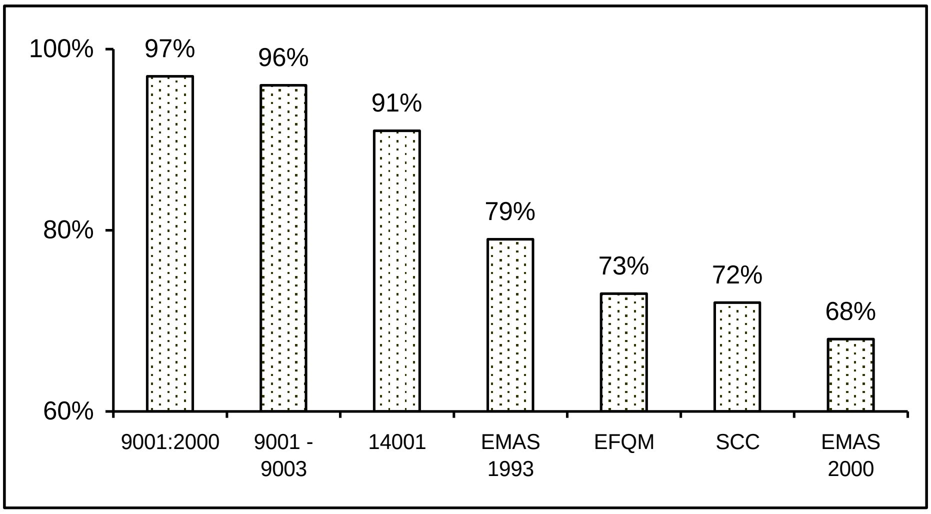

Figure 9: Familiarity of experts with MS

[138] cp. Ahrens/ Hofmann-Kamensky, 2001, p.10-13.
[139] ibid, p.9.

3.2 EFQM as Integrative Management Model

Management systems for issues like quality and environment (which are based on particular standards) are similar in their design. They include the relevant business processes, process responsibilities, work briefings and procedures. To implement several of these management systems causes considerable double work. According to a recent survey, parallel documentation of ISO 9001 and 14001 leads to 70% double work. In order to avoid this kind of inefficiencies, integrated management systems are being increasingly discussed. These help to amalgamate the overlapping aspects of the different MS. The practical need to establish such integrated management systems is not questioned. However, a theoretical concept for the design of integrated management systems is still missing.

A number of authors suggest to use the EFQM-model for business excellence in order to integrate the various discussed issues. The EFQM-model is not only based on quality thinking but includes environmental and occupational health and safety aspects. The protection of the environment is not just a demand of customers but of the public in general (e.g. criterion 4c “management of buildings, interior and material” includes optimising the use of goods, reducing or recycling waste, the conscious use of not renewable resources and the reduction of environmental damages caused by the production of goods and services). Occupational health and safety is an important factor for employee orientation and satisfaction (e.g. criterion 3e “employees are rewarded, appreciated and taken care of” implies that health, work safety and social issues of employees are supported). The EFQM-model also includes a company’s responsibility with respect to the general public. This implies ethical behaviour and the consideration of expectations of the public (e.g. criterion 8a “society results” includes reducing disturbances and damages, which are caused by manufacturing, for the general public.) As a result it can be said, that stakeholder needs and wants are comprehensively considered in the excellence model. See figure 8 for a representation of the EFQM-model.

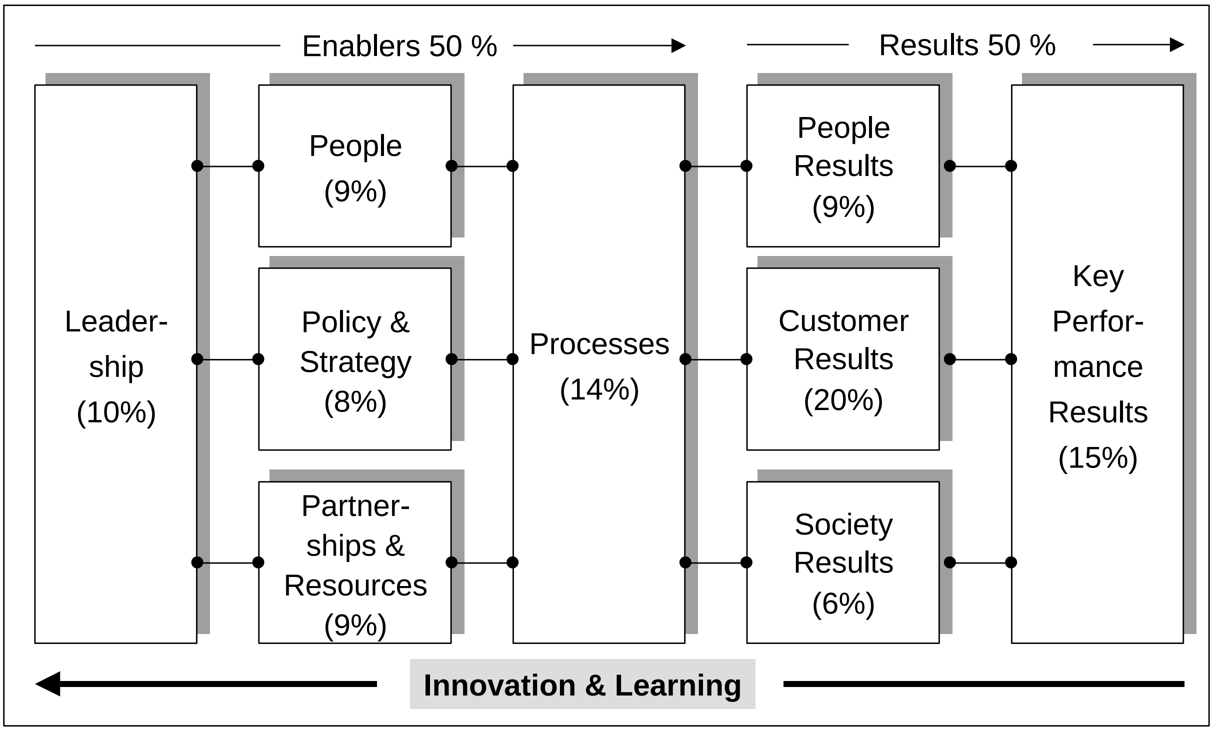

Figure 10: The EFQM-model for business excellence[140]

Obviously, stakeholder demands are already part of the EFQM-model. Customers, employees and the public are explicitly considered. Co-operation with them supports continuous learning, innovation and improvement. This in turn secures long-term success of the organisation. Process orientation is another fundamental approach within the model. The description, analysis and improvement of processes leads to higher efficiency and effectiveness, transparency and flexibility. This in turn helps to save costs and supports stakeholder satisfaction.

Hence, the relationship idea is implicitly present in the model. The above mentioned aspects can be regarded as anchor points for the integration of Relationship Management into the EFQM-model. It now needs to be assessed in detail, to what extent aspects of RM (by means of the critical success factors as introduced in chapter 2.5) are considered in the model and how the model would have to be modified in order to sufficiently display the RM-success factors.

3.3 Outline of the European Model for Business Excellence

3.3.1 The European Foundation for Quality Management

Today's companies have to fight harder for market shares, investments and employees, because a rapid change in knowledge and technology and the globalisation of markets have led to increased

[140] EFQM (eds.), 31.10.2000, w.p.

competition world-wide. Although the single European currency – EURO – will strengthen the economy in the long run, it will also reinforce competition within Europe.[141] The key to success under these circumstances is quality in its broad sense. Quality in an organisation cannot be a mere by-product but constant improvement and permanent quality-oriented thinking must be the overall goals of any company. Excellent organisations are measured by their ability to achieve and sustain outstanding results for their stakeholders. The European Foundation for Quality Management – EFQM – was created in order to enhance the effectiveness and efficiency of European organisations.[142]

EFQM is a membership-based, not for profit organisation, which was founded in 1988 by fourteen leading European businesses. By January 2000, membership had grown to over 800 members from most European countries and most sectors of activity.[143]

Established as the European pendant to the American Malcolm Baldridge National Award (MBNQA), its objective is to be the *driving force for sustainable excellence* in Europe. It recognises that the introduction of quality management programmes can achieve significant benefits such as increased efficiency, reduced costs and greater satisfaction, which will all lead to better business results.[144]

EFQM is designed to stimulate and adapt innovative principles of total quality management adjusted to the European situation. An important objective is the improvement of the competitiveness of European organisations from the private and the public sector. Member organisations receive practical guidance and support during the implementation of the EFQM-model. Organisations are judged against this model when applying for the European Quality Award. The Foundation also organises networking, benchmarking and training events in order to help members keep up with the latest scientific and management developments.[145]
It is estimated by the EFQM that over 10,000 European organisations (from the public and private sector) have incorporated the EFQM-Model in their overall management by now.[146]

[141] cp. DEC (eds.) 28.10.2000, w.p.
[142] cp. EFQM, 1999b, p.3.
[143] cp. EFQM, 1999a, p.2.
[144] cp. Pischon, 1999, p.160.
[145] cp. EFQM (eds.), 31.10.2000, w.p.
[146] cp. EFQM (eds.), 31.10.2000, w.p.

