Adaptation and Cooperation in TPL Relationships
How do providers and buyers adapt and cooperate to develop mutually beneficial and long-term relationships?

Master thesis in International Logistics and Supply Chain Management
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Master of Science Thesis within Business Administration

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Abstract

Problem: The developing business market and the pressure it puts on business gives rise to new fields of business within SCM and logistics. Third party logistics (TPL) services have grown rapidly in importance as an alternative to vertical business integration. The emergence of TPL has brought about interest in the topic by academia, but recent literature reviews express a need for research on TPL relationships where both buyer and provider perspectives are viewed simultaneously, since a majority of previous research has been conducted more from a single organisational viewpoint.

Purpose: The purpose of this thesis is to investigate how providers and buyers in TPL relationships adapt and cooperate to develop mutually beneficial and long-term relationships, as well as investigating their willingness and attitudes in this concern.

Method: The thesis combines an explanatory and exploratory classification, and performs a qualitative, mono method study of viewpoints on TPL relationships from Swedish and Norwegian providers and buyers that currently are in a TPL relationship. Semi-structured interviews are conducted with four providers and three buyers. The findings are analysed and interpreted in light of a theoretical framework developed from the literature review, which in the analysis is applied in a TPL context to extend the understanding of TPL relationships.

Conclusions: Willingness to adapt and cooperate in TPL relationships is connected with the parties' perceived potential for economic gain and also with being able to trust the other party. Buyers emphasise the need for providers to have knowledge about the buyers’ business. Providers emphasise the need for buyers to be knowledgeable about their own business and for the buyer to fits their solutions. Attitudes: Both parties emphasise communication as crucial for the development of mutual benefits. Buyers adapt to providers’ standards as far as possible. Providers seem to want buyers to adapt to their solutions to gain economies of scale, and therefore appear reluctant to make relationship-specific investments. The use of contracts in the TPL context appears to contradict literature in that contracts work as a foundation for building trust, as well as for reducing opportunistic and operational risk. In practice, both providers and buyers highlight the use of integrated IT-solutions as a means of adapting to each other. Regular operational meetings are emphasised as part of the practical cooperation to develop the relationship's future and to discuss day-to-day issues.
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1. Introduction

This chapter presents the background for the topic of study, as well as the problem discussion and purpose of the thesis, before giving an outline of the research.

1.1 Background

The ever-changing business environment, with its focus on specialization, productivity improvements, and efficiency, is forcing companies to come up with new competitive solutions in order to stay flexible and to survive in the market. Logistics and supply chain management (SCM) have steadily gained recognition as a competitive factor for business (Gotzamani, Longinidis & Vouzas, 2010; Oyebola, 2011). The developing business market is continually focusing on shortening product life cycles, reducing time to market; and customers are becoming increasingly knowledgeable. The pressure this development puts on business gives rise to new fields of business within SCM and logistics (Lieb & Bentz, 2005; Cui & Hertz, 2011). One field within the logistics and SCM branch of business is third party logistics (TPL) services, or logistics outsourcing, which have grown rapidly in importance as an alternative to vertical business integration since 1990 (Knemeyer & Murphy, 2005). The term TPL will be defined and discussed in more depth and detail in the next chapter, so for now TPL can generally be described according to Berglund, van Laarhoven, Sharman and Wandel (1999, p. 59) as:

‘Activities that include management and execution of transportation and warehousing, and other potential logistics related activities, carried out by a logistics service provider on behalf of a shipper, with a cooperation lasting for at least one year.’

The emergence of TPL has brought about interest in the topic by academia, something which is evident when performing a search with the word ‘TPL’ in almost any context in academic databases. There is a lot of research on why companies choose to outsource parts of their business. Maloni and Carter (2006) find that commonly recurring reasons for outsourcing in literature include cost reduction achieved due to the expertise and economies of scale of TPL providers, service improvements resulting from TPL provider focus and efficiency, and buyer/shipper focus on core competencies. Maloni and Carter additionally mention asset reduction, headcount reduction, complexities of global trade, increased flexibility, and technology improvements. Apart from reasons for outsourcing, other areas within TPL that have received research focus include selection criteria used by buyers of TPL services (Qureshi, Kumar, & Kumar, 2008; Selviaridis, Spring, Profiilidis, & Botzoris, 2008); evaluation of customer perception of TPL performance (Knemeyer & Murphy, 2004); and outcomes of TPL arrangements (Knemeyer & Murphy, 2005), among others.

The development of TPL providers fulfilling various and broadening sets of logistics services as well as improving their operations (Bask, 2001), has led to a change where companies increase their focus on core competencies and on establishing long-term relationships to ensure quality and mutual benefits in their
line of business (Boyson, Corsi, Dresner, & Rabinovich, 1999). Halldorsson and Skjøtt-Larsen (2004) state that relationships may start with the TPL taking on a narrow range of activities, leading to the development of closer, long-term relationships and a widening number of services that the buyer outsources to the TPL provider.

1.2 Problem discussion

The wide range of reasons for outsourcing, together with the other mentioned areas of research within the field of TPL, brings about the question of how relationships between TPL providers and the buyers are handled. Even though long-term relationships are developed, there are mixed results when it comes to how successful the cooperation and coordination turns out to be. While some companies have achieved significant cost reductions, others have experienced corporate failure as a result, due to reasons such as unclear goals, unrealistic expectations and flaws in contractual agreements (Boyson et al. 1999). It is intuitively appealing to argue that for long-term relationships to develop and prosper; a situation of trust and commitment is needed. However, according to Andel (2011), it is no longer just a matter of establishing long term contracts. Rather, Andel claims, trust and long-term relationships are increasingly being replaced with contract sessions pressured by buyers with purchasing backgrounds. Andel states this leads to a decreased focus on logistician-to-logistician and trust-based relationships, and an increased focus on purchasing.

In a literature analysis on present TPL research, Maloni and Carter (2006) express a need for research where perspectives from both kind of companies; buyers and providers, are investigated in the same study, since a majority of previous research has been conducted from a single organisational viewpoint. The situation of studying either buyer perspectives or provider perspectives on relationships is also addressed by Rajesh, Pugazhendhi, Ganesh, Ducq Yves, Lenny Koh, and Muralidharan (2011). An area within the TPL literature, also seemingly unexplored, is buyers’ and providers’ willingness to adapt to each other in order to achieve mutual benefits. Cooke (1996) mentions that companies do not put enough effort into making the relationships work, and that it requires on-going maintenance. Adding to this, Kerr (2005, p. 31) indicates that customers of TPL providers are obliged ‘to collaborate with those from whom they expect full collaboration’, even though the situation is traditionally being shaped mainly by the buyers’ demands. Marasco (2008) also adds to this by emphasising, through an extensive literature review, the lack of research on the bonding of buyer-provider processes and the need for organisations to learn about these.

Building on the above problem discussion, the following purpose has been developed.

1.3 Purpose

The purpose of this thesis is to investigate how providers and buyers in TPL relationships adapt and cooperate to develop mutually beneficial and long-term relationships, and to investigate their willingness and attitudes in this concern.
1.4 Delimitations
This thesis investigates viewpoints and attitudes from Swedish and Norwegian providers and buyers that are in TPL relationships. It is not the specific relationships themselves that are of interest. Rather, the aim is to gain an understanding of how providers and buyers work to develop long-term relationships in the context of TPL agreements. Therefore, the investigated TPL agreements might be from the viewpoint of only buyers or only providers.

1.5 Research questions
As a guideline and help in answering the purpose, the following research questions have been developed:

RQ 1: What makes providers and buyers willing to cooperate and work for the development of mutually beneficial relationships?

RQ 2: What are the providers’ and buyers’ attitudes towards cooperating and adapting to each other in order to develop mutually beneficial relationships?

RQ 3: How do the providers and buyers cooperate and adapt to each other in practice?

1.6 Outline
The thesis consists of the following six chapters.

- Chapter one introduces the reader to the topic of the study and the background for the specific purpose and research questions.
- The second chapter reviews the literature used in the thesis, and thus provides the empirical research’s theoretical framework.
- Chapter three describes and discusses the methods and methodological choices with which the thesis has been conducted, as well as addressing issues of reliability and validity, treated as credibility and transferability.
- The fourth chapter presents the empirical findings that are made through the data collection – from semi-structured interviews.
- Chapter five presents the analysis of the empirical findings in light of the three research questions in order to discuss and provide a thorough answer to the purpose.
- The sixth chapter concludes the research and raises issues for further research, as well as identifying the contributions made by the thesis.
2. Theoretical framework

This chapter presents the reviewed literature for the thesis; focusing on the network perspective, social exchange theory, and transaction cost economics. These viewpoints on business relationships are subsequently brought into a TPL relationship context. The chapter concludes with a summary of the reviewed literature, presented in a theoretical framework which provides the fundament for the empirical research.

2.1 Introduction to third party logistics

Third party logistics providers (TPLs) are experiencing a growth in their business as a result of the emerging market of advanced logistics services. New types of logistics services are added and the services tend to be more complex (Hertz & Alfredsson, 2003). More recently, Deepen, Goldsby, K nemeyer, and Wallenburg (2008) predict growth rates in the range of 15–20% between 2009 and 2011 in both Western Europe and the US in the logistics outsourcing industry. (cited in Gadde & Hulthén, 2009).

The term TPL is used in a broad context, and several definitions are given by different researchers. Murphy and Poist (1998) describe TPL as outsourcing logistics activities that have traditionally been performed in an organisation. The functions performed by the third party can encompass the entire logistics process, or more commonly, selected activities within that process. Van Laarhoven, Berglund and Peters (2000) are more detailed in their description in which they include additional activities, including inventory management, information related activities, such as tracking and tracing; value added activities, including secondary assembly and installation of products, or even supply management. Skjøtt-Larsen, Halldorsson, Andersson, Dreyer, Virum, and Ojala (2006) emphasise that a TPL provider has more customised offerings and is characterized by a long term relationship. Salleh (2009, p. 265) stresses that the main reason for outsourcing ‘is the need for firms to focus their energies on core activities critical to their survival in the intensity competitive global market, and leaving the rest to specialist firms.’

Hertz and Alfredsson (2003) emphasise that the intention of a relationship between a TPL provider and buyer should be to create a mutually beneficial and continuous relationship. Jensen and Hertz (2011) stress that it is in both parties’ interest that the provider is successful in reducing cost and creating overall efficiency and still providing high quality. They emphasise three aspects regarding how providers interact with their customers.

Firstly, it is possible to analyse providers in terms of the different economies they achieve, and how they can coordinate differing demands from their customers to achieve efficiency. This refers to creating economies of scale by coordinating demands from different customers to create efficiency and reduce cost. The second dimension is related to knowledge of specific markets and products. TPL providers
need to provide their customers with services that add more value to their customers’ business than the customers would be able to achieve by themselves (Berglund et al., 1999). This is related to providers’ specialization and their possession of specific knowledge enabling them to offer services to specific groups of companies to achieve competitive advantage. The third aspect is related to the customer’s network, and to how the interdependencies between the activities and resources of the customer companies are exploited. Efficiencies must necessarily happen through achieving some kind of fit between the buyer and the provider (Jensen & Hertz, 2011). The following sections address different theoretical viewpoints on how the fit between the parties can be achieved, particularly looking at relationship building and interaction.

2.2 Inter-organisational relationship theory

The perspectives and paradigms within business and management literature that describe and discuss organisational relationships and their shaping are many (Barringer & Harrison, 2000). The focus in this thesis is on the inter-organisational relationships between buyers and providers of TPL services. Considering that TPL providers are part of their customers’ value- and supply chain, the network perspective is seen as a natural fit by the authors. Therefore, the theoretical perspective of this thesis leans toward behavioural aspects connected to the viewpoints in social exchange and network theory. However, viewpoints from transaction cost economics (TCE) are also addressed, since outsourcing of logistics services deals with benefiting from economic transactions. Also, since buyers of TPL services include the providers in their networks, the authors see it as essential to address minimized risk and other aspects of TCE.

Barringer and Harrison (2000) emphasise the importance of utilizing theoretical paradigms together, rather than by themselves, in order to understand why coordination, cooperation, and forming of relationships between companies are so popular. Their rationale is that companies usually have more than one reason for wanting to enter into relationships and that these reasons differ between organisations. Therefore, to build a solid understanding of business relationships, the theoretical perspectives of this thesis will be addressed in the following sections.

2.2.1 The network perspective

The network perspective views social contexts, to a greater extent than legally binding contracts, as the major forces for inter-organisational relationship establishment (Jones, Hesterly, & Borgatti, 1997), and also sees companies as social units (Johanson & Mattsson, 1987), giving the network perspective a closer relation to social exchange theory than to TCE. Gulati (1998) agrees with this through describing the social context’s influence on economic actions, along with different actors’ positions in social networks as general building bricks in the network perspective. These descriptions do not narrow the scope much in terms of how a network relationship might be structured, so a general description is that network constellations can be seen as hub-and-wheel configurations where the firm at the ‘hub’ is the focal firm that organises the various interdependencies in the network (Barringer & Harrison, 2000).
Another basic assumption is that individual companies in the network do not own or control all the resources they need to perform their services or produce their products, and thus become dependent on other companies (Skjøtt-Larsen, 2000). This leads to a need for individual companies to initiate some kind of relationship with companies holding the required resources, in order to secure and improve competitiveness. These needs are filled through exchange and adaptation processes between companies.