3.3.2 European Quality Award

The European Quality Award and Quality Prizes were launched in 1991 by the EFQM and they are supported by the European commission and the European Organisation for Quality (EOQ). To be awarded one of the prizes, an organisation has to prove an extraordinary level of commitment to quality. A company's approach to quality management has to contribute significantly to satisfying the expectations of customers, employees and other stakeholders. Award winners are regarded to be the most successful exponents of quality principles in Europe within their category.[147]

There are awards not only for large but also for small and medium-sized companies (independent and subsidiaries) and for organisations from the private sector.[148]

Any organisation based in Europe can apply for the award. Such an application holds a number of benefits. First of all, the application process provides an unbiased external assessment of an organisations position with regard to the principles of the EFQM-model and secondly, self-assessment procedures are improved and given a clearer focus.[149]

Application of the EFQM-excellence model forces a company to work continuously towards business excellence. Selective improvement measures are not sufficient, instead regular feedback on the basis of self assessment is necessary.[150] Self assessment allows companies to unveil key strengths and areas for improvement. Such a self assessment exceeds traditional controlling considerably. Whereas financial data usually forms the background for any controlling, the EFQM-model includes also non-financial business results, customer and employee results and the impact on society. Even more importantly, the future potential of the company has to be assessed, namely the behaviour of management, investment in people, corporate policy and strategy, an efficient use of resources and the optimum design of key processes. While traditional controlling is oriented to the past, self assessment tries to concentrate on factors which are vital for surviving in future competition.[151] There are different methods and instruments[152] which can be used for an internal assessment. It should, however always be used in combination with benchmarking[153] in order to avoid inside orientation. Used in such a way, it can form a basis for strategic and operative management by identifying the

[147] cp. EFQM, 1999c, p.8.
[148] ibid, p.8.
[149] cp. EFQM, 1999c, p.9.
[150] cp. Zink, 1998, p.245.
[151] ibid, pp.228-229.
[152] For details on methods and instruments see: Zink, 1998, p.232-239.

current state of quality endeavours, initiating constant improvement cycles and especially inducing a sustained learning progress.[154]

3.2.3 Structure of the European Model for Business Excellence

Primary focus of the EFQM is the design and application of the EFQM-excellence model. The EFQM-excellence model is designed as a non-prescriptive framework, which recognises that there are many approaches to obtain outstanding organisational excellence. At it's heart, there are three fundamental principles of total quality management: people, processes and results. The model does not remain static. It is constantly improved and adjusted to the change in scientific and management discussion.[155]

There are eight basic concepts, on which the EFQM-model is founded. The behaviours, activities or initiatives based on these concepts are referred to as quality management:

- *Results orientation* as one of the fundamental concepts stresses that the needs of all relevant stakeholders of a company (employees, customers, suppliers, groups with financial interests in the company) have not only to be considered but also to be satisfied. This corresponds to the stakeholder approach.
- *Focus on the customer* is another important aspect – pointing out that the needs of current and potential customers have to be prioritised in order to secure customer loyalty, retention and market share.
- The *behaviour of a companies leaders* is important to create clarity and unity of purpose within the organisation.
- *Management by processes and facts* implies that better ways of working have to be identified continuously and improvement activities have to be undertaken.
- *People development and involvement* aims at participation, trust and empowerment of all employees.
- A culture of *continuous learning, innovation and improvement* will lead to maximising the organisational performance.
- *Public responsibility* demands an ethical approach of the company combined with the consideration of expectations and regulations of the community.

[153] Benchmarking is a managerial tool, in which a benchmark is used as an reference point - in the sense of best performance in a special field - and the difference between this reference point and the own organisation has to be measured. Cp. Zink, 1998, pp.247-248.

[154] cp. Zink,1998, p.223.

[155] cp. DEC (eds.), 28.10.2000, w.p.

- *Partnership development*, finally, puts a clear focus on the establishment of mutual beneficial relationships built on trust, sharing of knowledge and integration with partners.[156]

Clearly, four of the eight basic concepts are concerned with target groups of RM (as defined in chapter 2.2.2). Customers, employees, business partners and the general public are at the heart of the EFQM-model. This offers a good starting point for an implementation of RM. What remains to be answered in this context is whether a mere consideration of demands of stakeholder groups or building and maintaining long-term relationships with them are of primary importance within the model.

In order to clarify this, a look at the structure of the model needs to be taken. The EFQM-excellence model is based on nine criteria: leadership, policy and strategy, people, partnership & resources, processes, people results, customer results, society results and performance results – as can be seen in figure 8 (chapter 3.2). These are the criteria against which an organisation's progress towards excellence has to be assessed. Each criterion has a definition which explains the high-level meaning of that criterion. The five boxes on the left-hand side are called *enablers* because they are concerned with how the organisation undertakes key activities, the four criteria on the right-hand side are called *results* – they are concerned with what results are being achieved.[157]

The model is of a dynamic nature as is emphasised by the arrows. Innovation and learning help to improve enablers, which in turn leads to improved results. The model is designed as an open concept which can be applied to all kinds and sizes of organisations. Each criterion has a number of sub-criteria which should be understood as examples and suggestions. These can be used if relevant or ignored where justifiable. A detailed explanation of the single criteria and sub-criteria is given in the following chapter.[158]

In chapter 4, a criteria based examination of the EFQM-model will be carried out. If RM is understood as Relationship Management, then it should be implemented into a companies business vision, strategy and policy and deployed through key processes with the help of employees and business partners. Business results should be assessed not only from point of view of the organisation but also from point of view of customers, employees and the general public. Hence, RM-factors should not be limited to particular criteria but should be included in all EFQM-criteria (however to

[156] cp. EFQM, 1999b, pp.4-7.
[157] cp. EFQM, 1999a, pp.3-4.
[158] ibid, p.4.

varying extent). It will be therefore have to be investigated whether the critical success factors of RM are considered in the criteria and sub-criteria of the EFQM-model. It will also be discussed to what degree this is necessary.

4 Examination of the EFQM-Model based on RM-Factors

4.1 Summary of Examination Results

In a criteria-based examination, each of the nine criteria of the EFQM-model was assessed with respect to the seven factors, which depict important Relationship Management characteristics (namely: interaction, cultivation of relationships, longevity, trust and commitment, mutual profitability, co-operation and integration) The examination produced the results presented in the table below. The EFQM-criteria contain RM-factors in various degrees, from (++) comprehensively included, (+) included, (O) implicitly included to (-) not included.

RM-variables / EFQM-criteria		Relationship Management variables						
		Inter-action	Cultivat. of Relation-ships	Longe-vity	Trust and Commitment	Mutual profita-bility	Co-opera-tion	Inte-gration
Enabler criteria	Leadership	+	+	O	-	-	O	-
	Policy and strategy	+	+	O	-	O	O	-
	Employees	O	O	O	-	+	+	-
	Resources & partners.	O	++	O	-	+	+	-
	Processes	++	++	O	-	+	O	-
Results crit.	Customer results	O	O	O	-	+	O	-
	Employee results	O	O	-	-	++	+	-
	Society results	O	O	-	-	+	O	-
	Key performance	O	+	-	-	+	O	-

Figure 11: Examination of EFQM- criteria[159]

In order to transfer these qualitative results into quantitative results, which are easier to interpret, numbers were allocated to the different symbols. Accordingly, (++) equalled 3 points, (+) equalled 2 points, (O) equalled one point and (-) equalled 0 points. Each EFQM-criterion could score a maximum of 27 points, which meant that the RM factors were comprehensively (very good) considered. 18 – 26 points meant a good result, 9 – 17 points meant a satisfying result, 0 – 8 points

[159] Source: author’s presentation.

meant a sufficient result and 0 points presented a deficient result. The table below shows, that none of the criteria obtained a very good or good score.

RM-variables / Examination results	Relationship Management variables						
	Inter-action	Cultivat. of Relation-ships	Longe-vity	Trust and Commit ment	Mutual profita-bility	Co-opera-tion	Inte-gration
Total points obtained	13	17	6	0	16	12	0
Grade obtained	3	3+	4	5	3+	3	5

Figure 12: Grades achieved with respect to RM-factors

Following, the results will be explained in detail. Each sub-criterion of the nine EFQM-criteria will be examined with respect to the RM-factors. In order to avoid redundancies, similar results will be summarised.

4.2. Cultivation of relationships

Criterion 1 "Leadership"[160] of the EFQM model is concerned with how the executive team and all other leaders of a company inspire, support and promote a culture of total quality management. This criterion includes four sub-criteria, which define in more detail how leaders should behave and act in order to initiate and stabilise quality concepts. The **cultivation of relationships** in the sense of identifying, establishing, maintaining and enhancing relationships with relevant stakeholders of the company is included in criterion 1)[161] and more explicitly in sub-criterion 1c). This sub-criterion is concerned with the identification and fulfilment of needs and expectations of customers and other partners, the establishment of relationships with them, the active improvement and rewarding of loyal relationships. It also involves participation in external associations, conferences and seminars in order to spread the idea of business excellence and to increase a company's contribution towards society. The other three sub-criteria, however, miss the notion of **relationship cultivation**. 1a) talks about encouraging co-operation within the organisation. This points towards the establishment and management of relationships inside a firm. It needs to be added that co-operation with external partners has to be stimulated and the establishment of relationships with customers, suppliers and other groups have to be encouraged. 1b) involves the continuous improvement of the management system by leaders. The **cultivation of relationships** is of minor relevance here. However, it is an

[160] See for a desription of criterion 1: EFQM, 1999d, p.12-13 and Zink, 1998, pp.93-107.
[161] See for a desription of EFQM-criteria and sub-criteria chapter 5.1 and appendix i.

important point to be mentioned in 1d) because employees have to be motivated and supported in order to participate in establishing, maintaining and enhancing relationships[162].

Criterion 2 is called "Policy and Strategy"[163] and it is concerned with how quality is made part of corporate policy, how it affects strategic orientation and how it is implemented into daily business. 2a) sees current and future needs and expectations of stakeholder groups as the basis for any policy and strategy formulation. Different stakeholder groups are named but what is missing is that **relationships** with them **have to be built, maintained and enhanced**. Otherwise, there would be no common basis and it would not be possible to gather information about their wants and needs and about future expectations. The same applies to criterion 2b). It says that policy and strategy need to be built on information. This includes ideas and suggestions of stakeholder groups. The incentive for stakeholder groups to contribute to the creation of ideas would be to benefit from it just as the company does. This implies relationships with a long-term perspective and continuous interaction with the company. In criterion 2c), the idea of adjusting policy and strategy to policies and strategies of partners is expressed. This indicates that enhanced relationships with partners must exist – otherwise the co-ordination of policy and strategies would not be necessary. Criteria 2d) and 2e) are concerned with strategy implementation and communication. These are operative measures, which can have an effect on the **cultivation of relationships**. Therefore, a reference to the inclusion of relationship partners into key processes and the necessity of communicating objectives and plans in order to establish an open and trusting atmosphere should be made.

The third enabler criterion is called " people management"[164] and it aims at the inclusion of employees into the continuous quality improvement process. In detail, this criterion is concerned with the planning and improvement of people resources, with sustaining and developing their capabilities, with a regular review of their performance, with the involvement, empowerment and recognition of employees, the dialogue with and the care for people. This reflects the RM idea that employees should be treated as internal customers (=internal markets) in order to achieve employee satisfaction. Employees, however, are also very important factors in the **cultivation of relationships** with external markets. Because they are an integral part of the organisation and represent this organisation when in contact with customers and other relationship partners[165]. Especially sub-criteria 3b) and 3c) should reflect this idea. Employees should be introduced to RM-thinking. They should learn about the

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[162] This is explained by the Internal Marketing concept, which deals with marketing and personnel policy initiatives in order to produce customer-oriented employees. Cp. Liljander. 2000, p.162.
[163] For criterion 2: EFQM, 1999d, pp.14-15 and Zink, 1998, pp.108-118.
[164] For criterion 3: EFQM, 1999d, pp.16-17 and Zink, 1998, pp.119-137.
[165] cp.Liljander, 2000, p.168.

importance of mutual relationship building and about ways to contribute to maintaining and enhancing relationships with customers, suppliers and other target groups. They should be encouraged and empowered to contribute actively to initiating and enhancing relationships with important target groups. They should also receive appreciation and gratification when successfully doing so. They should demonstrate a conscience for and interest in **cultivating valuable relationships**. This should be added to criterion 3).

Criterion 4 is concerned with a subject that has increasingly been focused on in recent years – the optimum use of “resources”[166]. These resources include: financial resources, building, equipment and other assets, technology, information and intellectual capital. All of these have to be planned and managed in order to support policy and strategy and continuous improvement processes. While resources like finances, buildings, interior, material, technology and knowledge to not have to feature the notion of **cultivating relationships**, this is imperative for sub-criterion 4a). In 4a) the importance of identifying key partners and structuring partnerships in order to achieve higher value creation is acknowledged. It is also suggested, to secure cultural correspondence among relationship partners, to exchange knowledge, to support joint development projects, to develop innovative and creative thinking via relationships and to achieve synergies in order to increase value creation for the involved parties. All these are ways to **cultivate relationships** with relevant partners like key customers, suppliers and other stakeholders in the society. Criterion 4a) therefore mirrors perfectly what has been described as **cultivation of relationships** – namely identifying, establishing, maintaining and enhancing relationships.

Criterion 5) is defined as the design, management and improvement of processes in order to support policy and strategy and to fully satisfy customers and other stakeholders and to increase value creation for them. In every one of the five sub-criteria, measures to sustain and enhance relationships are made explicit. In 5a) it is requested to manage interfaces within the organisation and with external partners and by doing so to manage processes more effectively and throughout. In 5b) creative and innovative ideas of employees, customers and other partners should explicitly be encouraged and used for improvements. Any such improvements and changes in processes should always be announced to all stakeholder groups. 5c) sees the needs and expectations of customers at the core of product and service development. This includes that needs and wants of customers have to be determined, new products and services have to be designed according to these expectations and new products have to be designed in a co-operative process with partners. 5d) talks about the production, delivery and attendance to products and services in a customer-oriented fashion. 5e) mentions numerous ways to cultivate and enhance customer relationships. It can only be criticised that maintaining and enhancing relationships with other stakeholder groups are not included in 5d) and 5e). Apart from that, criterion 5) shows a clear concern for **cultivating relationships** with customer and stakeholder groups by including them in the design and management of processes.

The first of the results criteria is called "customer results"[167] because the satisfaction of all external customers is the most important results criterion according to the EFQM. Customer orientation is an important (even though sometimes only implicit) element in all enabler criteria and therefore it has to find it's complement in the results section. Customers can be satisfied with respect to the perceived image of the company, products and services, value-added services and they can show this satisfaction by loyalty towards the firm. Research has shown that the profits earned from each customer grow as the customer stays with the company. The economic consequences of losing mature customers and replacing them with new ones are considerable. In businesses like life insurance, credit cards and others, firms actually lose money on first-year customers. It generally takes several new customers to compensate for one lost veteran. Also, profits from customer retention compound over time and the effect on long-term profit and growth can be enormous.[168] Hence, the "customer satisfaction" criterion mirrors a very important aspect of RM. Not singular transactions at high profit should be at the centre of all marketing management efforts - but the creation of a loyal customer base by continuously satisfying their needs and expectations. On-going relational exchange is imperative and should therefore be regarded as an important notion in this criterion. Although customer loyalty is a starting point for a lasting relationship with the supplier, the intention to contribute actively to maintaining and enhancing it from point of view of the customer is missing. The company measures loyalty by duration of the relationship. It should, however, find means to measure also *how* both parties contribute to the **cultivation of this relationship**, how much efforts and time is invested in common activities and how these contribute to the overall value creation of the company.