**Exchange and adaptation processes**

The network model characterises inter-organisational relationships according to exchange and adaptation processes (Johanson & Mattsson, 1987; Skjøtt-Larsen, 2000; Halldorsson & Skjøtt-Larsen, 2006), through which the relationships between the actors develop over time.

Within the exchange processes, Johanson and Mattsson (1987) highlight the encouragements that the companies offer one another in the initial phase of relationship formation as key features. Furthermore, they emphasise mutual respect for each other’s interests and realizing differences between companies as crucial building bricks for the development of long-term relationships, and that this process of exchanging experiences and information is part of the companies’ opportunity to assess their fit with the other party (Johanson & Mattsson, 1987). Skjøtt-Larsen (2000) adds transfer of information, goods and services, and social processes such as technical logistics and administrative communications; as exchange processes through which the parties slowly can develop mutual trust and commitment to make their relationship prosper. This element gives the actors the chance to start out with minor exchanges in order to slowly build up trust toward each other. In this concern, Sherman (1992) and Zineldin (2012) both recognize that a lack of trust is the biggest stumbling block to relationship success. Zineldin draws the comparison of an individual perspective; that just as in personal relationships, organisations must take into account confidence, trustworthiness, mutual respect, and problem solving matters to develop and improve business relationships (Zineldin, 2012), and these factors do not appear by themselves, but need time to be earned.

**Adaptation processes** are the other central characteristic of inter-organisational relationships in the network perspective. They arise through challenges and problems that the parties meet in their exchanges. The depth of the adaptation processes are related to the exchange processes, since the degree of exchange processes determines how deeply involved with each other the parties get. Adaptation processes vary between relationships, and include modifications in production processes and administrative systems; adjustments in stock levels, delivery systems, or financial handlings; and technical development changes and asset investments (Johanson & Mattsson, 1987). Adaptation processes are considered as strengthening factors for inter-organisational relationships, signalling to the other party that the relationship is regarded as worth committing to and something that they want to make last (Skjøtt-Larsen, 2000).

Håkansson and Johanson (1990) differentiate four types of mutual bonds that the parties develop through the interactions taking place in the exchange and adaptation processes, namely; technical, social, administrative, and legal bonds,
which combined strengthen the firms’ abilities to form a relationship that lasts (cited in Skjøtt-Larsen, 2000). Although these bonds are part of strengthening the relationship, committing to and showing trust in the formation of business relationships are not the only aspects needed for economic success. A repeated notion in the literature is that a company’s success is not just affected by the efficiency of cooperation between the firm and its direct partner(s) in a network, but also by how these partners cooperate and manage their own relationships in the network (Skjøtt-Larsen, 2000; Håkansson & Ford, 2002; Ritter & Gemünden, 2003). Together with uncertainty regarding investments that cause dependence, this situation causes insecurity for the actors in TPL relationships. As a consequence, companies need to strengthen the bonds with their partners; and so the elements of social exchange theory become highly relevant. Following the aspects of social exchange, elements of TCE should also be considered to reduce risk and uncertainty.

2.2.2 Social exchange theory

Social exchange can be described as relations between individuals and groups that are motivated by the returns they are expected to bring and typically do in fact bring to each other (Blau, 1964). Social exchange relations often develop in a slow process, starting with smaller transactions that involves little risk and trust, but over time the parties build up their credibility towards each other, become willing to develop their relationship, and involve more risk and engage in major transactions (Johanson & Mattson 1987). The establishment of exchange relations involves making investments for both parties that constitute commitment to the other party. As investments increase and commitment grows from both parties, it becomes more difficult to abandon a relationship, because strong ties are encountered and resolution could mean drastic changes in their operational business. This may lead to major restructuring for both participants. Through committing and adapting to each other, both parties gain the advantages of a stable and long-term relationship according to Moore and Cunningham (1999).

Commitment can be defined according to Anderson and Weitz (1992) as ‘a desire to develop a stable relationship, a willingness to make short sacrifices to maintain the relationship, and a confidence in the stability of the relationship.’ (cited in Skarmeas, Katsikeas & Schlegelmilch, 2002, p. 759). Gundlach, Achrol & Mentzer (1995) emphasise that commitment is an essential ingredient for successful long-term relationships, and is associated with motivation and involvement. Morgan and Hunt (1994) add that commitment entails believing that an on-going relationship is so important that it warrants maximum effort to maintain it and ensure that it endures indefinitely.

Trust is another essential element in social exchange behaviour. Morgan and Hunt (1994) describe trust as existing when one party has confidence in an exchange partner’s reliability and integrity. Steffel and Ellis (2009, p. 5) define trust as

‘an individual’s belief, or common belief among a group of individuals, that another group, (a) makes good-faith efforts to behave in accordance with any commitments both explicit or implicit, (b) is honest in whatever negotiations preceded such commitments, and (c) does not take excessive advantage of another even when the opportunity is available.’
Trust cannot be forced or imposed into a relationship, but is something that has to be earned from the parties in the relationship (Zineldin, 2012). Tate (1996) holds trust as the first and one of the most important factors for succeeding in relationships, since the companies have to share information, benefits, and risks with each other.

In any business relationship, situations may occur that will lead to some kind of conflict. How the parties solve their conflicts, will depend on how strong the relationships are, and also on how much the parties rely on each other. Anderson and Narus (1990) state that firms that have developed strong trust in a relationship are more likely to work out their disagreement kindly and even accept some level of conflict as being just another part of doing business. Morgan and Hunt (1994) add to this by stressing that communication between the parties is an important factor for enabling problem-solving and a positive contributor to create trust between the parties. Zineldin (2012) agrees with this in stating that to build a sustainable relationship between the parties it is important to communicate in an open and truthful atmosphere so mutual benefits and interests can be achieved and met.

Another element associated with business relationships and related to the trust aspect, is opportunism. According to Williamson (1975) opportunism refers to ‘a lack of candor or honesty in transactions, to include self-interest seeking with guile.’ (cited in Das & Rahman, 2010, p. 56). Morgan and Hunt (1994) illustrate that when a party believes that a partner engages in opportunistic behaviour, such perceptions will lead to decreased trust. Mysen, Svensson and Payan (2011) refer to opportunism that may occur from competitive intensity, and this is positively associated with market turbulence which, in turn, is positively associated with opportunism. Companies in a business relationship may have their own and different culture. One of the companies may not have any problems with taking selfish advantage of circumstances, with no or little regard for principles and consideration of what the consequences are for the other party. Skarmeas et al. (2002) find that opportunism has a direct negative effect on the relationship between the parties and on the willingness to commit to the other party. Nevertheless, opportunism may be minimized by creating mutual trust in the relationship according to Barringer and Harrison (2000), who state that mutual trust emerges when the involved parties have successfully completed transactions in the past and perceive one another as acting in good faith and complying with norms of equity.

Ring and Van de Ven (1994) define equity as “fair dealing”. In most business relationships, parties must make some investments so the relationship can be a reality. The extent of the investment depends on the relationship and the specific collaboration. Van de Ven and Walker (1984) describe fair dealing as based on the parties’ work to maximize gains and minimize losses by sharing benefits and burdens, not necessarily for fair dealing, but for fair rates of exchange between costs and benefits (cited in Moore & Cunningham, 1999).
2.2.3 Transaction cost economics

Transaction cost economics (TCE) focus on how organisations should manage their activities to minimize the sum of the company’s production and transaction costs (Johanson & Mattsson, 1987). The transaction cost is related to the make or buy decision. In a business situation where competition is fierce, it is a matter of minimizing the costs and producing the products and services as cheaply as possible. It may often be that other specialized companies can execute the processes in a cheaper and better way than the firm can do by itself. This way it is beneficial to outsource this process (Barringer & Harrison, 2000).

TCE takes views an exchange as a form of contract between two exchange partners where the transaction is the unit of analysis. Clemons, Reddi and Row (1993) divide transaction cost into three components; coordination cost, operation risk, and opportunistic risk.

The coordination cost component contains variables such as the exchange of information and the integration of this information for decision making. In dyadic relationships, coordination cost includes exchanging information between the parties and can include product characteristics, availability, and product demand. Dutta, Heide, and Bergen (1999) add that the execution of transactions is further complicated by information asymmetry between the parties, which can increase the transaction cost.

Operation risk is related to how other parties in the relationship will fulfil their contractual responsibilities. There will always be a risk that the other party will shirk its agreed responsibilities if it is not possible for the other party to prove that the agreement is not kept (Clemons et al., 1993). Also, Dutta et al. (1999) mention that TCE includes ex-ante costs, such as drafting, negotiating, and safeguarding the contract, and ex-post costs, including monitoring and enforcing of the contract. Operation risk can also include specific asset investments made by the other party in the relationship. Heide (1994) states that these investments can involve physical or human assets dedicated to the specific relationship and that cannot be reassigned. If this investment does not have any particular use outside the relationship, the risk will increase.

The last component in Clemons et al.’s (1993) differentiation is opportunistic risk. This is associated with negotiating strength as a result of the implemented relationship. Two aspects that are associated with opportunism are other potential suppliers who can deliver the same service or product, and the loss of the resource control. Resource control can include information and expertise which often are vulnerable resources. It is often difficult to control access to and use of these resources. Grover and Malhotra (2003) emphasise that in organisational contexts, decision makers want to act rationally, but they may be limited in their ability to receive, store, retrieve and disseminate information in an appropriate manner - referred to as bounded rationality. Further, Grover and Malhotra explain that such uncertainty may create problems for the participants to act rationally. Opportunism indicates that human participants in the exchange ratio will be tempted to and act in accordance with their own interests, often in the form of deceit. Examples can be breaches of contract through lying and cheating. In TCE,
opportunistic risk gives rise to transaction costs in terms of monitoring the behaviour and safeguarding of assets to ensure that the other party does not engage in opportunistic behaviour.

2.3 Relationships in a TPL context

Drawing from the theoretical approaches on how to establish, manage and develop lasting business relationships, this section views the theories in the light of a TPL relationship context.

The background for this study mentioned the changing market for logistics services and TPL arrangements during the last decades. Arrangements between logistics providers and buyers have traditionally been driven by a focus on cost reduction and efficiency improvements in order to reallocate capital to other purposes for the buyer (Skjøtt-Larsen, 2000; Qureshi et al., 2008). This situation is changing, and driving forces now include flexibility improvements due to new customer requirements (Skjøtt-Larsen, 2000) and implications of advancements in information technology (Marasco, 2008). These changes bring along new relationship requirements for the parties in TPL arrangements, and several themes and issues are highlighted in the literature as situations that need to be handled to make the relationships last and produce results.

Companies see the need to increase flexibility to meet customer requirements and provide a better service, and also to reach new markets. Cooperation between the parties has become more long-term in nature, mutually binding and often combined with changes in both organisation and information systems (Rajesh et al., 2011). Skjøtt-Larsen (2000) refers to a model developed by Bowersox, Daugherty, Dröge, Rogers, and Wardlow (1989), who place the relationship between a buyer and provider of logistics services in a figure to illustrate the degree of commitment and integration as shown in figure 2.2.

![Figure 2.1. Relationship between buyer and TPL provider (Adapted from Bowersox et al., 1989).](image-url)
From Skjøtt-Larsen (2000), the figure is explained as follows:

The lower left part of the figure includes single transaction and repeated transactions, and relates mainly to informal and short term relationships. The degree of integration and commitment is low and the price is the main focus. The next three levels are viewed more as forms of strategic alliances, and these are seen as forms of TPL relationships in this thesis.

*Partnerships* are the lowest form of strategic alliances when it comes to degree of both commitment and integration. The parties will try as far as possible to preserve their independence from each other. Normally, the buyer will manage the planning and management functions internally, while they outsource the logistics functions. The provider will try to combine different customers and implement standard systems to create efficiency.

*Third party agreements* have a higher degree of integration and commitment. Normally, the provider adapts more to the specific customers’ needs. For the provider to be able to meet these requirements they may make some investments in equipment, facilities and personnel. Frequent information exchange and trust is a crucial aspect in this type of agreement.

*Integrated service agreements* have the highest level of integration and commitment and are the most formal. In these agreements, the provider normally takes over all or part of the buyers’ logistics processes. The provider will adapt to the customers’ requirements and processes like value-added services and integration of the parties’ information systems are natural to execute.

Schultz (2005) mention seven crucial points to strengthen the relationships from a buyers’ point of view, namely; sharing of benefits, providing realistic requests for proposals, checking hype versus reality to make sure that the TPL can actually follow up and do what it promises, measuring everything, keeping accurate records, only outsourcing what can be done better by the TPL, and lastly, being prepared to work hard and be honest in order to improve. Focusing on the buyers’ point of view, these points relate both to TCE and aspects of social exchange theory. The main focus is on TCE, through controlling and making sure that potential transaction costs are kept at a minimum for the buyer. However, the mentioning of benefit sharing, honesty and hard work resembles more of the social collaboration and trust aspects of social exchange theory and the network perspective. Rajesh et al. (2011) highlight shared trust, good communications, and limited occasions of opportunistic behaviour, as well as solid reputation for fairness, satisfactory prior interactions, and finally relationship-specific investments, as characteristics that recur in examples of successful long-term relationships, thus being important factors for both parties. All of these factors show more resemblance to the issues of respect, commitment and trust between the parties that are emphasised in the network perspective.

The mentioned development of services that TPL providers offer, along with the relationship development between buyers and providers in TPL, have progressed dramatically due to the changes in the economy (Cui & Hertz, 2011). The service development is, together with the buyer’s rationale for outsourcing and
establishing a relationship with a TPL provider, seemingly important for how the relationship will actually turn out. According to Bolumole (2001), the provider's role is limited to operational issues when the buyer outsources to achieve cost savings, while it changes more towards a strategic partner when the buyer's decision is based more on resource considerations. The cost savings rationale for outsourcing clearly resembles TCE, since the focus is a “make or buy decision”, and as Bolumole (2001, p. 97) mentions, 'when the cost based rationale was used, outsourcing was viewed as a means of avoiding internal transaction costs...' Still, Bolumole stresses that TPLs' should be involved in strategic roles and corporate objectives when decisions are made based on resource considerations. This resembles the importance of trust, commitment and social aspects highlighted in the network perspectives to make relationships last.

The changing relevance of the theoretical perspectives for relationship establishment and development are closely connected to the buyer's reason to outsource. A relation to the perspectives of TCE can be seen in Rajesh et al.'s (2011) study, where they find that customers generally want the TPL providers to take on more of the risks, use more innovative technology solutions, while they at the same time seem worried about costs connected to compliance and mandates for supply chain performance improvements. These findings have clear connections to TCE, where the basic assumption is that if transaction costs are low, the service or activity should be purchased in the market (i.e. outsource), while if they are high, it is better to perform the activity or service in-house (Skjøtt-Larsen, 2000).

TCE surely have relevance in TLP relationship situations. Nevertheless, it seems to be an increasingly recurring theme in more recent literature that the network perspective and the social exchange theory are increasingly important for TPL relationship success. Rajesh et al. (2011) highlight the fact that companies ought to develop their cooperation with TPL providers to reap the benefits of learning and joint solutions. This is also mentioned by Gadde and Hulthén (2009), who stress that increased interaction between the parties is beneficial for improved results and thus relationships. Kerr (2005, p. 32) definitely stress this importance when stating 'two-way communication and knowledge sharing is so pivotal for success that it should begin well before a TPL contract is signed.'

2.4 Summary

This chapter has reviewed theory concerning the factors related to development of TPL relationships between two parties. Social exchange theory and transaction cost economics (TCE) have been explained and applied in a TPL relationship context to highlight important factors in developing mutual benefits and long-term agreements. The combination of the inter-organisational relationship theories and the context that they have been applied to, leads to the development of the following framework, which illustrates the utilization of the theoretical aspects in the TPL-relationship context in this thesis (figure 2.2). The framework forms the basis both for the empirical research in the thesis, and for the analysis that follows.
Figure 2.2. Theoretical framework: Development of long-term TPL relationships (Compiled by the authors for this thesis).

**Aspects from social exchange theory**

The elements of social exchange theory in the top left corner of the model are derived from aspects in the literature that have been highlighted as important for relationship actors to commit to their partner. Tate (1996) mentions trust as one of the most important factors for relationship success, and that it needs to be earned. Zineldin (2012) and Morgan and Hunt (1994) add the importance of honest and open communication as important to achieve this.

Showing mutual respect and acknowledging the heterogeneity between the parties is seen as crucial for the relationship development (Johanson & Mattson, 1987). This relates to Anderson and Narus' (1990) mentioning of accepting some level of conflict as a part of doing business. In relation to the aspect of mutual respect, Van de Ven and Walker (1984) mention fair dealing as concerning the parties' work to share benefits and burdens (cited in Moore & Cunningham, 1999). All of the social exchange theory factors are highlighted in the literature as important for companies to support in order to develop mutually beneficial and long-term relationships.

**Aspects from transaction cost economics**

The bottom left of the framework shows the aspects of TCE that have been highlighted through the literature review as factors that can damage or destroy the
relationship if they are not treated properly. Transaction costs are related to the make-or-buy decision (Barringer & Harrison, 2000).

Clemons et al.’s (1993) differentiate between three major components of transaction cost; coordination cost, operation risk, and opportunistic risk. Concerning the coordination cost, Clemons et al. highlight exchange and integration of information for decision making between the parties. Related to this component, Dutta et al. (1999) emphasise that the risk of asymmetric information that might be present among the parties may increase transaction cost.

Operational risk concerns the parties’ attitude towards fulfilling their contractual responsibilities, stressing that parties may dodge these responsibilities if they can get away with it (Clemons et al., 1993). Dutta et al. (1999) adds the potential transaction cost of monitoring and enforcing the contract in this relation, while Grover and Malhotra (2003) highlight asset safeguarding and behavioural monitoring to prevent opportunistic behaviour.

Clemons et al. (1993) associate opportunistic risk with potential loss of resource control and other potential suppliers providing the same service or product. An example in this concern is acting according to one’s own interests, thereby deceiving the other party (Grover & Malhotra, 2003). The aspects from TCE are generally treated in the literature as important to keep at a minimum, as Johanson and Mattsson (1987) emphasise.

**Relevance in TPL relationships**

In the centre of the framework, the focus is on the three different types of relationships classified as TPL relationships by Skjøtt-Larsen (2000); partnerships, third party agreements, and integrated service agreements.

In partnership, the buyer normally keeps planning and management internal, and outsources the logistics, while the provider tries to make standard solutions for customer requirements. In third party agreements, services are adapted more to the particular buyer’s requirements, e.g. through taking over responsibility for personnel, equipment, and facilities, and it is also characterised by more frequent information exchange. Integrated service agreements consist of the provider taking over parts of, or the entire logistics process for the buyer, including management and control of logistics services, and it typically includes value-added services.

Independent of the relationship agreement, the mentioned factors of social and economic concern will play a role for how the parties decide to commit to long-term relationships. The components of social exchange theory and TCE need to be handled by the parties if they are to develop mutually beneficial and long-term relationships.
3. Methodology

This chapter describes how the study is performed and the methods applied for data gathering. Additionally, the chapter argues for the method choices, as well as evaluating the reliability and validity of the research.

3.1 Research approach

One can distinguish between two main research approaches, namely deduction and induction (Ghauri & Grønhaug, 2005). The deductive approach can be viewed as testing theories and drawing conclusions through logical reasoning, and it is often associated with quantitative studies. The inductive approach is explained by Ghauri and Grønhaug (2005) as drawing conclusions from empirical observations through interpretations, and this type of research is more often associated with qualitative studies.

The authors recognize a request for research on the topic of providers’ and buyers’ perspectives on TPL relationships, and therefore this thesis reviews literature concerning areas that will be applied in the investigation of the topic. Empirical observations are subsequently done through semi-structured interviews with different managers both from TPL providers and buyers in order to investigate how these actors adapt and cooperate to develop mutually beneficial TPL relationships. Thus, it is difficult to classify this study as belonging to one specific approach. Saunders et al. (2009, p. 127) emphasise that ‘not only is it perfectly possible to combine deduction and induction within the same piece of research, but also in our experience it is often advantageous to do so.’ However, this thesis leans more toward a deductive approach, since it applies aspects from literature to a specific business context to investigate and broaden the understanding of this context.

3.2 Quantitative and qualitative methods

In order to gather empirical data to solve a research problem, there is a distinction between quantitative and qualitative methods. Quantitative methods involve the collection of numerical data, and the measurement of these data is preferred (Aliaga & Gunderson, 2002). Qualitative methods on the other hand, analyse data gathered through interviews or observations (Kumar, 2005), and aim to answer questions of ‘how’, ‘why’, and/or ‘what’ (Hesse-Biber & Leavy, 2011). Moreover, use of the qualitative methods includes subjective interpretation of the empirical data collected, to create useful information about the investigated topic (Saunders, Lewis & Thornhill, 2012).

The empirical data collected through interviews in this thesis are analysed and interpreted to extend the understanding of this specific topic. The thesis therefore applies a qualitative method, since interviews are used as a data collection method, and due to the mentioned interpretative way of analysing the data.
3.3 Methodological choice

In research it is possible to choose between two different methods. Saunders et al. (2012) distinguish between mono and multiple methods. In the mono method only a quantitative or qualitative study is used to answer the research question. When using multiple methods, Saunders et al. divide this group in two new groups where multi-method concerns using more than one data collection technique, restricted within either a quantitative or qualitative design. The second group is mixed methods, where both quantitative and qualitative methods are combined to answer the research question. This thesis uses a mono method, and a single data collection technique, since the empirical data are gathered semi-structured interviews. The authors view this approach to data collection as appropriate in this concern, because of the need to get insights to several relationships while at the same time keeping the opportunity to get access to detailed information to interpret.

3.4 Research classification

Research can be classified into three categories, namely exploratory, descriptive, and explanatory (Saunders et al., 2012).

*Exploratory* studies are appropriate when investigating under-researched areas, and their findings help shape directions for future research (Hesse-Biber & Leavy, 2011). Brannick (1997) characterizes exploratory research as dealing with research questions of ‘what’. *Descriptive* studies are characterized by structured and well understood problems (Ghauri & Grønhaug, 2005), and Brannick (1997) characterizes this classification as dealing with questions of “when”, “where” and who”. *Explanatory* studies seek explanations of relationships between different components of a topic (Hesse-Biber & Leavy, 2011), and answer questions of “how” and “why” (Brannick, 1997).

The main focus of this thesis resembles an explanatory study, since the thesis answers questions of how TPL providers and buyers adapt and cooperate to develop mutually beneficial and long-term TPL relationships. Since the thesis deals with an area which is somewhat under-researched and asks ‘what makes providers and buyers willing to cooperate’ and ‘what are their attitudes towards cooperating and adapting to each other’, it also has an element of the exploratory approach.

3.5 Research strategy

According to Saunders et al. (2012) it is possible to choose several different strategies of research; experiment, survey, case study, action research, grounded theory, ethnography, and archival research. The research purpose determines which strategy is the most appropriate one, but a combination of strategies can also be used to strengthen the research.

A case study provides the possibility to explore a current phenomenon in a real-life context (Yin, 1994). In order to investigate how TPL providers and buyers adapt and cooperate to develop mutually beneficial TPL-relationships a case study strategy is chosen for this thesis. A case study is associated with qualitative data,
and allows the use of different data collection techniques such as interviews, observations, and focus groups (Patton, 2002). Since this thesis investigates relationships from the viewpoints of different companies, it is characterized as a multiple case study. Further, the thesis has a holistic view, where the whole company in general can be included. Interviews with managers, both in buyer and provider companies that at the present time are in a TPL relationship, are conducted for the investigation of the topic.

3.6 Time horizon

Saunders et al. (2012) distinguish between cross-sectional and longitudinal time horizons. Where longitudinal studies allow for the investigation of changes or development in a context over time, cross-sectional research focuses on investigating a case at a particular moment in time (Ruane, 2005). This thesis applies a cross-sectional time horizon, since the viewpoints that are brought forward in the study are collected during a limited period of time.

3.7 Sampling

According to Saunders et al. (2012) it is possible to use two kinds of sampling techniques. Probability sampling is often used when the population is known and the probability to select a specific case is equal. Probability sampling is often used in surveys where you need to make statistic inferences from the population. Non-probability sampling is used when no sampling frame is available, and the probability of each case to be drawn is unknown. Saunders et al. stress that this sampling technique can provide rich information about the study, through exploring the research questions.

This thesis has a combination of an explanatory and exploratory purpose, and seeks to improve the insight of the chosen topic. A non-probability technique is therefore selected, since it is not possible to decide a sampling frame and since the thesis will not use statistical inferences to emphasise the results.

Sampling techniques

When using non-probability sampling, Saunders et al. (2012) differentiate four techniques. The first one is Quota sampling. This technique is entirely non-random and is often used for structured interviews. The second technique is purposive sampling and by using this technique the researcher uses their judgement to select cases that will best answer the research question(s). In the third sampling technique, volunteer sampling, the participants have volunteered and not been chosen by the researcher(s) to answer the research question(s). The last technique is haphazard sampling and is used when cases are selected without any clear opinion in regard to answer the research question(s).

This thesis uses a purposive sampling. The authors wanted to select cases that are particularly informative and that would provide thorough information for answering the research purpose. The authors selected four TPL providers that are major actors with long experience in their industry, both in Norway and Sweden. This was important to ensure well-argued thoughts in order for the authors to
answer the research questions properly. For the same reason, the authors selected buyers that have used a TPL-provider over a longer period of time.

3.8 Data collection

Saunders et al. (2012) distinguish between secondary and primary data as literature sources available to develop an understanding of previous research.

The first category, secondary data, contains previously gathered data which might only be relevant to the problem that the data was collected for. Secondary data include books, journal articles, online data, webpages of companies, and catalogues (Ghauri & Grønhaug, 2005). The second category, primary data, consists of data gathered specifically to solve the particular problem at hand (McDaniel & Gates, 1998), and data gathering techniques include interviews, experiments, observations, and surveys (questionnaires) (Ghauri & Grønhaug, 2005).

This thesis has based the literature review on previous research that has conducted data gatherings for their respective studies. Since this thesis applies viewpoints from these previous studies, these viewpoints have been part of the shaping of this thesis. The search for secondary data for this thesis has been conducted through academic journal articles and educational course books. Reviewing secondary data provides valuable insight to other researchers’ work on the field in focus, and further contributes to the building of a theoretical foundation of the topic researched.

The primary data used in this thesis is gathered through interviews with various managers in TPL provider and buyer companies in Norway and Sweden that are presently in a TPL relationship. The description and rationale for the chosen approach will be given in the following section.