Only if employees realise the essential part they play in producing a satisfactory service offering, objectives like customer retention and building long-term relationships can be pursued. Employees as Full or Part-time marketers have therefore to be supported and encouraged in a way to achieve satisfactory performance. The second results criterion 7)"employee results" includes what a company achieves with respect to it's employees. Again, results are seen from the point of view of the employee and from the company's perspective. In sub-criterion 7a) an employees' possibility to

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[166] For criterion 4: EFQM, 1999d, pp.18-19 and Zink, 1998, pp.138-154.
[167] For criterion 6: EFQM, 1999d, pp.22-23 and Zink, 1998, pp.174-187.

engage in relationships with internal and external customers, partners in the supply chain and stakeholders like unions, environmental and other relevant groups should be mentioned. These relationships can have a positive effect on motivation and satisfaction of employees, because personal contact and involvement can lead to emotional bonding and a better identification with the firm as a whole. For the company (7b), higher motivation of employees, stronger interest in relationship partners and increased participation and involvement in relationship building should be important indicators for relationship-oriented commitment and performance of the staff. In criterion 7) it is missing, how employees contribute to the **cultivation of relationships**.

Results criterion 8) "Impact on Society"[169] pays particular attention to the effects managerial actions have on society. This includes, how the organisation is perceived by the general public in terms of responsibility (e.g. ethical behaviour), active participation in the local community (e.g. support of health care and charity institutions), environmental protection, work safety and preservation of resources. It also includes internal assessment of the safety and environmental measures carried out by the company and the constant monitoring, planning and improvement of these measures. "Society results" (8) reflect a company's performance with respect to the local, national or international community. This ought to contain the establishment of relationships with public authorities, media, environmental, charity, sports and other influencer groups. These groups should perceive the company as a reliable and enduring relationship partner. The company should reflect it's behaviour and should document activities, which are directed towards key relationship partners. Efforts made to **cultivate and enhance relationships** with partners should be reviewed regularly and the treatment of these partners should be object to critical assessment.

Criterion 9a) of "Key performance results" is missing the notion of relationships and the value creation through **relationship cultivation**. This should be included in the section "non-financial results". Sub-criterion 9b), however, does include external resources and partnerships. For example, performance, number and value of partnerships are regarded as key indicators for business results. Moreover, the number of product and service innovations with input from partners, jointly realised improvements and the value creation realised through each of the partnerships are taken into account. It may be added, that maintaining and enhancing relationships with key partners can also lead to process improvements and hence increased effectiveness and efficiency, to an increase in knowledge and more advanced technology. Also, the notion of "partnerships" should be replaced by

[168] cp. Reichheld, 1998, pp. 37-39.
[169] For criterion 8, EFQM, 1999d, pp.26-27 and Zink, 1998, pp.198-205.

"relationships" because relationships point to a much closer connection of the involved parties and to a more advanced stage of interdependence.

Result

Although **cultivating relationships** with numerous markets is at the core of Relationship Management, this notion can only be found in six of the nine EFQM criteria in a more or less satisfying way. In criteria: 3) employees, 7) employee results and 8) society results, the idea of cultivating beneficial relationships is not expressed. As pointed out before, attitude and performance of personnel plays a crucial role for relationship success, because customers are still largely dependent on personal interactions with employees[170]. This is not just true in service contexts but also for consumer and industrial marketing. Therefore, firm-employee and employee-customer relationships should not remain unconsidered. Also, relationships with stakeholder groups from the society cannot be ignored. They may have significant influence on the company and they can have an affect on other relationships, including those with customers. Thus, the EFQM model would have to be modified in the suggested ways to meet Relationship Management requirements.

4.3 Interaction

Examining the EFQM-model with respect to the factor "**interaction**" produces similar results. The idea of continuous interaction with customers and business partners indicates the most obvious shift from Transaction Marketing towards a Relationship Marketing and Management approach. The notion and implications of relational exchange are, however, expressed (implicitly and/ or explicitly) in only three of the nine EFQM criteria, namely: 1) Leadership, 2) Policy and Strategy and 5) Processes. The other criteria are lacking an adequate reference to **interaction.** As the cultivation of relationships invariably presupposes interaction with the relevant stakeholder groups, this factor would not only have to be considered in "Partnerships"(4), in the design of processes (5) but implicitly also in the results criteria (6,7,8,9), because successfully established relationships with customers, employees and business partners will be founded upon continual **interaction.**

[170] cp. Liljander, p.162.

4.4 Longevity

Longevity is closely related to the idea of interaction and it is also fundamental for the idea of establishing and enhancing relationships. The examination of the EFQM model with respect to longevity will hence produce results similar to those in chapter 4.2.

As pointed out earlier, criterion 1c)[171] deals with the establishment of relationships between leaders of a company and customers, partners and representatives of society. A long-term perspective is immanent to building relationships with these partners. Only over time, working together in a relationship will lead to familiarity, to knowledge about the other's expectations, to adaptations (which can vary with respect to the type of relationship partner) to efficiency and increased effectiveness. A short-term perspective, in contrast, would support a transaction orientation rather than an interaction orientation. Criteria 1a), b) and d), are missing a long-term perspective. In 1a) the vision of long-term relationships with external partners should be added and in 1d) leaders should communicate a conscience for a long-term orientation towards internal customers.

In criterion 2) needs and expectations of customers and partners do not only have to be anticipated – they have to be included in long-term considerations. **Longevity** is necessary for the adjustment of policy and strategy to relationship partners. The integration of relationship partners in key processes needs technical and organisational adaptations, which only pay if a long-term horizon is assumed.

For criterion 3) "Employees" the argumentation of 4.2 can be followed. In addition, the employees' thinking in long-term perspectives should be raised. Although the notion of **longevity** is immanent to maintaining and enhancing relationships, it may be stressed to employees that it takes time to adapt to relationship partners, patience is required and difficulties may have to be overcome before achieving mutually satisfying results.

For criterion 4), the respective argumentation of 4.2. can be applied. Especially in sub-criterion 4a) a strong point has to be made for the long-term perspective of any strategic relationship - because all described activities in 4a) assume a long-term horizon.

This is also true for criterion 5) "Processes". In each of it's five sub-criteria, measures to improve relationships can be found. 5c), for example, states that products and services are designed and developed on the basis of needs and expectations of customers. Obviously, this is done in order to satisfy customers and to develop loyalty towards the company, which may eventually lead to customer retention. A long-term perspective is inherent but not made explicit.

In results criterion “customer results” loyalty is mentioned as a business result from point of view of the customer. Loyalty is the intention to buy repeatedly from the same supplier and can therefore be seen as a decision to stay in a longer lasting relationship with this supplier. The same applies to 6b). Loyalty from point of view of the company is measured by the duration of the relationship. In both cases, a clear long-term focus towards customer-supplier relationships is apparent but has to be expressed explicitly. For the results criterion “employee results”, the argumentation from the respective criterion in 4.2 can be repeated. A long-term relationship focus (firm-employee and employee-customer) is missing. The concept of employee bonding[172], however, is based on long-term considerations. Long-term relationships with the public in “Society results” (like media, political authorities, environmentalist groups and others which can exert influence on public opinion) lead to deeply embodied trust and confidence towards the company – especially if the company has shown responsible behaviour towards stakeholder groups for a long period of time. Also criterion 9) “Key performance results” fails to include a long-term perspective to relationships. Similar to the comments made in 4.2 it can be said that successful long-term relationships can be regarded as non-financial business results and should therefore be added to the list in question. The same applies to 9b). Not only number and value creation of relationships should be regarded as indicators for business success but also the time frame of these relationships.

Result

As a result it can be said, that non of the nine EFQM criteria mentions **longevity** explicitly as an important factor for business success. It is, however, closely linked to the idea of continuous interaction with customer and stakeholder groups and the establishment and maintenance of relationships with them. **Longevity**, therefore, ought to be included in the model in the suggested ways.

[171] See for a desription of EFQM-criteria and sub-criteria chapter 5.1 and appendix xvi.
[172] Bonding is usually in customer contexts discussed. For the measurement of (customer) bonding, see Töpfer, 2000, p.361-363

4.5 Trust and Commitment

Criterion 1) "Leadership"[173] is concerned with a companies' vision and mission and how leaders develop values, which are necessary for the long-term success of the organisation. **Trust and commitment** are essential values, which determine a firm's culture and business success and moreover, which determine the behaviour of employees towards other members of the organisation and towards external groups. Leaders have to stimulate a trustful atmosphere and support the commitment of employees towards the business mission and vision. This includes especially a trustful and committed approach towards relationship partners. These variables are therefore indispensable in sub-criteria 1a), 1c) and 1d).

Criterion 2) is concerned with the implementation of business vision and mission into corporate strategy (which is in line with stakeholder interests) and the support of this strategy through appropriate policy, plans and objectives. This includes that the trustful and committed approach towards relationship partners should be mirrored in strategy and policy (2c) and should be communicated and included in objectives and operative measures (2e).