Semi structured interviews

Interviews as a data collection technique can be classified as structured, semi-structured, or unstructured. Unstructured interviews have no predetermined questions, but take the form of a conversation between the researcher and the interviewee (Tenenbaum & Driscoll, 2005). Semi-structured interviews consist of themes and some key questions to be covered. Finally, in structured interviews the researcher asks standardised questions in the same way in the same order to all the interviewees (Tenenbaum & Driscoll, 2005).

The interviews developed for this thesis are of a semi-structured manner. An interview guide with a set of themes and key questions covering the topics of interest has been developed; one for the providers and one for the buyers. The interview guide consists of open-ended questions and it was used as a checklist to make sure that the topics of interest were covered during the interviews. The questions were not asked in a direct order, but adapted to the answers of the interviewees. This enabled the interviewee to answer freely, and also allowed the authors to follow up interesting answers. The latter point is important, considering that the different interviewees are likely to have different viewpoints on important aspects, as well as varying preferences in their way of addressing the questions.
A final rationale for conducting semi-structured interviews is that the interviewees have different positions in their respective companies, and also that their companies are different, since both providers and buyers of TPL services are included in the thesis. Therefore, an interview conducted in a semi-structured manner enables the interviewees to answer individually and freely, based on their positions. All interviews are conducted via telephone, with follow-up e-mails where additional questions arose after the interviews. For the interviewees to be prepared for the interviews, introduction phone calls were made, interviews were scheduled, and the interviewees received the interview guide via e-mail (See appendix 1).

Four TPL providers and three buyers have been interviewed for this thesis. Among these, two providers and two buyers are Norwegian, while two providers and one buyer are Swedish. All of the interviewed companies were chosen because they are major actors in their industry and their experiences and perceptions are highly relevant for the investigation of the topic. For interview details, see appendix 2.

### 3.9 Data analysis procedures

The interpretative nature of this thesis, through the use of qualitative methods, implies that the analysis in reality starts at the point of data collection. As mentioned, the interviews have been recorded and transcribed in order to facilitate a deep interpretation and understanding of the findings, in light of the reviewed literature. The interview categories and questions were developed based on the reviewed literature, and facilitated the presentation of the empirical findings in the following categories; relationship forming, trust and adaptation, and safety and risk. Subsequently, the material from the empirical findings from each interview was colour-coded in relation to the research question it addressed, and interpreted in light of the respective research question. Firstly, a comparison within the two groups, providers and buyers, was made, followed by a comparison and contrasting between the two groups. This was done to discover potential differences and similarities in the different companies’ attitudes and practical experiences. To ensure the quality of the analysis, the authors discussed patterns and implications of the material throughout the process. This also enabled the discovery of areas of importance in the TPL context that have not been found in the literature. It therefore provides new insights to the TPL relationship context and helps in answering the purpose of the thesis.

### 3.10 Reliability and validity

Kirk and Miller (1986) highlight that the reliability and validity of a research is critical in order for it to be credible and objective.

**Reliability**

Reliability concerns internal consistency – i.e. if data collected, measured, or generated are the same under repeated trials (O’Leary, 2010). Saunders et al. (2012) differentiate between four factors that can affect the reliability of research; participant error, participant bias, observer error, and observer bias. When external factors influence the participants’ answers, this is described as participant error, while participant bias occurs if and when the interviewees do not provide all
the information or do not answer questions completely (Robson, 2002). Mitchell and Jolley (2010) highlight observer error and bias being closely connected in that when the researchers’ subjective bias prevent them from making objective observations, observer error derives from observer bias.

As mentioned, all the interviews were scheduled in advance to ensure that the interviewees had enough time to answer properly. Interview guides were e-mailed to all the interviewees, after their agreement to participate in the study was confirmed. These steps were taken to avoid uncertainty and thus participant errors as far as possible. After having received the interview guide, but before conducting the interview, all interviewees were asked if their answers should be kept anonymous in order to prevent participant bias.

To prevent observer error, all interviews were audio-recorded and subsequently transcribed in order to quote the interviewee correctly. Before starting recording of the interviews, the interviewees were asked if they accepted the recording. Finally, the empirical findings (chapter 4) from each interview were e-mailed to the respective interviewee for their acknowledgement of the material.

**Validity (Credibility and transferability)**

Saunders, Lewis and Thornhill (2009, p. 157) state that ‘validity is concerned with whether the findings are really about what they appear to be about.’ Validity concerns truth and value, i.e. if conclusions are correct, and also with whether methods, approaches, and techniques relate to what is being explored. Validity is further divided between “measurement”, “internal”, and “external”. Internal validity is established when the research demonstrates a causal relationship between variables, while external validity is concerned with whether the research findings can be generalized to other relevant settings or groups. Considering that qualitative research does not investigate topics in the same manner as quantitative research, Bryman and Bell (2007) emphasise that qualitative studies should be evaluated according to different criteria than those used in quantitative studies, and therefore argue for the use of Lincoln and Guba’s (1985) propositions of *credibility* as a parallel to internal validity – “how believable are the findings”, and *transferability* as a parallel to external validity – “do the findings apply to other context” (cited in Bryman & Bell, 2007).

Concerning credibility, this thesis has interviewed actors both from the buyer and the provider side in TPL relationships. Covered fields are their experiences and perceptions as well as their companies’ attitudes concerning cooperation and adaptation in TPL relationships. The interviewees did not seem to hold back information during the interviews, and were talking, presumably, freely about their thoughts and experiences around the topic. No indications of loss of credibility appeared during the work with the interviews, so as far as the authors know, the findings are seen as credible.

Concerning transferability, it is not natural to try to generalize the results from this study since it is based on a qualitative design. It also looks specifically at the TPL relationship context, so to transfer the study to other topic contexts are unlikely to produce the same results. However, the theoretical viewpoints that have been
applied in this study could be applied in other contexts to compare and contrast those with the TPL relationship context.

In terms of geographical context transferability, the actors that have participated are major actors in Norway and Sweden, where most of the actors are operating in more than one Scandinavian country. Still, the Scandinavian culture and business model may be different compared with the rest of Europe and the world in the issue of adaptation and coordination in TPL relationships, so findings from a similar study in another geographical context may provide varying results.
4. Empirical Findings

*This chapter presents the direct findings from the conducted interviews. The findings are presented in three sub-sections per company in the same manner as they were addressed in the interviews.*

4.1 Provider A

Provider A is Logent Orcus AS (Logent); a non-asset-based logistics service provider mainly operating within five business areas: Site solutions, consultancy services within third party logistics, customs, ports and terminals developments, staffing solutions and IT systems for logistics (Logent, n.d.). Logent is a subsidiary of the Swedish logistics company Logent AB. Logent's interviewee, Carl Axel Eriksson, has been the company's CEO until recently, now operating as a business developer for the parent company. Eriksson answered the questions directed at an existing relationship where Logent has the role of a service provider. This particular customer and Logent have had a relationship for several years. All of the following information, as presented in all parts of section 4.1 was collected from personal communication with C.A. Eriksson on 2013-03-14.

4.1.1 Relationship forming

When Logent signs new agreements with customers or develops existing ones, Eriksson says it is often a result of previous collaboration that feels natural to continue and expand to new areas. Starting conditions are often slightly solvable in the beginning, because often no data and other information to calculate are available. *'Often, this is based on trust which we used to discuss to subsequently set prices and agree upon the details of each incoming ingredient.'* Eriksson says that Logent essentially performs two main tasks for this customer.

*We are covering flexibility requirements concerning personnel staffing at the warehouse. The customer call-offs need in terms of people they need to perform picking and other tasks in the warehouse then Logent has to provide personnel with the required skills. The second task is specific. We have the responsibility for planning and performing of production of in-store displays. In this agreement there is a large number of item numbers which are produced based on weekly needs.'*

Logent bills the customer per unit produced, which means that Logent bases its business and earnings on increased effectiveness over time. Logent has the responsibility to deliver the quantity of each article that is planned for each week. Changes in the scheduling will often happen, so the parties have an agreement on how to handle the costs that arise based on the changes to come.

In light of the relationship model (figure 2.1.), Eriksson characterized the specific relationship as a partnership agreement. He said that this specific relationship can be placed both above, and under the partnership segment, but stated that the partnership agreement is the one best suited for this relationship. Eriksson underpinned this with stressing that Logent and the customer try to develop more effective procedures together, while maintaining the planning and management function internally.
4.1.2 Trust and adaptation

Concerning trust, Eriksson said:

‘trust may have two dimensions; I do not believe that any of the parties in a relationship knowingly lie to the other party. However, it is a fact that it is not a direct open-book relationship, but rather an open-mind relationship between the parties. The customer does not tell everything about their business and Logent does not tell everything about their business.’

Further, Eriksson stated that the customer may partially determine what income and expenses Logent has. He emphasises that in this type of relationship where Logent performs services in the customer building where the customer’s personnel and Logent’s personnel works together, it will be easy to see and monitor how they are performing.

Eriksson stated ‘There has been a mutual adaptation. There have been changes all the time. For enhance the opportunities for effective production and efficient flow of information.’ Further, concerning uses of IT-systems in their relationship, Eriksson says that ‘It is not much use of IT systems, but instead use of advanced excel calculation, which forecasts and other calculations are presented.’ Logent bases much of its processes on information from the customer’s customer, which controls much of the processes between Logent and its customer.

Logent has not made any specific investments that are directly intended to this relationship. However, Eriksson says that ‘we may make investments in the next level, but as soon as we make investments we have to have a more stringent agreement.’ Further, Eriksson states, ‘If we make investment, then we will hold a greater level of power. Then it is our development, and we have come deeper in the production.’ Eriksson believe that investments will not create a possibility for their customer to act opportunistic and try to benefit from this in negotiations, he instead says ‘We can be tougher if we have a larger production facility and know-how, because this is also linked to investment.’ However, Eriksson believes that it is risky to do investments only related to one specific business relationship, that cannot be used for other relationships, but he says that ‘Then it is natural to write a stricter agreement concerning depreciations and costs that runs on these investments if it is canceled. It must be really strict, so there will be no discussion of depreciation periods and calculation. It’s always easier to develop a partnership than to terminate it.’

4.1.3 Safety and risk

Eriksson emphasised ‘It is clear, if we are to have a close partnership we must meet and discuss what happens and inform the other party about issues that may affect the relationship between us.’ Logent does not have much time to monitor its customer, but rather focus on being as informed as possible so that it can influence the customers’ behaviour, in order to prevent opportunistic behaviour to a certain extent. Moreover, Eriksson underpins that it is difficult to know if the other party acts opportunistic, since Logent is not involved in negotiations with the underlying customer.
Eriksson does not feel that customers monitor them, but as he says ‘I will rather use the words follow-up.’ Eriksson continue with that both parties have a responsibility to follow up the quality. Logent has a given production volume which will be completed Friday at 3 p.m. and in this case it will be easy to follow up on if the quality is fulfilled or not. ‘Good team spirit and communication is used instead of monitoring.’ Eriksson emphasises that the relationship between the parties are more in a situation where we talk “we” and not “you”.

Concerning contracts, Eriksson says ‘it may be better not to write too harsh agreements, but instead use a contract as a framework. This will not lock us down too much.’ Eriksson continued by saying that it is difficult to cover all the issues in an agreement, and in such processes as they operate within it is most expedient to use contracts as a framework. ‘This creates flexibility and makes it easier to cooperate.’

In order to solve problems Eriksson says ‘We have a formal meeting arrangement in combination with situational meetings. If something occurs it is important to have it immediately, and not wait for a scheduled one to bring it up… This will only lead to weakening the relationship between us.’ He further says that the parties base their relationship on an open-minded principle to create long-term relationships.

4.2 Provider B

Provider B is a Norwegian asset-based TPL provider, focusing on warehousing services for a large variety of goods and products. The company is among the biggest logistics actors in the Nordic region. The interviewee has a central role and 30 years’ experience in the company. The interviewee addressed the interview questions from a general perspective, building on general experiences from how the company has dealt with building relationships. All of the following information, as presented in all parts of section 4.2 was collected from personal communication with the interviewee on 2013-03-15. The interviewee wishes to remain anonymous, also concerning the company name.

4.2.1 Relationship forming

The interviewee highlights that Provider B does not seek specific kinds of customers with whom they want to enter into business relationships. ‘We want all new business… We try to get hold of all new customers, but of course there has to be some kind of match… We need to be able to handle the goods efficiently.’ In this concern, the interviewee also mentions a need for the company to find that they have enough capacity as well as a need for a geographical match.

Looking at the relationship model (figure 2.1), the interviewee views the company as being within the ‘Third Party Agreement’ 85 per cent of the time; ‘It’s different from relationship to relationship, but... most of them, 85 per cent fall within the TPL agreement, there is no doubt about it.’ The interviewee adds that they also perform a number of value added services, ranging from adding Norwegian user manuals to cartons, to performing certain product assembly.

Concerning relationship forming, the interviewee see judicial and formal contracts as necessary in order not do to work for the customer for free.
‘Customers are like this; they always have control within their own facility. All goods are labelled and always arrive in whole cartons, so it is important that we... price our services according to this. It is important that we get paid for deviations from this, because it is such a tough pressure to make money on warehousing nowadays, so here we have to be good.’

To develop mutual benefits, the interviewee mentions the relative youth of the service they are offering: ‘The service is still quite ‘young’; there are few that have outsourced, there is still an intensive development. So, we want to develop together with our customers, and it is this long-term perspective that makes money. So, a long-term perspective is important for us.’

4.2.2 Trust and adaptation

Concerning the period needed to build trust when forming new relationships, the Provider B’s interviewee sees it as lasting typically from six to 18 months.

‘The market we are primarily looking at is where the companies haven’t outsourced. In these occasions it takes a long time to create mutual trust... Outsourcing is hard work for both parties, and when such a relationship is, let’s say contractually, up and running, then we are starting to see how it actually works ... and how much will and resources there is to make it work. So, from six to 18 months actually, it may take to lower our shoulders towards the partner.’

During this period, the interviewee stresses the formal contract as the main guiding source from which to base the development. Already existing relationships are based more on the opportunity to communicate with the right people; ‘...One knows each other’s attitude and which people to deal with. And if we are making any new investments or new volumes, then it is a whole lot easier.’ Regarding adaptation;

‘We are educational for the customers... From us they get a visible invoice, and then they might go to their own suppliers or customers and change order sizes and so on... The more efficient we can be together with the customer, the lower the costs get and the better the customer perform... in the market, which is in our interest as well.’

Adding to this, the interviewee mentions ‘we have been too good at being flexible, and then what happens is that we get a new solution every time we get a new customer. So my job for the next years is to standardise more...because we want to create economies of scale and efficient solutions.’

Regarding investments in relationships the interviewee stresses that Provider B has made big investments to meet general market demands without any requirements towards any customers. Concerning gain sharing from investments, the interviewee stresses that ‘when we invest together with a customer on some model, then the gain is divided fifty-fifty or based on the investment made by each party. This is our principle.’ Related to investments towards adaptation with customers, the use of IT-system communication is brought up as an example;

‘When we communicate with our customers from our WMS system to their ERP systems, it is with a low degree of standardisation. So there we have been particularly flexible until now, from having some we are not online with, others we are online with on outgoing orders, while some we are online with when it comes to balance/availability deviations- and monitoring.’
4.2.3 Safety and risk

Concerning safety and risk issues, the framework of the contracts and the contract’s aspects for each customer needs to be made clear for everyone that works towards a customer. ‘What costs us money is often a change in the customer’s logistics or if they do not do what we have agreed upon. So it is important that our employees have the knowledge concerning the conditions for the relationship.’

Concerning how Provider B deals with their customers in daily operations, the interviewee addresses the use of operational meetings; ‘we have got operational meetings once a month, dealing with the daily operations; what is working or not, and so we need to be open concerning how our and the customer’s economy is going and what we can do to improve these things.’

The contractual situation in Provider B’s case is that they have a contract framework concerning the judicial agreements and then they develop an operational agreement concerning the main assignments they are to perform. The interviewee further addresses potential difficult situations, such as termination of relationships, as being handled solely by the legal contracts. Besides from this, ‘conflicts are not conflicts. Our culture and policy is pragmatic; to find solutions. And that, I think, is [beneficial in the] long-term... It is wise to be pragmatic and broadminded.’

4.3 Provider C

Provider C, Aditro Logistics (Aditro), is a well-established TPL actor in the Nordic region, located in Sweden, Norway and Finland. The company operates around 150 000 warehousing m², and handles the logistics for many market-leading companies (Aditro Logistics, n.d.). The interviewee at Aditro Logistics is the company’s central operation officer (COO), Tomas Axelsson, who is responsible for the operations of Aditro’s six sites. All of the following information, as presented in all parts of section 4.3 was collected from personal communication with T. Axelsson on 2013-03-22.

4.3.1 Relationship forming

Axelsson characterize Aditro’s customer relationships as being in the top right corner of the relationship model (figure 2.1). ‘There is some variation, but we try to work very integrated with our customers.’ He adds that they are selling a total concept, from helping in purchasing of transports from suppliers, to performing inbound and outbound handling at the warehouse, and also value added services (VAS) such as labelling, repackaging, and assembly. ‘We must be able to take care of everything that a customer wants us to do in the supply chain, so he should not have to find someone else to get something done. That is our aim.’

To get a customer to choose Aditro as a logistics partner, Axelsson highlights that it is dependent on what situation the customer has today, or has had previously.

‘If the customer has previously been with DHL, Schenker, or someone else, it deals more with service and quality, and naturally price. If it is someone who have had their own warehouse, facilities and personnel, it is more important to get them to
understand that all fixed costs become variable when they outsource to a third party and that one’s costs will follow the revenues.’

Aditro only works with contract customers, and Axelsson says the contract should span at least three years for them to enter into a relationship,

‘...because it is quite a lot of work before one is actually up and running. Also, we are working mainly with big and medium-sized companies that might have logistics costs of a few million a year. They should be established and have a well-functioning business already, so that we see that it is large enough.’

When talking about making new agreements with customers, Axelsson mentions that it often takes up to 6 months before they get the productivity and the flow that they want; ‘every customer is usually a bit unique, since often each customer wants something done extra or special. So we use to say that it takes up to six months before we reach the productivity or revenue coefficient that we have calculated.’ He further mentions that when extending the contract in already existing relationships it usually happens in the form of renegotiations.

### 4.3.2 Trust and adaptation

Axelsson addresses trust as crucial in order to build a working relationship:

‘In the long run it’s very important! Since we are part of our customers’ supply chain, and if they do not trust us and we fail somewhere along the road, they are the ones who are worst affected due to an unsatisfied customer or a lost sale for example. So confidence is everything in a case like that.’

Concerning important factors to create trust, Axelsson addresses the customer’s references, ‘that is, that one knows the industry; that one has a customer who has been with us for a long time, which has similar types of products or similar types of distribution requirements and so on. Axelsson also highlights Aditro’s need to get the customers to adapt to them:

‘We’ve got about a hundred customers in total divided on our six sites, so we cannot have a hundred different flows and system. We must rather try to get them into some kind of standardization, and then there are certain customer’s unique requests that we sometimes have to adapt to... Minimized risk is important in this business.’

Concerning the cooperation and adaptation processes, Axelsson says that the better the customers plan and the better the information they can provide, the more productive Aditro can be, and adds ‘thanks to this we are able to keep our costs down.’ It all depends on how active our customers are too.’ In this regard, he also adds a point where the customers require adaptation. ‘Something...that is extremely important nowadays is IT. The customers require the same opportunity for information as if they had the warehouse outside their office door. They want web portals with real-time updates on everything that is happening in the warehouse.’

### 4.3.3 Safety and risk

Axelsson mentions measurement of key performance indicators (KPIs) as the main aspect related to monitoring of Aditro’s customers. ‘The customers require certain KPIs on what we do, and we measure the customer on certain issues as well.’ The
interviewee goes on with saying that they try to avoid making customer specific investments, and that ‘if there is someone we need to invest in that is so unique, it is added in the contract that we make investments and maybe add some percentage on the price.’

Regarding the cooperation and communication with Aditro’s customers, Axelsson views openness and honesty in communication as crucially important. ‘…Absolutely! Otherwise it does not work.’ He then explains how they administrate their relationships and communicate with their customers;

‘We have a client manager who takes care of all daily contact. Additionally, each site has a lead group of three people... They have regular contact with the customers that they have in their facilities. This may be as conference calls once a month, or quarterly physical meetings.... If there are quality deficiencies they have closer encounters and if everything works out ‘rock solid’ then maybe they do not meet very often.’

If an agreement says that Aditro should be able to get goods in and out or do the VAS within a certain time frame, Axelsson explains that ‘the customer expects that, if we have written in the agreement that if they send an order at three to be shipped the same day, then it happens. They do not ask if we can do it, but sends the order and expect that it will be on the way the same day.’ As mentioned, Aditro only works with contract customers and Axelsson address the use of contracts as a security for both parties. However, he also mentions that there is always a clause in each contract that ‘the customer may cancel the contract with immediate effect if we busted in service or quality over a longer period. Even if you have signed a contract you cannot sit securely no matter how you behave.’

4.4 Provider D

Provider D is PostNord Logistics TPL AB (PN Logistics). The company is a subsidiary of PostNord AB. PN Logistics is one of the Nordic region’s leading providers of logistics solutions; including global inward transportation, warehousing, customs services, processing services and distribution to businesses and individuals in the Nordic market (PostNord AB, 2012). PN Logistics’ interviewee, Anders Larsson, is the company’s sales manager. All of the following information, as presented in all parts of section 4.4 was collected from personal communication with A. Larsson on 2013-03-21.

4.4.1 Relationship forming

PN Logistics has a business model where they offer the market integrated logistics solutions. PN Logistics’ core competence is storage of goods to different segments of the market. PN Logistics also offers transportation into and out of the warehouse and the administrative tasks associated with this. ‘We provide integrated services covering the entire customer logistics chain.’

When PN Logistics establishes new customers relationships, Larsson emphasises that there are three factors playing an important role, namely, price, solution concept and trust, but he emphasises ‘if the trust between the parties is not present, then the solution concept or prices will not be important.’
Larsson emphasises that the factors coming into play often depends on what actors they operate with. If the customer is a big international actors, often the price is an important factor, while in other situations; solution concept could play a more important role. Larsson states that the abovementioned three factors are important for the relationship to all customers, but the importance varies according to the customer they operate with.

Larsson categorises PN Logistics’ business in all three top categories of agreements in the relationship model (figure 2.1), however, he highlights that most of the agreements fall within the ‘Partnership' and 'Third Party Agreements'. He stresses;

‘often, the customer has a purchasing strategy where they buy transportation services in one separate contract and all storage services in another agreement, and based on this the TPL needs to create value in all areas in order to be competitive.’

4.4.2 Trust and adaptation

Larsson says that it is common for clients to adapt to PN Logistics to achieve efficiency in the relationship between the parties. ‘The customers put down a relatively significant resource to build an interface to the system that we work with.’ Larsson also stresses that PN Logistics adapts to their customers, and he says: ‘It takes two to dance a tango.’ Further, Larsson underpins that when PN Logistics adapts to the customer it is frequently in their warehouse operational processes to accommodate the customers’ requirements specification and management processes that goes beyond the normal standard management. Further, Larsson says that communication in TPL relationships where the parties are tightly integrated is essential for the relationship to work.

‘In our kind of business, we often develop solutions together and have a close dialogue and communication with our customers. At different levels at the customers’ organisation, simple cases can be solved with the customer service department, while more complex issues and new solutions are discussed with the CEO or the Logistics Manager, working with development situations in a longer perspective.’

4.4.3 Safety and risk

Larsson says that they have not experienced any kind of opportunistic behaviour by their customers. He emphasises that ‘if we identify or potentially see this kind of behaviour in the initial process or during the relationship, then we may not write a contract, or we might end the relationship with this customer.’ Moreover Larsson says;

‘What governs our relationship is the agreement we have written with the customer. There is quite a heavy, formal, judicial commitment from both parties on what one is supposed to deliver and how we should act in the relationship. Naturally, if we or our customer act in breach of the agreement there will be a reaction, but this is not something that characterises everyday life.’

When it comes to contracts, Larsson emphasises that they differ depending on the relationship they have to the customer. ‘The most complex contracts concern the operation of the warehouse and storage handling; this agreement often covers a time
span of 3 to 5 years.’ In addition to the main contract, PN Logistics also has a written contract that concerns the “standard operation processes”, where specific tasks are described. ‘It is seen from both sides that we do not feel the need to monitor each other, since we have the solid judicial agreement as a foundation for the relationship.’

PN Logistics has two types of meetings with customers. “Production development” meetings are held monthly and concern operational issues, plans for future volumes, seasonality issues or potential upcoming promotions. “Logistics development” meetings are held quarterly, and deal more with strategy and long term perspective.

‘An underlying factor is that both parties are a large part of each other’s businesses. One is usually closely integrated. And for a customer to enter into an agreement with a provider it is important to understand that it requires a lot from the communication and the cooperation, and that we have a common agenda for the business to work out in the long run. The best examples are those customers who have control on their logistics and understand their business, and in that way make a good customer and a good partner for us. It is important that they do not outsource their core competencies. We must be able to discuss with competent customers, otherwise our lives become many times harder.’

Problems that may arise in the relationship that are not referred to in the agreement are often solved by having a representative from both sides meeting to discuss and solve the issue. Concerning investments, Larsson underpins;

‘We try to avoid customer-specific investments – that will become expensive both for the customer and for PN Logistics. We have, however, made customer-segment investments and this is something we can do because we know that there will be a market demand for these kinds of services. It is about building volumes and segmenting them to reduce investment risk.’

When it comes to sharing of achieved gains, Larsson says; ‘it is often difficult to determine a specific gain achieved in comparison to what the parties have invested into a specific case. Often it is the case that the customers will gain reduced prices for services that we offer as a consequence of the parties’ investments.’ However, Larsson says that they have entered into gain sharing agreements with customers, but he underpins ‘out of experience, it is difficult to create a transparency that shows the effect of precisely what this investment has led to of gains.’

4.5 Buyer 1

Buyer 1 - Myhrvold-Gruppen (Myhrvold), is a nationwide provider of equipment and services to the retail sector in Norway. Overall, the group has about 100 employees (Myhrvold-Gruppen, n.d.). The turnover for 2011 was approximately 317 MNOK (Purehelp, n.d.a). The interviewee has been Myhrvold’s finance and logistics manager, Kolbjørn Tjørswaag. All of the following information, as presented in all parts of section 4.5 was collected from personal communication with K. Tjørswaag on 2013-04-15.
4.5.1 Relationship forming

Myhrvold has maintained their relationship with their TPL provider for about 20 years. Myhrvold uses Ontime Logistics AS (Ontime) as their TPL provider. The reason they use Ontime is that the company acquired Myhrvold’s previous TPL provider, and their relationship has therefore been passed on.