Criterion 3) deals with employees and how their potential is developed, managed and released in order to support policy, strategy and efficiency of processes. This should include that social competence is developed and enhanced. **Trust and commitment** should be subject to reflection and should be dealt with in on and off-the-job training. Team training with participation of external relationship partners could be a starting point. Supervision of joint activities and projects could be another way of assessing the level of **trust and commitment** within the team (3b). Empowerment is a means of increasing commitment of employees towards the firm and towards partners (3c). An open and trustful atmosphere inside the firm will also support continuous dialog among managers and employees and will path the way for a trustful attitude towards relationship partners (3d). Finally, a committed behaviour towards key partners should also be recognised and rewarded (3e).

In criterion 4), resources and partnerships are subject to management and planning. While resources like finances, buildings, technology and information can be dealt with without involving **trust or commitment** – this is not the case with partnerships. Advance trust is necessary at the beginning of every relationship. On-going interaction will increase confidence in the partner, reduce uncertainty and will lead to a more realistic evaluation of the relationship partner. This increases trust and a

[173] See for a desription of EFQM-criteria and sub-criteria chapter 5.1 and appendix i.

feeling of commitment towards the relationship and it's development. Thus, **trust and commitment** can be seen as key mediating variables in long-term relationships[174].

Criterion 5) revolves around design, management and improvement of processes in order to satisfy customers and increase value creation. Customer and stakeholder needs and expectations are a central concern in this criterion. A clear focus is on the maintenance and enhancement of relationships – this implies a high commitment to designing processes, which lead to customer satisfaction and retention. This commitment from the company's side can be seen in efforts to apply new methods, technologies, procedures and to induce learning processes. The customers/ stakeholders participation is requested and this demands high commitment also from their side (5b). Cultivating and enhancing relationships with customers (5e) should also include co-operative efforts to building a trustful atmosphere.

Criterion 6) "Customer results" is concerned with how customers perceive the organisation and how the organisation measures customer perception. In both cases, loyalty is an important aspect and indicator for customer satisfaction. Trust and the feeling of commitment towards the company are important sub-results – without them, a relationship with a long-term perspective is not conceivable. Criterion 7) "Employees results" is concerned with how employees perceive the organisation and how the organisation measures employee perception. Both, motivation and satisfaction of employees are initially (although not only) based on **trust and commitment** towards the company. This is also reflected in their performance and in the way they handle external relationships. As mentioned before, social competence (of individuals) supports the establishment of **trust and commitment** between two parties. If employees know how to approach relationship partners and how to induce mutual understanding, they will also be able to create and maintain trustful relationships with key partners. Therefore, a company not only has to measure an employee's performance with respect to partners - but also his ability to contribute to a trustful atmosphere and high commitment from both sides. The same can be applied to criterion 8) "Society results". A company has to establish trust within the public and show high commitment for social, environmental and other concerns. The company should be perceived as a trustworthy partner, which is committed not only to profit maximisation but to public issues. Respective commitment can show in environmental, health care, charity, sports or political engagement. In the last criterion "Key performance results", the notion of **trust and commitment** should be added to partnership results – as an immaterial result, which supports material results like value creation, innovative product and service offerings and other improvements induced by relationships partners. In all results criteria, **trust and commitment** should

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[174] cp. Henning-Thurau, 2000, pp.132

at least be included as sub-results in order the achieve the cultivation of long-lasting relationships as primary result.

Result

It has to be noticed that non of the nine EFQM criteria explicitly features the factor **trust and commitment** yet. In the enabler criteria 1), 2), 3) and 5) it is imperative and should therefore be included. For the remaining results criteria it can be argued, whether a modification is necessary or an implicit reference is sufficient.

4.6 Mutual Profitability

Mutual profitability was defined as the achievement of a win-win situation and a plus sum game for both relationship partners. This includes not only monetary benefits but also an increase in information, knowledge and social capital. None of these points are mentioned in criterion 1)[175]. As this criterion is concerned with the development and deployment of a company's vision, mission and values by means of appropriate measures and behavioural patterns, the vision of mutual beneficial relationships should find it's way into this criterion. Especially sub-criterion 1c) ought to be enhanced in a way to represent not only a leaders' efforts towards customers, partners and other stakeholder groups but the objective to make relationships with them mutually satisfying and profitable.

As criterion 2) deals with the introduction and implementation of strategy and policy in accordance with stakeholder needs, benefits for these stakeholder groups are inherent. This includes in 2a) not only that needs and expectations of customers, partners, employees and society have to be anticipated and considered – these needs and expectations have to be satisfied by achieving monetary and non-monetary benefits for and with them. This includes in 2c) to co-ordinate strategies and policy with those of relationship partners by assuming win-win situations as strategic goals. And this includes in 2e) the appropriate communication and introduction of the goal "**mutual profitability**" with regard to relationship partners.

When employees (criterion 3) are regarded as "internal customers", the organisation has to make sure that the right organisational climate is created in order to enable them to perform well.[176] This involves that employees profit in a monetary and non-monetary way from performing in a certain way. Monetary profit is, of course, the monthly salary, rewards and other financial gratification. Non-

[175] See for a desription of EFQM-criteria and sub-criteria chapter 5.1 and appendix i.
[176] Berry, 1995, p.28.

monetary benefits arise from taking part in further training and seminars. This leads to a (cognitive and methodical) knowledge base, which will be of use for them even if they leave the company. Other benefits may include: prestige, increased self-confidence, increased social competence, social security, retirement plans, etc.[177], which may lead to high employee satisfaction and a low defection rate. Some of the above mentioned points are approached in criterion 3). In 3a) fairness, equal opportunities and career planning belong to the objectives, which have to be managed and improved. In 3b) knowledge and competence of employees ought to be enhanced by establishing training and human development for the individual employee and for teams. In 3c) the aim is participation and empowerment of employees in order to support creative and innovative behaviour. 3d) talks about the sharing of experience and latest findings in an open dialogue with the organisation. 3e) talks explicitly about the payment, appreciation and gratification of employees and about the provision of social services. It may be concluded that criterion 3) gives examples for benefits, which internal customers and the organisation receive.

In Criterion 4a), the management of external partnerships (the other resources are not considered because they do not involve relationships) features the objective to structure relationships with external partners in order to jointly create and increase value. Also, the exchange of knowledge, the mutual support in development projects, joint creative and innovative thinking and co-operative efforts to improve processes are desired. All this embraces the idea of **mutual profitability** – but the objective as such is not expressed and therefore needs to be added.

The description of criterion 5) talks about process management and how it must be designed in order to meet customer and other stakeholder expectations. Satisfaction and value creation for these groups are seen as central objectives in 5). This clearly expresses a willingness to produce benefits for the involved customer and stakeholder groups. By this, the company earns higher profits because of higher customer retention and achieves other monetary or non-monetary benefits from stakeholder groups (favourable political decisions, positive reception in the media, etc.). 5b) for example, contains measures to improve processes in order to fully satisfy customer and other stakeholder groups and to increase value creation for them. 5c) is concerned with designing products and services in accordance with needs and expectations of customers. As has been the case in 3) and 4), the notion of **mutual profitability** is underlying and should be made explicit.

Criteria 6), 7), 8) and 9) are concerned with what a company achieves with respect to customers, employees, society and it's planned performance. In criterion 6), results from the customer's

[177] See for a detailed discussion: Liljander; 2000, p.176-179.

perspective include image of the company, products, services, value-added services and loyalty towards the company. Some important results are missing in 6) – some which stem particularly from a customers' engagement in a relationship with the company. These are not only intangible assets like knowledge, information and satisfaction but also tailor-made products and augmented services. These customised products and services contain high value and make the relationship beneficial for the consumer.[178] There may also be a considerable price advantage for the customer when engaging in a long-term relationship with one particular supplier. Criterion 7) "Employee results" includes motivation (career opportunities, participation, empowerment, appreciation) and satisfaction (working conditions, health care, work safety, rewards, social services, environmental protection and work climate) as results. This criterion offers a rather exhaustive list of profits and benefits for internal customers. In criterion 8) results like participation in the municipality, responsible behaviour as fellow citizen, avoidance of pollution and preservation of resources are expressed. These are benefits directed towards the public. Missing is the company's profit from these efforts. In criterion 9) finally, financial and non-financial results are mentioned as key performance results. There should be a separate sub-criterion for relationship results (increase in knowledge, increased process efficiency and effectiveness, increased competitiveness, higher value creation, etc.).