Tjørsvaag underpins that ‘we consider the provider based on the commitment we have, and the quality they deliver and in which degree they can meet our needs’. Ontime essentially performs transportation abroad and also storing of Myhrvold’s products. Tjørsvaag characterizes their relationship in the category partnership agreement.

4.5.2 Trust and adaptation

Tjørsvaag said that it is a time consuming process to develop confidence and trust to the cooperation partner. ‘It depends on the complexity of the cooperation, but I would say it takes from three to six months to be able to trust and see if the relationship has a future.’ Tjørsvaag further emphasised; ‘For us to maintain and be willing to develop our relationship, it is important that the supplier can meet the needs that will arise during our development.’

Tjørsvaag said that Myhrvold has not adapted to their TPL provider noteworthy, but that essentially it is Ontime logistics that have adapted to their needs. Tjørsvaag went on by saying:

‘When we chose our TPL-provider it dealt with their size; that they could adapt to us. But now, Ontime Logistics has grown bigger, however they still adapt to us to a certain degree... We have divided it so that for parcels, as an example, which do not fit this actor particularly well, we use Posten1 as another provider.’

Despite this, Tjørsvaag believes that the larger a TLP provider is, the customer must be willing to adapt more to the TPL providers’ systems and processes in order to achieve an overall efficiency for the TPL provider. When it comes to monitoring, Tjørsvaag emphasised ‘we usually do not see a need to monitor the quality, as long as we do not get any feedback [from their customers] that it is not good... So it is monitoring itself in that sense.’ Tjørsvaag underpins that they use more time to monitor the market prices for similar processes to be sure that they get the right price on the services they buy.

Tjørsvaag stated that trust is very important for a relationship to function over time, and said ‘we want a partnership where we mutually develop each other, and together develop our relationship.’

Regarding opportunistic behaviour and loyalty, Tjørsvaag highlighted that; ‘If you do not want to be “a bandit” you keep to the agreement... You do not go out to buy the same services in other places... So it’s about trust and loyalty.’

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1 Posten [Posten Norge AS] is a Nordic post- and logistics concern, delivering complete solutions within post, communication, and logistics, with the Nordic region as its home market (Posten Norge, n.d.).
4.5.3 Safety and risk

Myhrvold and Ontime operate with contracts with duration of one year. This agreement contains the specific task to be performed and works primarily as a framework around their processes. ‘The reason why we operate with one year contracts is that then we will be sure to get a more accurate price of the services we buy.’

When it comes to meetings, Tjørswaag stated that they do not have regular meetings with their provider, but if things do not work, they have follow-up meetings. Tjørswaag further said that if there are problems that are not covered in the agreement, then try to negotiate solutions directly and simply. Furthermore, Tjørswaag emphasised that ‘it’s not always that you share things in half, sometimes both parties have to swallow some camels, depending on the case.’

Myhrvold has not made any specific investments with its TPL provider, but Tjørswaag stated that ‘We are going to invest in our IT-system in order to communicate with our TPL-provider, so that when they receive our goods at their facility, our system will register the arrival.’ Tjørswaag says that even though a contract only lasts for one year, the investments in EDI software cannot be seen as a risk, because it can eventually be transferred to a new TPL-provider.

4.6 Buyer 2

Buyer 2, Husqvarna Group (Husqvarna), is the largest producer of robotic lawn mowers, trimmers, chainsaws and garden tractors in the world, with a presence in more than 100 countries. The company is also among the world leaders in offering diamond tools and cutting equipment for the construction and stone industries. The Group’s sales in 2012 were 31 billion SEK (Husqvarna Group, 2013). The interviewee from Husqvarna is the regional logistics manager for the Nordic and Baltic region, Martin Fransson, who is responsible for warehousing and distribution within his region. He addressed the interview questions mainly focusing on Husqvarna’s TPL-relationship with Aditro Logistics, but also addressed some aspects from a general perspective. All of the following information as presented in all parts of section 4.6 was collected from personal communication with M. Fransson on 2013-04-23.

4.6.1 Relationship forming

When entering into TPL-relationships in general Fransson explains ‘we meet a number of providers, providing them with what we require, what our volumes will be, and what we want them to do for us. And then we compare service levels and prices, before reaching a decision according to which provider we believe suit the purpose.’

When talking about Husqvarna’s relationship with Aditro in light of the TPL relationship model (figure 2.1), Fransson sees it as a third party agreement ‘They get the deliveries from our suppliers and store it in their warehouse. Then we place orders to Aditro concerning what articles and quantities we want. But they can perform value added services if we want it...’ Fransson further sees it as important to have a long-term perspective when entering into relationships, in order to ensure quality in the cooperation.
‘It is very important to develop long-term relationships. If we were to change our TPL-provider every year we would never gain any quality and trust to the provider. It is important to work with a long-term perspective.’

Regarding formality of their relationships, and how heavily they rely on contracts, Fransson explains that it is connected with how long they have been working together. Concerning Husqvarna’s relationship with Aditro, he says;

‘Now, we have a quite close cooperation, so... it is not so formal. We know each other well and address issues as they arise, and we have a good dialogue... We had a two or three year agreement which is prolonged with one year at a time if none of us chooses to terminate it.’

4.6.2 Trust and adaptation

Concerning how long it takes to lower ones shoulder and trust the cooperating partner, Fransson says that if they enter into new TPL relationships they should have some control of it within six months. When answering what factors are important for them to trust the partner and wanting to develop the relationship he explains:

‘They need to be knowledgeable in warehousing; they need knowledge about our business; and know what is important for us. In our case they need to know that if we risk losing an inbound delivery, the production will stop. So knowledge about our business is important.’

In regards to how they cooperate and what their attitude is towards adapting to Aditro, Fransson emphasises that they try to find mutually beneficial solutions.

‘We try to find areas that give mutual benefits, where we can contribute in some way... We are looking at what we can do in common. If there is something we can do, for example in adapting certain things, then absolutely, we do such things... Our IT-system is connected to theirs [Aditro’s], so... we try to make it smoother for both parties to work together’

Fransson also mentions communication as an area of importance in their working together with their providers.

‘We communicate pretty closely together; especially those who have daily contact concerning our material planning. And if there is something we need to do, we always discuss it. They [Aditro] also bring up issues they are facing. So it is important with a good communication and an open dialogue.’

4.6.3 Safety and risk

In regards to Husqvarna’s attitude toward opportunistic behaviour from the provider, Fransson says that the providers develop their own business from handling their customers’ goods efficiently, and that this is beneficial for them. He further explains that they are working together to find solutions through which both parties can develop. Related to this topic, the contract is mentioned as a framework for what, and how much is to be done.

‘We have the contract in the background, where everything is stated; what levels/volumes we are supposed to have, what is to be done and so on... We have
certain levels in the agreement, showing the required delivery rate...and this is something we measure together.’

Fransson goes on to explain the importance for Husqvarna of having agreements with their providers which can deal with their requirements, and that this helps Husqvarna to perform.

‘In our industry, where we develop garden equipment and lawn mowers etc., it becomes very seasonal. During spring and summer we have a whole lot to do; a lot of stock and many orders. While during winter we do not have by far as much stock or as many orders, and neither as high revenues, so it becomes difficult for us to operate this on our own. Because then we would have had own facilities fitted for our high/peak season, which then would be empty half of the year.’

Also with safety and risk, they consider what they call the social aspects of the relationship. Concerning social aspects that are important to develop a working relationship Fransson mentions that they have regular meetings where they discuss certain things as they appear, while if anything special happens, they will deal with it instantly and discuss it to see how they can solve the situation. ‘For us it is important with a good communication and an open dialogue; that we can talk to each other about everything.’

4.7 Buyer 3

Buyer 3 is Felleskjøpet Agri Sa (Felleskjøpet), a cooperative owned by approximately 43 000 farmers. It consists of a number of subsidiaries, but the core business of the parent company includes buying and selling of grain, fertilizer, seeds and machinery (Felleskjøpet, n.d.) The cooperative’s annual sales in 2011 were approximately 10.7 billion NOK (Purehelp, n.d.b). The interviewee from Felleskjøpet was the cooperative’s logistics manager Per-Kenneth Øye, responsible for all transport and storing. The interview with Øye mainly concerned Felleskjøpet’s relationship with the TPL provider Bring Warehousing. All of the following information, as presented in all parts of section 4.7, was collected from personal communication with P.K Øye on 2013-04-29.

4.7.1 Relationship forming

For Felleskjøpet to enter into a relationship with a TPL provider, Øye emphasised the price and the solution that the provider can offer. ‘That they have a solution that fits our system.’ Felleskjøpet’s relationship with Bring constitutes a consolidation solution:

‘We have goods from around 30 suppliers with long lead-times which we store at Bring...We order goods for the warehouse and then our stores place their orders at Bring as if it was our own warehouse. Additionally, we have 17-18 of our biggest suppliers which we are cross-docking at Bring. This means that we have 17 suppliers delivering goods to Bring on a weekly basis that are packed, ready to go to the stores, which then are consolidated with the stored goods going out from Bring’s warehouse.’

Describing the relationship with Bring according to the relationship model (figure 2.1), Øye describes the relationship as partnership, ‘...and it is two separate parts.'
We have the warehousing and the transport sections, which are two different agreements.' For the warehousing section of the relationship, Øye says that they have worked with Bring since 2008, while the transport section was entered into in 2010.

4.7.2 Trust and adaptation

When talking about Felleskjøpet’s willingness to adapt to the provider, Øye says that the provider will have to adapt to them, however highlighting;

‘we try as far as possible to use integrated solutions. Among other things we have put to use the same warehouse management system as Bring to make it easier to integrate. Because Bring functions as one part of our main warehouse and then we also have our own warehouse. So we view these two warehouses as one.’

Regarding the time it takes to lower their shoulders, Øye states that they spent almost two years from they started until they had stabilised the solution. ‘We have an online inventory list on our inventory at Bring, so getting the inventory lists to go along was not easy between our ERP-system and Bring’s warehouse management system.’ He goes on to emphasise that Felleskjøpet took part in the start-up of Bring’s new warehouse, and that they therefore took part in the problems connected to getting things up and running as it should. ‘This was a challenge that took its toll on the relationship, but we put a focus on this through a project group with us and Bring... And after a while we solved these challenges. So we are very satisfied with that.’

Felleskjøpet has not made any relationship specific investments apart from the mentioned investment in the IT-system. Regarding the importance of trust in building a working relationship Øye says;

‘That is just it, when you have made a price agreement and you chose the cheapest offer... When you get going the price is not as important, then it just has to work and we need to trust that this solution works... It is not just to outsource to a third party and expect that it will solve itself. It still requires quite a lot of follow-up from us.’

Øye finally mentions that ‘alpha and omega is having IT-systems that communicate, and it turns out that it is a challenge to have 100 per cent online at all times. This is important for us, where our stores are supposed to be able to order based on the inventory that is registered there.’

4.7.3 Safety and risk

Øye mentions that they have weekly operational meetings and follow-ups on how the operations are going, and that they also have quarterly strategic meetings, dealing with how to develop the relationship. ‘It has taken a long time to stabilise the solution, but now it works really well so it would be difficult to change it.’ Øye highlights Felleskjøpet’s need to have their own hotline and contact people from the cooperating partner in order to solve arising challenges.

Felleskjøpet uses a lot of resources on monitoring, mainly through KPI measurement. Also, ‘a lot is connected to dealing with deviation. We have a couple of thousand product lines going through Bring every week, so there will be certain deviation. So investigating where this has occurred is a big job.’
Concerning the building of trust in light of measuring the relationship partner’s performance, Øye says they utterly depend on having close follow-up and the mentioned operational meetings, ‘\textit{and as long we feel that this is being addressed, then we are satisfied, but of course we would prefer that we did not have to pay that much attention.}’ He then emphasises that Felleskjøpet has a lot of goods of varying kinds. ‘\textit{They are not exactly A4, but may be difficult to handle.}’

In regards to the length of contracts, Øye mentions that concerning prices, the agreement runs around three years, but it does not concern a commitment of use. ‘\textit{So it is more of a price agreement... On TPL services we have a long list of factors that are priced.}’ Øye mentions that the price model is divided in steps according to the traffic volumes they have, and that the agreement covers what the prices should be at certain volumes.
Table 4.1. Summary of empirical findings

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<td>- Requires a lot from communication and cooperation</td>
<td>- Communication is essential</td>
<td>- No need to monitor each other</td>
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<td></td>
<td></td>
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<td></td>
<td>- Regular meetings</td>
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<tr>
<td><strong>Buyers</strong></td>
<td></td>
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</tr>
<tr>
<td><em>Myhrvold-Gruppen AS</em></td>
<td>Partnership</td>
<td>- Quality delivered and in which degree they met our needs</td>
<td>- Be able to follow their development</td>
<td>- One year contracts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Adapt to us</td>
<td>- Not adapted to the TPL noteworthy</td>
<td>- Not made specific investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- No need for monitoring</td>
<td>- Invest in IT-systems</td>
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<td></td>
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<td></td>
<td>- Want mutual development</td>
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</tr>
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<td></td>
<td></td>
<td></td>
<td>- Do not have regular meetings</td>
<td></td>
</tr>
<tr>
<td><strong>Husqvarna Group</strong></td>
<td>Third party agreement</td>
<td>- Plans for long-term relationship</td>
<td>- Important with knowledge about our business</td>
<td>- Not experienced opportunistic behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Close cooperation</td>
<td>- Try to find mutually beneficial solutions</td>
<td>- Contract as a framework</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Close communication</td>
<td>- Regular meetings</td>
</tr>
<tr>
<td><strong>Felleskjøpet Agri Sa</strong></td>
<td>Partnership</td>
<td>- Solution that fits our system</td>
<td>- As far as possible use integrated solutions</td>
<td>- Have their own contact person</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Weekly operational meetings</td>
<td>- Use a lot of time monitoring through KPI measurement</td>
</tr>
</tbody>
</table>
5. Analysis

This chapter presents the analysis of the empirical findings. Viewpoints from the interviewed providers and buyers are discussed separately, both in light of the research questions and the viewpoints from the theoretical framework, in order to enable a comparison and contrasting of the two groups’ viewpoints. This discussion leads to a conceptual model for aspects of importance for development of long-term TPL relationships, extended from the theoretical framework developed in chapter 2. All quotes in this chapter come from the interviewee of the respective company mentioned in parentheses like this: (name of company), and the quotes are from the date of the interview as described in chapter 4.