Result

One very important section is missing in the results criteria. The results, which are achieved with respect to suppliers and other business partners are not considered. Working closely with suppliers by means of co-operation or horizontal/ vertical integration holds a large amount of benefits – e.g. organisational efficiency and effectiveness, shared knowledge and information base, reduced costs, advanced technology, focus on core activities, etc. All these can make inter-firm relationships extremely profitable. Otherwise, all results criteria reflect benefits and profits for the involved parties. The enabler criteria, however, partly lack the notion of **mutually profitability**. Criteria 1) and 2) should be modified as suggested and criteria 3), 4) and 5) may add an explicit reference to **mutual profitability**.

4.7 Co-operation

Co-operation can be seen as a result of interdependence between business partners. Interdependence involves resource-dependencies, which can be managed by means of co-operation.[179] In a relationship context, the need for co-operation is yet more apparent because the objective is not merely to manage

[178] cp. Berry, 1983, pp.26-27.
[179] cp. Schäper, 1996, p.128.

interdependencies - but it is the creation of joint value in a mutually satisfying relationship. The idea of co-operation, therefore, has to be manifest in a company's business vision and mission when pursuing Relationship Management. A willingness for change and innovation and a general inclination to co-operate have to be common among the leaders of a company. Further on, a long-term perspective, a willingness to share information and the ability to co-operate are crucial factors.[180] In criterion 1)[181] a **co-operation** perspective is missing. Criterion 1a) includes the notion of collaboration within the organisation but co-operation with external partners is not mentioned. In 1c) the leaders' efforts towards customers, partners and society are acknowledged. But apart from joint improvement measures, no other co-operative activities are named. Fulfilling needs and expectations of customer and stakeholder groups, however, implies a variety of co-operative efforts. Sub-criteria 1a) and 1c) should therefore be modified accordingly.

The idea of **co-operation** with relationship partners has to be implemented into corporate policy, strategy and objectives. In 2c), measures to develop, evaluate and revise policy and strategy are described. Among these is the advice to co-ordinate policy and strategy with those of relationship partners. Otherwise, there is no reference to co-operation. It should, however, be expressed that **co-operation** is vital for Relationship Management and must therefore be pursued through policy, strategy and objectives (2c) and implemented through a number of key processes (2d).

The idea of **co-operation** inside the firm is captured in criteria 3a) and 3d). In sub-criterion 3c) it says that employees should participate actively and act self responsible in order to support innovative and creative behaviour and improvement activities. This can be done by means of empowerment and teamwork, etc. 3d) calls for an open dialogue between employees and the organisation in order to share experiences and knowledge. All these are measures of internal **co-operation** (even though they are not explicitly called as such), which help to increase efficiency and effectiveness of the firm as a whole. Criterion 3) should be modified in order to include the term "internal co-operation".

Criterion 4a) is concerned with the management of external partnerships. Long-term relationships with business partners, which display a high amount of trust and commitment, form an ideal ground for **co-operation**. In 4a) the establishment of value creating partnerships is suggested and also the mutual support in development projects. Moreover, achieving synergies for process improvements in order to add value to the value creation chain is mentioned. All these efforts can be considered as co-operation – although they are not termed as such. **Co-operation** as part of Relationship Management

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[180] cp. Schäper, 1996, p.129.
[181] See for a desription of EFQM-criteria and sub-criteria chapter 5.1 and appendix i.

has to be defined as a clear goal and has to be expressed accordingly. Every relationship partner is a potential co-operation partner – however depending on the relationship quality and the motivation from both sides to engage in co-operation.

Criterion 5) is concerned with the design, management and improvement of processes. In 5b), process improvements are seen as a way to satisfy customers and other stakeholder groups. Creative ideas from partners are an invaluable input for improvement measures. Improved processes are not only of benefit for the company but also for relationship partners. Co-operative efforts to enhance processes, technologies, methods and conditions will strengthen the competitive advantage of both partners. The degree of co-operation, however, can vary considerably. Co-operative efforts can range from exchange of information and knowledge to joint "research and development", " marketing and sales", joint databases, project and teamwork, etc.. The **co-operation** potential, which is inherent to relationship partners should in any case be expressed in 5) and more particularly in 5b).

At first glance, **co-operation** has only an indirect influence on criterion 6) "customer results". By co-operating with business partners, influencer groups, employees and others, the company can improve and enhance it's customer-perceived performance. The image of the company will be affected positively, quality and value of products, services and value-added services will increase and this will have an impact on customer loyalty and retention. However, if **co-operation** is understood in a broader sense as involving customers in product development and design processes – then results of these collaborative efforts have to be included in this criterion.

Criterion 7) features, what a company achieves with respect to it's internal customers. As pointed out before, participation, empowerment and personal responsibility can all be seen as ways to support the employee's co-operation in the value creation process of the company. The opportunity to co-operate within the organisation also affects motivation and satisfaction of the employees. A reference to **co-operation** should therefore be made in criterion 7).

Criterion 8) is concerned with how society perceives the company. **Co-operation** with groups like media, political parties/ organisations, charity and other social groups is not mentioned – and neither is the outcome of such co-operative efforts expressed (terms like "participation" and "support" are used to indicate engagement with these groups). Criterion 8) does not sufficiently capture the potential of engaging in relationships with groups from the public. The possibility to co-operate must be expressed and elaborated on – as it could hold a considerable amount of benefits (of monetary and non-monetary kinds).

Co-operation with external business partners and internal (and external) customers will also have an effect on key performance results (criterion 9). Depending on the degree and kind of co-operative effort, financial results will be influenced (profit, turnover, etc) and non-financial results will be affected (competitive advantage, market share, etc.). Therefore, among the key performance indicators in 9b) should be a reference to co-operative activities with external and internal partners. Also, the effect of co-operation on processes, finances, technology and knowledge should be regarded.

Result

The possibility of **co-operation**, although implied in most of the criteria, is not expressed in the EFQM-model. Instead, collaborative efforts are summarised under the heading “partnership”. Partnerships can take different forms and a specification with respect to the design of such partnerships is necessary. Co-operation is one way of approaching a value-creating partnership. Not only business partners but also internal and external customers can be subject to co-operation.

4.8 Integration

Integration includes the idea of co-operation but is more far-reaching. While co-operation stops at a company’s boundaries, integration means the amalgamation of parts or even entire organisations. Both, co-operation and integration, apply primarily to business-to-business contexts (as explained in the Interaction/ Network Approach to Industrial Marketing) – but an application may also be indicated in consumer contexts. Consumers can co-operate with companies in questions of product and service development, improvement and the handling of complaints. They might even become parts of the company by being linked electronically in order to provide immediate feedback or by being part of the product/ service innovation process. As integration and co-operation, however, are similar in many respects, the results from the examination of the factor “co-operation” will also be applicable to “integration”.

The need for **integration** is not considered in any of the enabler criteria although this might be indicated especially in B2B contexts. Criterion 4a) is called the management of external partnerships. If **integration** takes place, partners could no longer be regarded as external. 4a) would have to be broadened in order to include the possibility of integration. Sub-criteria 4c), d) and e) would also be affected because the integration of external resources would lead to the amalgamation of technology, information and material. Most obviously affected from **integration** would be criterion 5). Interfaces between internal and external value creation partners would have to be designed, managed and improved in joint efforts. Customers could participate actively in processes like market research, design and development of products and services.

Integration is not included in any of the four results criteria. With respect to customer and society results, there should be a reference to the benefits of **integration**. Integrative efforts would, most importantly, have an impact on key performance results. Processes could be improved, productivity increased, maturity of products raised and the defection rate decreased. Progress in terms of technology, knowledge and information would be supported. This, in turn, would have an effect on financial and non-financial results. It is, however, difficult to determine which results are particularly due to **integration** of business and other relationship partners.

Result

As pointed out before the term “partnership” in the EFQM-model is poorly defined. One way of designing business relationships with partners, internal and external customers could be to integrate them into a company’s structures and processes. This possibility should be considered in the EFQM-model.

5 Implementation of Relationship Management into the EFQM-Model

5.1 Assessment of the current EFQM-Model

In the below figure, the examination results are presented in a graphical version. Obviously, none of the nine EFQM-criteria includes the RM-factors in a good or very good way. Two of the criteria (cultivation of relationships & mutual profitability) have reached close to good results (17 resp.16 points), two have reached satisfying results (interaction & co-operation) with 13 resp. 12 points, one has achieved a sufficient result with 6 points (longevity) and two have reached deficient results (trust & commitment and integration), which means that these factors are not included at all.

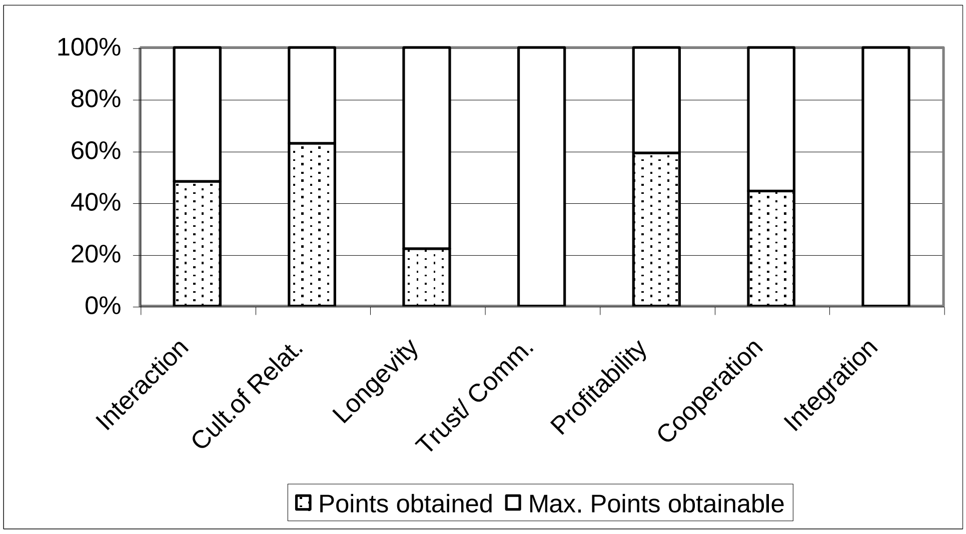

Figure 13: Examination results

Therefore, three of the seven RM-variables (*longevity*, *mutual trust and commitment* and *integration*) can either **not** or **only implicitly** be found in the EFQM-criteria. *Interaction* is (sufficiently) included in only three of the nine criteria, *cultivation of relationships* in only five of nine criteria, *co-operation* in only three of nine criteria and *mutual profitability* is included in seven out of nine criteria. Interestingly enough, *mutual profitability* can be found in most criteria, however not in 1) leadership and 2) policy & strategy. Although it is expressed in terms of employees, partnerships and processes and has found it's way into the results criteria, it is not embodied in a firm's philosophy and policy & strategy. For a company, to produce results which have not been part of strategic goals and corporate strategy and policy would clearly show a malfunctioning of the system. Equally interesting is the fact, that *interaction*, *cultivation of relationships* and *co-operation* can be found in the enabler criteria but there is (almost) no equivalent in the results criteria. This points to the problem, that Relationship Management is considered in the EFQM-model by means of the "partnership idea" (as a fundamental EFQM-concept) – but it is only selectively included in the EFQM-criteria. There is no indication as to the mutual dependence of enabler and results criteria with respect to partnerships. As the EFQM-model is presented as a system, in which enabler criteria influence results and this in turn leads to innovation and organisational learning, this inter-connection between elements of the system has to be apparent. Further on, the expression "partnership" seems to be a rather problematic one. It points to business-to-business contacts but is not defined further. There is no indication as to which shape and intensity these partnerships take. Much more suitable would be the introduction of the term "relationship". Relationships are not limited to business-to business contacts but include a variety of stakeholder groups as well as internal and external customers. Also, relationships involve the idea of interaction, longevity, trust and commitment and mutual profitability. They can be applied to numerous contexts and can take different forms – hence involve a much broader spectrum of possibilities. This would make an application to contexts like consumer, industrial and service markets much easier. If, however, partnerships in business contexts (relationships with business partners) are the focus of attention, partnership results should be mirrored in the results section. While there are results criteria for customers, employees and even society, there is no such equivalent for partnership results. Partnerships are regarded as part of resources and form a mere by-product in the key performance criterion. As has been explained earlier, there is a development towards horizontal and vertical integration of business partners into the value chain of an organisation. Hence, business partnerships are becoming increasingly important and can be seen as strategic choices of companies. Therefore, a separate criterion for partnership results seems justified. In general, the results criteria lack the inclusion of a thinking in relationship terms. By assuming customer loyalty as business goal, the establishment of relationships with customers is a natural consequence. Also, results of relationships with employees and the macro-environment are receiving increasing attention these days. These points are insufficiently covered in the EFQM-model. Even more important is the foundation of Relationship Management in a company's business vision and mission and in corporate policy and strategy. Again, the EFQM-model lacks this in it's current form.

It can be concluded, that the EFQM-model to date does **not** feature comprehensive relationship thinking as it was defined in this paper. In order to serve as an integrative management model, which includes Relationship Management, it would have to be modified in a number of ways.

5.2 Introduction of a modified EFQM-Model

As has been described in chapter 4, there are numerous points of departure for modifications of the EFQM-model. Following, some suggestions will be given which could serve as starting points for a discussion and revision of the model (a detailed list of suggestions for an extended EFQM-model can be found in appendix ii).

For any implementation of Relationship Management, first and foremost, visions and values of a company have to be adapted. Leaders of a company have to *support a culture of relationships and act as role models*. This may include building and actively participating in relationships, supporting continuous interaction, co-operation and the integration of relationship partners into a company's structures and processes and the recognition of employees as internal customers. The existing sub-criteria can be used and adapted accordingly or a new sub criterion could be created in order to fit these demands. *The concept of Relationship Management must be mirrored in Policy and Strategy*. These must be based on needs and expectations of relationship partners. This includes that continuous interaction should be subject to analyses: Ideas and suggestions of relationship partners should be promoted and key processes should be designed and carried out in co-operation with relationship partners. Moreover, Policy and Strategy should be evaluated and analysed in continuous co-operation with relationship partners. The third criterion “Employees” should be renamed in *Internal customers*. It should involve the possibility for internal customers to interact in all parts of the value creation process and across functional and hierarchical barriers. Internal customers should learn continuously about how to approach external relationship partners and how to design inter-organisational co-operation. Finally, internal customers should be recognised for bearing relationship-responsibility. Criterion 4 should also be renamed, in *business relationships and resources*. It involves the establishment, maintenance and enhancement of long-term relationships with business partners and customers. These can be regarded as relationship assets which can be of considerable value if managed well. With respect to customers, the objective should be solidifying and retaining relationships with them With respect to business partners, the establishment of inter-organisational co-operation or, in a more advanced stage, integration should be the target. Criterion 5 is concerned with how processes are systematically designed and managed. This should include the *management of interfaces between the value chains* of internal and external relationship partners. Product and service innovation and development should be carried out in co-operative efforts – involving all relevant relationship partners. Knowledge and information of these should be used in order to enhance technology, processes, conditions and methods. Moreover, co-operative efforts should induce process improvements.

For the results section, the inclusion of a fifth criterion is suggested. This should reflect a company’s results with respect to partnerships. Partnership in this sense is seen as business relationships with suppliers, distributors and other constituents of the supply chain. As co-operative and integrative efforts with these groups can contribute significantly to the value creation of a firm, they should be addressed in a separate results criterion. The other four criteria should be modified in a way to reflect benefits and profits from establishing, maintaining and enhancing relation-ships between the company and internal/ external customers and representatives of society. For all of the above suggested points, sub criteria of the various enabler and results criteria can be modified or sub criteria added.

As can be seen, the above introduced modifications affect all nine criteria of the EFQM-model to different degrees. Moreover, it seems recommendable to change the structure of the model from nine criteria to ten – because the inclusion of partnership results seems inevitable. This would also imply a change of weight and points, which are allocated to each criterion for reasons of internal and external assessment. It seems questionable though, whether a revised model would still reflect the original intention of EFQM – namely to be open in structure and broadly applicable. Structural changes of the EFQM-model could have a strong impact on the reception of the model. It can be argued, if the implementation of Relationship Management into the EFQM-model would justify these significant modifications.

6. Outlook

As has been pointed out before, the development of stable relationships with customers, suppliers and other stakeholders of a company is an increasingly important goal for today's companies in order to secure sustainable competitive advantage in the market place. Consequently, the last decade has seen a rise of the Relationship Marketing and Management concept – both in academic research and in practice. In order to offer a guideline for the implementation of Relationship Management into a company's normative, strategic and operative management, current management models can be used. The EFQM-model for business excellence is one such model that has found widespread acceptance across companies in Europe. Originally intended to support quality management, it could also serve to integrate Relationship Management thinking. As it is based on quality commitment and customer orientation it offers good starting points for the inclusion of a relationship perspective. However, as has been shown in chapters 4 and 5, the model would have to be modified in a number of ways to encompass Relationship Management. Some of these modifications have been suggested in this paper. Nevertheless, further research will be necessary in order to determine how these changes will have to look in detail and if they agree with the original intention of the model.