5.1 Providers’ viewpoints related to RQ 1

What makes providers and buyers willing to cooperate and work for development of mutually beneficial relationships?

5.1.1 Trust

Trust seems to be perceived as a crucial foundation factor among the TPL providers. All of the provider interviewees emphasise trust as important for their company to want to develop their TPL relationships. This especially shines through from PN Logistics’ statement that if the trust between the parties is not present, then the solution concept or prices will not be important, and it is also supported by Aditro, when talking about trust to build a working relationship; ‘in the long run, it’s very important! If they don’t trust us and we fail somewhere along the way, they are the ones who are worst affected… So trust is alpha and omega in such a case.’ (Aditro).

That trust is important for the providers also becomes clear when looking at the providers’ viewpoint of how long it takes for them to “lower their shoulders” and trusting the other party when they are entering into relationships. From three to six month; to six to 18 months is mentioned among the providers to feel confident that the relationship is becoming stable and for trust to be established. The varied time-span mentioned in this concern indicates that trust is something that needs to be earned, and that the time it takes is likely to vary between relationships. However, in light of the different providers’ categorization of their own relationships, there does not seem to be any connection between the time needed to create trust and the type of agreement between the parties.

5.1.2 Economic gain

Another aspect arising as important for the providers’ willingness to develop their TPL relationships is their need to see a potential for economic gain. This derives clearly through statements about a need for the buyers to be established in order for the providers to achieve volumes big enough to create cost-reductions and economies of scale; ‘They [the customers] should be established and have a well-functioning business already, so that we see that it is large enough.’ (Aditro). This
requirement of established customers is two-fold. The above statement indicates a need for a certain market presence in order to be relevant. However, it also becomes apparent that the customers’ control of their internal routines is seen as important for the providers to develop the relationship: ‘Customers are like this; they always have control within their own facility. All goods are labelled and always arrive in whole cartons, so it is important that we...price our services according to this.’ (Provider B). This aspect of economic gain is related to the need to see a low risk in entering an agreement, as well as a possibility to share benefits and burdens with the relationship partner, since economies of scale is an essential part of a provider's business model. In relation to economic gain, another point is the statement from Provider B's interviewee ‘of course there has to be some kind of match. We need to be able to handle the goods efficiently.’ (Provider B). Aditro shares the view that to develop a relationship it must be profitable and the customers’ business must to a certain degree fit into Aditro’s requirements. This relates to the providers’ concern of economic gain in the requirement that the goods they handle on behalf of their buyers need to fit in terms of product size and handling processes.

5.2 Buyers’ viewpoints related to RQ 1

What makes providers and buyers willing to cooperate and work for development of mutually beneficial relationships?

5.2.1 Trust

There appears to be a similarity in what the buyers perceive as important in order to be willing to cooperate and develop their TPL-relationships. Both Myhrvold and Husqvarna mention the degree to which they can trust the provider to meet their needs, as crucial in this concern. ‘For us to maintain and be willing to develop our relationship, it is important that the supplier can meet the needs that will arise during our development.’ (Myhrvold).

‘They need to be knowledgeable in warehousing; they need knowledge about our business; and know what is important for us. In our case they need to know that if we risk losing an inbound delivery, the production will stop. So knowledge about our business is important.’ (Husqvarna).

Felleskjøpet’s interviewee goes a long way in agreeing with this in emphasising that it is important ‘that they have a solution that fits our system.’ (Felleskjøpet). It appears that for the buyers to cooperate for development with the provider, it is important that the providers are not perceived as a limiting factor for the buyers’ business and further development. Considering the dependency that outsourcing of the warehousing creates for the buyers, it is understandable that they need the providers to be knowledgeable about their own as well as about the buyers’ business. Also in this concern, it is logical that the buyers see a need to trust the providers to deliver quality as important for wanting to develop their relationship. When addressing trust, the buyers seem to consider it as a time-consuming process to develop trust in the relationship, and describe it as taking up to half a year, depending on the complexity. ‘If we were to change our TPL-provider every year we would never gain any quality and trust to the provider. It is important to work with a long-term perspective.’ (Husqvarna).
5.2.2 Economic gain

Berglund et al. (1999) mention that TPL providers need to provide their customers with services that add more value to their customers’ business than the customers would be able to achieve by themselves. A part of the challenge that the buyers are facing, is keeping their costs down in order to be able to compete. It therefore becomes necessary for them to keep a relationship with their provider which supports this focus. In this concern, Felleskjøpet’s interviewee mentioned their price agreements with their provider as developing in steps in order for Felleskjøpet to secure volume discounts to reduce their relative costs. Husqvarna’s interviewee also addresses this;

‘In our industry, where we develop garden equipment and lawn mowers etc., it becomes very seasonal. During spring and summer we have a whole lot to do; a lot of stock and many orders. While during winter we do not have by far as much stock or as many orders, and neither as high revenues, so it becomes difficult for us to operate this on our own. Because then we would have had own facilities fitted for our high/peak season, which then would be empty half of the year.’ (Husqvarna).

From this it becomes clear that the providers’ capability of flexibility in operating according to the buyers’ needs is an important factor for the buyers’ willingness to cooperate in the relationship, something which is natural when considering their focus on cost control.

5.3 Providers’ viewpoints related to RQ 2

What are the providers’ and buyers’ attitudes towards cooperating and adapting to each other in order to develop mutually beneficial relationships?

5.3.1 Adaptation

In chapter 5.1, the providers’ need for trust to be present, for them to want to develop their relationship, was addressed. Their attitudes towards the trust aspect seem to be focused in two directions. From Aditro’s quote ‘if they don’t trust us…’, it appears important for the providers’ to seem trustworthy in order for the buyers to enter into a relationship with them. Provider B’s interviewee also address this issue, especially concerning situations where they try to convince potential customers to outsource their logistics; ‘To create new relationships, we are the ones who have to gain the customer’s trust; so then 70-80 per cent of what we say, what we document, and what we prove, is in order for the customer to trust us.’ (Provider B). This attitude can be seen in light of Johanson and Mattsson’s (1987) emphasis of encouragements as key features in relationship formation. It appears that this is taken into consideration among the providers and seen as an important feature for them to create an underlying fundament for adaptation in the relationship.

As mentioned in chapter two, Skjøtt-Larsen (2000) considers adaptation processes as strengthening factors which signals to the other party that the relationship is worth committing to. From the perspective of providers’ offering warehousing services it appears that they all prefer to have their customers adapt to their systems and procedures, in order to maintain their business model. Provider B, Aditro and PN Logistics all address this situation:
‘We have been too good at being flexible, and then, what happens is that we get a new solution every time we get a new customer. So my job for the next years is to standardise more...because we want to create economies of scale and efficient solutions.’ (Provider B).

‘We must rather try to get them into some kind of standardization, and then there are certain customers’ unique requests that we sometimes have to adapt to.’ (Aditro).

PN Logistics’ interviewee shares this opinion and mentions in this concern that ‘it is really like this; it takes two to tango’ (PN Logistics). From these statements, it appears that the providers are aware of, and acting in accordance with the importance of adapting in order to show commitment to the relationship. Nevertheless, the providers seem to want the buyers to adapt to the standardised solutions the providers are offering. Such an attitude makes sense, considering the providers’ desire to achieve economies of scale, which provides the opportunity to lower costs for both parties and thus encourage long-term, mutually beneficial agreements.

A connected feature in the discussion of the providers’ attitudes towards adaptation is their thoughts on doing relationship-specific investments. As discussed in chapter 2.3.1, Johanson and Mattsson (1987, p. 38) address asset investments in a relationship as part of an adaptation process that shows willingness to commit to the relationship. Considering this matter in a TPL-relationship context, it appears that the providers are of a somewhat different opinion.

‘We try to avoid customer-specific investments – that will become expensive both for the customer and for us. We have, however, made customer-segment investments and this is something we can do because we know that there will be a market demand for these kinds of services. It is about building volumes and segmenting them to reduce investment risk.’ (PN Logistics).

A potential reason for this lack of willingness to make customer-specific investments is the difference of TPL relationships and horizontal inter-organisational relationships. The TPL providers base their services on economies of scale through having several relationships, and they therefore need to rely on volumes in order to reach their profit goals. ‘We got about a hundred customers in total divided on our six sites, so we cannot have a hundred different flows and systems... If there are someone [customers] we need to invest in that are so unique, it is added in the contract that we make investments and maybe add some percentage on the price... Minimized risk is important in this business.’ (Aditro). It appears that the providers try to make general investments that can be applied across relationships, and it therefore looks as if they agree more with Heide’s (1994) highlighting of relationship-specific investments potentially increasing the operation risk if the investment does not have particular use outside of the relationship (see chapter 2.3.3).

5.3.2 Contracts

Concerning contracts, the providers seem to view the use of contracts as a major factor in the forming of their relationships as well as an important enabling factor
for development of long-term agreements; 'We only work with contract customers. For us to enter into a relationship the contract should span at least three years, because it is quite a lot of work before it is actually up and running.' (Aditro).

However, the perception regarding the scope of the contract appears to vary between the warehousing providers and the non-asset based provider Logent in this concern. While the warehousing providers emphasise that contracts play an important role in regulating their relationships, Logent sees contracts more as a general framework of business. 'Changes occur all the time...that cannot be described in detail. It is therefore a more conditional framework-agreement. It is often better not to put too much into the agreement, because that will lock us down...Unless one has made very big investments – then we are forced into the judicial world.' (Logent). This point of view indicates a closer relation to Jones et al.'s (1997) statement that the social context is seen as more important than legally binding contracts in relationship establishment.

The main impression from the providers is that a legally binding contract is required as a foundation for them to consider entering into a business relationship, and that the contract is important in setting the ground rules for how the relationship is handled. It appears that the providers' perception of contracts (with the exception of Logent) is that they are used for safeguarding their interests, indicating that the contracts work as facilitators for trust-building and relationship development;

'What governs our relationship is the agreement we have written with the customer. There is quite a heavy, formal, judicial commitment from both parties on what one is supposed to deliver and how we should act in the relationship. Naturally, if we or our customer act in breach of the agreement there will be a reaction, but this is not something that characterises everyday life.' (PN Logistics).

This situation raises the question to whether Jones et al.'s (1997) emphasis on the social context as being the most important is realistic in real-life TPL relationships, and from the addressing of the situation above, it looks like the use of contracts is seen as the more important among the providers.

5.3.3 Monitoring and safeguarding of interests

Another aspect of the providers’ attitudes towards cooperating and adapting to develop mutually beneficial and long-term relationships is their attitudes towards monitoring and safeguarding of interests in relation to opportunistic behaviour. The use of contracts is brought up also in this concern, in that they are said to form the basis for how the relationship is to be handled, thus reducing the providers’ need to monitor the other party. 'It is seen from both sides that we do not feel the need to monitor each other, since we have the solid judicial agreement as a foundation for the relationship.' (PN Logistics). This situation gives the impression that the providers perceive contracts as reducing the parties’ potential to act in accordance with own interests, for example in the form of deceit, as Grover and Malhotra’s (2003) describes as opportunistic behaviour.
5.4 Buyers’ viewpoints related to RQ 2

*What are the providers’ and buyers’ attitudes towards cooperating and adapting to each other in order to develop mutually beneficial relationships?*

5.4.1 Adaptation

The buyers focus on using their own knowledge in cooperation with the providers to find solutions in their adaptation efforts. It appears that the buyers expect the providers to be proficiently knowledgeable in offering proper solutions to their requirements. This may explain why the buyers do not address trust in the same manner as the providers, and it indicates that they have a underlying trust in that the providers are professional in their business. ‘*We try to find areas that give mutual benefits, where we can contribute in some way*’ (Husqvarna). Husqvarna’s interviewee points to their attitudes concerning cooperation to gain mutual benefits. Their focus is on finding solutions to challenges in the relationship that can create mutual benefits when solved. Felleskjøpet’s interviewee seems to be in agreement with Husqvarna on this matter, stating that ‘*we try as far as possible to use integrated solutions. Among other things we have put to use the same warehouse management system as Bring to make it easier to integrate.*’ (Felleskjøpet).

Interestingly, however, there appears to be quite different opinions between Husqvarna and Felleskjøpet on the one side and Myhrvold on the other in this matter, where Myhrvold seems to prefer to be more in charge in their TPL relationship;

> ‘*When we chose our TPL-provider it dealt with their size; that they could adapt to us. But now, Ontime Logistics has grown bigger, however they still adapt to us to a certain degree... We have divided it so that for parcels, as an example, which do not fit this actor [Ontime Logistics] particularly well, we use Posten as another provider.*’ (Myhrvold).