Outline of the EFQM-model

1. Leadership
1a) Leaders develop the mission, vision and values and are role models of a culture of Excellence.
1b) Leaders are personally involved in ensuring the organisation's management system is developed, implemented and continuously improved.
1c) Leaders are involved with customers, partners and representatives of society.
1d) Leaders motivate, support and recognise the organisation's people

2. Policy and strategy
2a) Policy and strategy are based on present and future needs and expectations of stakeholders.
2b) Policy and strategy are based on information from performance measurement, research, learning and creativity related activities.
2c) Policy and strategy are developed, reviewed and updated.
2d) Policy and strategy are deployed through a framework of key processes.
2e) Policy and strategy are communicated and implemented.

3. People
3a) People resources are planned, managed and improved.
3b) People's knowledge and competencies are identified, developed and sustained.
3c) People are involved and empowered.
3d) People and the organisation have a dialogue.

4. Partnerships and Resources
4a) External partnerships are managed
4b) Finances are managed.
4c) Buildings, equipment and materials are managed.
4d) Technology is managed.
4e) Information and knowledge are managed.

5. Processes
5a) Processes are systematically designed and managed.
5b) Processes are improved, as needed, using innovation in order to fully satisfy customers and other stakeholders and generate increasing value for them.
5c) Products and services are designed and developed based on customer needs and expectations.
5d) Products and services are produced, delivered and attended to.
5e) Customer relationships are managed and enhanced.

6. Customer results
6a) Perception measures
6b) Performance measures

7. People results
7a) Perception measures
7b) Performance measures

8. Society results
8a) Perception measures
8b) Performance measures

9. Key performance results
9a) Key performance outcomes
9b) Key performance indicators

Figure i: Outline of the EFQM-model for business excellence[182]

[182] EFQM-model

Extended EFQM-model

1) Leadership

1a) Leaders develop the mission, vision and values of an organisation and are role model of a culture of Excellence and a Relationship culture
- The establishment, maintenance and enhancement of long-term relationships with internal and external customers, business partners and representatives of society is supported.
- Trust and commitment within the organisation and to external relationship partners is built and supported.

1c) Leaders are involved with relationship partners like customers, business partners and representatives of society. This may include:
- Building and actively participating in relationships with customers, business partners, etc.,
- Supporting continuous interaction and co-operative efforts,
- Ensuring mutual profitability for the involved parties,
- (Integration of relationships partners into an organisations' structures and processes).

1d) Leaders motivate, support and recognise internal customers. This may include:
- Employees are regarded as internal customers and relationships with them are built and enhanced.

2.) Policy & Strategy

2a) Policy and strategy are based on present and future needs and expectations of relationship partners
- Needs and expectations of all relationship partners have to be revealed, considered and satisfied.

2b) Policy and strategy are based on performance measurement, research, learning and creativity related activities. This may include:
- Analyses of results from continuous interaction with relationship partners,
- The use of ideas and suggestions from relationships partners,
- Co-operative efforts to create ideas and induce learning.

2c) Policy and strategy are developed, reviewed and updated. This may include:
- Policy and strategy have to be in line with those of relationship partners,
- The fundamental concept of Relationship Management must be mirrored in policy and strategy,
- Policy and strategy have to be in line with the RM-objective to produce mutual benefit/ profit for all involved relationship partners,
- Policy and strategy have to be constantly evaluated and updated and this maybe done in co-operation with relationship partners.

2d) Policy and strategy are deployed through a framework of key processes. This may include:
- Co-operative efforts to design and carry out key processes,
- The integration of relationship partners into value creating processes.

3.) Internal customers

3a) Internal customer resources are planned, managed and improved. This may include:
- The possibility to interact and co-operate in all parts of the value creation process and across functional and hierarchical barriers,
- The possibility to interact and co-operate with external relationship partners.

3b) Internal customers' knowledge and competence is identified, developed and sustained. This may include:
- The possibility to learn about external relationship partners and inter-organisational co-operation ,
- The possibility to learn how to develop trust and a feeling of commitment towards the own organisation and external relationship partners.

3c) Internal customers are involved and empowered. This may include:
- Internal customers are encouraged to participate in establishing and maintaining relationships with partners and in interacting and co-operating with them continuously.
- Internal customers are bearing relationship-responsibility.

3d) Internal customers and the organisation are in constant dialogue. This may include:
- Continuous interaction between internal customers and the organisation.

3e) Internal customer are rewarded, recognised and cared for. This may include:
- Efforts of internal customers with respect to relationships are recognised, supported and rewarded.

4. Relationships and resources
4a) External relationships are managed. This may include:
- The establishment, maintenance and enhancement of long-term business relationships in order to achieve mutual benefits.
- An open, trustful and committed atmosphere between relationship partners.
- Co-operation with and integration of (business) partners in order to establish a network of relationships, which jointly creates higher value for all.

5. Processes
5a) Processes are systematically designed and managed. This may include:
- Management of interfaces between internal and external relationship partners with help of co-operative or integrative solutions.

5b) Processes are improved - by using innovation - in order to fully satisfy internal and external relationship partners and to generate increasing value for and with them. This may include:
- Co-operative efforts to induce process improvement by means of creative and innovative thinking.
- The use of knowledge and information of relationship partners in order to enhance technology, processes, conditions and methods.
- Continuous interaction to communicate any such process improvements.

5c) Products and services are designed and developed based on needs and expectations of external relationship partners. This may include:
- Co-operative product and service innovation and development.

5e) Customer relationships are managed and enhanced. This may include:
- The establishment of long-term customer relationships and continuous interaction.
- Co-operation with customers in order to anticipate and meet needs and expectations and to jointly solve problems.

6. Customer results
6a) Perception measures. These may include:
- Customer loyalty: satisfaction, perceived relationship quality, invested trust and commitment, willingness to co-operate, perceived relationship benefits, willingness to stay in the relationship.

6b) Performance measures. These may include:
- Customer loyalty: perceived satisfaction, efforts to maintaining and enhancing the relationship, relationship profits, Return on relationships[183].

7. Internal customer results
7a) Perception measures. These may include:
- Motivation: trust and commitment, participation in relationships with internal and external customers and partners.
- Satisfaction: co-operation with internal and external relationship partners, perceived relationship benefits.

7b) Performance measures. These may include:
- Motivation: co-operation in improvement and innovation processes, participation in relationships with internal and external relationship partners.
- Satisfaction: relationship profits.

8. Partnership results
measures. These may include:
- Willingness to engage in a business relationship.
- Perceived relationship quality/ perceived trust and commitment.
- Number and outcome of co-operative activities (product and service improvements and innovations) with partners.
- Efforts to enhance integration.
- Relationship benefits.

8b) Performance measures. These may include:
- Number and value creation of joint activities with relationship partners.
- Appreciation and rewarding of input from relationship partners.

[183] cp. Gummeson, p.210 for a discussion of Return on Relationships

9. Society results

9a) Perception measures. These may include:

- Establishment, maintenance and enhancement of relationships with representatives from the society.
- Co-operation in joint projects, e.g. concerning environmental, charity, sports and welfare issues.
- Perceived trust-worthiness and commitment as relationship partner and towards issues of public interest.
- Perceived relationship benefits.

9b) Performance measures. These may include:

- Treatment of relationship partners, efforts with respect to co-operative projects.

10. Key performance results

10a) Key performance outcomes. These may include:

- Financial results: value creation due to interaction and co-operation with relationship partners
- Non-financial results: number and duration of relationships with internal and external customers, partners and representatives of society.

10b) Key performance indicators. These may include:

- Processes: co-operative and/ or integrative measures

Figure ii: Suggestions for an extended EFQM-model[184]

[184] Source: own presentation

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Authors

Dipl. Hdl. Astrid Friese

born 1975 in Leinfelde. Research assistant at the Department for Marketing and Commerce at the University of Göttingen: Main areas of research: integrated managament systems, relationship management. E-mail: afriese@gwdg.de.

Dr. Dirk Funck

born 1966 in Cuxhaven. Research assistant and lecturer at the Department for Marketing and Commerce at the University of Göttingen. Main areas of research: integrated management systems, ecological marketing, channel competition. E-Mail: dfunck@gwdg.de.

Address of Department

University of Göttingen
Department for Marketing and Commerce
Teaching division: Prof. Dr. Bartho Treis
Nikolausberger Weg 23
37073 Göttingen
Tel.: 0551 / 39-4447
Fax: 0551 / 39-4446

Internet:

Teaching division:	http://www.handel.uni-goettingen.de
Project:	http: //www.ims-research.de