This difference can be seen in light of the companies’ categorisation of their TPL relationship from figure 2.1, where Husqvarna’s interviewee describes their relationship as a ‘TPL agreement’, while Myhrvold’s interviewee describes their relationship as a ‘partnership’. Their differing viewpoints on adaptation reflect the characteristics from Bowersox et al.’s (1989) model quite well, where Myhrvold try to maintain their independence from their provider, while Husqvarna gets closer to its provider in terms of adapting to each other. ‘*We are looking at what we can do in common. If there is something we can do, for example in adapting certain things, then absolutely, we do such things.*’ (Husqvarna). The situation for Felleskjøpet, however, is different. Their interviewee seems to be more in line with Husqvarna’s concerning his thoughts around adapting to the provider, even though he describes Felleskjøpet’s relationship with Bring as a partnership – indicating a closer relation to Myhrvold in this concern. It is therefore no clear or obvious difference between the buyers in this concern, in light of how they categorise their relationships.

Regarding the attitudes on adaptation, and in that concern; making relationship specific investments, the buyer companies do not show any reluctance, although they only mention investments in integration of IT-system interfaces as examples for simplifying the information flow with their providers. In this regard
Felleskjøpet's interviewee stresses; ‘alpha and omega is having IT-systems that communicate…’ (Felleskjøpet), and he highlights Felleskjøpet's need to have their own contact persons from the cooperating partner in order to solve challenges that arise. This opinion is shared by Husqvarna's interviewee. ‘For us it is important with a good communication and an open dialogue; that we can talk to each other about everything.’ (Husqvarna). Seen in the light of the statement from Aditro's interviewee about the customers’ requirement of real-time access to their goods’ information, it appears that proper IT-system communication is an underlying factor in order for the buyers to feel that adaptation and cooperation is going to be possible. This requirement from the buyers, of access to accurate information and the possibility to communicate quickly, relates to the potential risk they take when outsourcing a part of their logistics to a provider.

5.4.2 Contracts

From the buyer interviewees, contracts seem to be seen mainly as a framework for how the parties should cooperate, depending on the length of the relationship they are in. Addressing Husqvarna’s relationship with Aditro;

‘Now, we have a quite close cooperation, so... it is not so formal. We know each other well and address issues as they arise, and we have a good dialogue... We had a two or three year agreement which is prolonged with one year at a time if none of us chooses to terminate it.’ (Husqvarna).

The buyers’ attitudes towards contracts seem relaxed, and it appears as if the contract works as a foundation where flexibility is a substantial part of the cooperation. Moreover, it appears that contracts can be seen in light of the buyers’ trust and loyalty in that the providers are fulfilling their parts of the agreement. ‘If you do not want to be “a bandit” you keep to the agreement... You do not go out to buy the same services in other places... So it’s about trust and loyalty.’ (Myhrvold). These attitudes reflect the emphasis that the providers’ put on their responsibility to gain the customers’ trust in that they would do a good job.

In light of how the providers and buyers view contracts, it looks as if the providers are leaning more heavily on the contract to make sure that they are not going out of their agreement and doing work for free. While the providers lean on the contract agreement to ensure that they get paid for any work they do outside of it, the buyers do not seem to have the same strict focus on the contract. This is sensible, considering potential extra work done beyond the contract and who would bear the cost if it is not covered.

5.4.3 Monitoring and safeguarding of interests

It appears that the buyers have different perceptions concerning the need for monitoring of the providers’ performance. ‘We usually do not see a need to monitor the quality, as long as we do not get any feedback [from their customers] that it is not good... So it is monitoring itself in that sense.’ (Myhrvold). While Myhrvold views monitoring as unnecessary, Felleskjøpet is of a different opinion, and uses a lot of resources on monitoring. ‘A lot is connected to dealing with deviation. We have a couple of thousand product lines going through Bring’s warehouse every week, so there will be certain deviation. So investigating where this has occurred is a big job.’
(Felleskjøpet). Husqvarna, on the other hand, is more in agreement with Myhrvold on this topic: ‘We have certain levels in the agreement, showing the required delivery rate...and this is something we measure together.’ (Husqvarna). Nevertheless, measuring of KPI is mentioned as used to keep a certain level of control of the providers’ performance, so although both Husqvarna and Myhrvold seem to be more relaxed in their approach to monitoring, it still occurs among them all. Considering Felleskjøpet’s seemingly additional focus on monitoring compared to the two other buyers, it is not unlikely that this can be related to the challenges they experienced with their provider in the start-up of its new warehouse.

5.5 Providers’ viewpoints related to RQ 3

How do the providers and buyers cooperate and adapt to each other in practice?

5.5.1 Communication and meetings

Linked to Håkansson and Johanson’s (1990) mentioning of the social and administrative bonds as important, a recurring topic is that all the providers view openness and honesty in communication as crucial in their work to develop their business relationships, and also the importance of being able to meet each other to discuss situations when needed.

Concerning meetings, the providers separate between regular operative meetings and meetings arising in situations requiring extra treatment.

‘We have a client manager who takes care of all daily contact. Additionally, each site has a lead group of three people... They have regular contact with the customers that they have in their facilities. This may be as conference calls once a month, or quarterly physical meetings..... If there are quality deficiencies they have closer encounters and if everything works out 'rock solid' then maybe they do not meet very often.’ (Aditro).

It becomes clear that having regular meetings as well as sharing of information is viewed as important for the providers to enable adjustments and adaptations in order to set their common course ahead. ‘We have operational meetings once a month, dealing with the daily operations; what is working or not, and so we need to be open concerning how our and the customer’s economy is going and what we can do to improve these things.’ (Provider B). PN Logistics’ interviewee also addresses regular meetings as important for developing their relationships, where the short and long-term perspective of the relationship is discussed. A final note on importance of flexibility regarding meetings, is Logents’s flexible way of treating such situations; ‘We have a formal meeting arrangement in combination with situational meetings. If something occurs it is important to have it immediately, and not wait for a scheduled one to bring it up.’ (Logent).

Regarding communication in general, literature (Morgan & Hunt, 1994; Zineldin, 2012) highlights that it is important to have an open and truthful atmosphere to achieve mutual benefits and enable problem-solving and a sustainable relationship. The providers address this as a situation of great importance, and PN Logistics’ interviewee describes how they treat such issues:
‘In our kind of business, we often develop solutions together and have a close
dialogue and communication with our customers. At different levels at the customers’
organisation simple cases can be solved with the customer service department, while
more complex issues and new solutions are discussed with the CEO or the Logistics
Manager, working with development situations in a longer perspective.’ (PN
Logistics).

A final point in relation to the administering of relationships and the focus on
communication and meetings, is Anderson and Narus’ (1990) highlighting of the
acceptance of some level of conflict as being a part of doing business. Provider B’s
interviewee describes this issue in perfect agreement with Anderson and Narus;
‘Conflicts are not conflicts. Our culture and policy is pragmatic; to find solutions. And
that, I think, is [beneficial in the] long-term... It is wise to be pragmatic and
broadminded.’ (Provider B).

From the discussion on how the providers deal with cooperative- and adaptation
situations in practice, it is clear that this is something they view as important and
something in which they work closely with their customers to develop in a
mutually beneficial manner. The abovementioned description from Provider B’s
interviewee of having a problem-solving mind-set clearly resembles this. PN
Logistics’ interviewee neatly summarises the underlying and essential factors in
this concern;

‘An underlying factor is that both parties are a large part of each other’s businesses.
One is usually closely integrated. And for a customer to enter into an agreement with a
provider it is important to understand that it requires a lot from the communication
and the cooperation, and that we have a common agenda for the business to work out
in the long run. The best examples are those customers who have control on their
logistics and understand their business, and in that way make a good customer and a
good partner for us. It is important that they do not outsource their core competencies.
We must be able to discuss with competent customers, otherwise our lives many times
harder.’ (PN Logistics).

5.5.2 IT-systems

Håkansson and Johanson (1990) differentiate between technical, social,
administrative, and legal bonds; and that development of these bonds strengthen
firms’ ability to form long-term relationships (cited in Skjøtt-Larsen, 2000). In this
concern, the use of shared IT-systems is frequently mentioned by the providers,
seemingly with a focus on integrating the customers into the providers’ systems.
‘The customers put down a relatively significant resource to build an interface to the
system that we work with.’ (PN Logistics). Aditro seems to be in agreement with PN
Logistics’ approach; ‘Something...that is extremely important nowadays is IT. The
customers require the same opportunity for information as if they had the warehouse
outside their office door. They want web portals with real-time updates on everything
that is happening in the warehouse.’ (Aditro).

Although it is addressed by all the providers, it appears that there is a difference in
their focus and relying on IT-systems as a means of cooperating with their
customers.
‘When we communicate with our customers from our WMS system to their ERP systems, it is with a low degree of standardisation. So there we have been particularly flexible until now, from having some we are not online with, others we are online with on outgoing orders, while some we are online with when it comes to balance/availability deviations- and monitoring.’ (Provider B).

While PN Logistics and Aditro seem to have a structured focus on their use of IT-systems with their customers, Provider B appears to be more flexible, while, finally, Logent only address the use of advanced excel-sheet calculation in their work to improve possibilities for efficient production and information flow. So, there may be a difference between the providers related to the services they offer.

5.6 Buyers’ viewpoints related to RQ 3
How do the providers and buyers cooperate and adapt to each other in practice?

5.6.1 Communication and meetings
Among the buyers, there is a difference in how they go about when cooperating with their providers in practice. While Husqvarna’s interviewee mentions the use of regular meetings to bring issues up for discussion, Myhrvold’s interviewee points out that they rather have follow-up meetings when things are not working. Felleskjøpet’s interviewee highlights that they ‘are utterly dependent on having a close follow-up and…weekly operational meetings.’ (Felleskjøpet).

As a general notion there does not seem to be a one way fit in terms of how the buyers see it as best to deal with their provider in everyday situations. Considering the different degrees of complexity in the various relationships, it is natural that some need closer dialogue with their providers, while others can manage with overall meetings. It can also be related to Clemons et al.’s (1993) highlighting of information exchange as part of the coordination costs in dealing with the other party, and it is therefore reasonable that there is a differing opinion on this matter.

Concerning the buyers’ general experience in communication efforts, Husqvarna’s interviewee reflects Zineldin’s (2012) as well as Morgan and Hunt’s (1994) stressing that an open and truthful atmosphere is important in the communication between the parties in order to create a sustainable relationship.

‘We communicate pretty closely together; especially those who have daily contact concerning our material planning. And if there is something we need to do, we always discuss it. They [Aditro] also bring up issues they are facing. So it is important with a good communication and an open dialogue.’ (Husqvarna).

Husqvarna’s interviewee also mentions that their trust towards Aditro is growing, and connecting this with the above statement and with the literature’s focus on good communication, it is reasonable that Husqvarna’s interviewee has this perception.

5.6.2 IT-systems
Also dealing with the coordination cost mentioned by Clemons et al. (1993), the buyers mention their connected IT-systems with their providers as a way to adapt to each other to reduce costs and increase gain-sharing. ‘... Our IT-system is
connected to theirs [Aditro’s], so...we try to make it smoother for both parties to work together’ (Husqvarna). ‘We are going to invest in our IT-system in order to communicate with our TPL-provider, so that when they receive our goods at their facility, our system will register the arrival.’ (Myhrvold). ‘We try as far as possible to use integrated solutions. Among other things we have put to use the same warehouse management system as Bring to make it easier to integrate.’ (Felleskjøpet).

Overall, it is therefore clear that the buyers see a need and desire to integrate their IT-systems with their providers in order to get the information they need in the same manner as if they held their own warehouses. It also becomes clear that regardless of how the buyers classify their relationship with their providers, the investment and integration of IT-systems is the most frequently approach to adapting to their providers.

5.7 Analysis summary

Figure 5.1. Conceptual model: Providers’ and buyers’ viewpoints on important aspects for long-term TPL relationships (Compiled by the authors for this thesis).

Figure 5.1 shows the conceptual model that has been developed through the analysis of this thesis. The bullet-points under the heading ‘Inter-organisational relationship’ come from the theoretical framework developed in chapter 2 (figure 2.2). These points summarise the viewpoints from social exchange theory and TCE, connected to a network perspective, which in literature are highlighted as important for the prosperous development of general business relationships. In the empirical findings and the analysis chapter, the authors have applied the viewpoints from the reviewed literature to a TPL relationship context. This has
been done to investigate how the parties in such relationships cooperate and adapt to each other in order to develop mutually beneficial and long-term relationships, and also to explore what their attitudes are in this regard. As figure 5.1 shows, the providers and buyers emphasise many of the same issues as important for developing their relationships. However, there seems to be a difference among the parties concerning their focus in the relationship. The underlined points in the model are aspects that the providers and buyers perceive as important, that have not been discovered in the literature review. This indicates that in addition to the elements brought up in the literature review; this thesis has extended the understanding of important aspects for TPL relationship development.

As the model shows, related to social exchange theory; trust, information sharing, involvement and open communication are emphasised as important from both buyers and providers in the TPL context. What was not discovered in the literature review, but is frequently stressed among the buyers, is that they see a necessity in that the provider needs knowledge about the buyer’s business, since they become part of the buyer’s value chain. On the other side, the providers highlight a notion which somewhat resembles the buyers’ viewpoint of knowledge; the buyers need to have a solid knowledge about their own business in order for the provider to be able to meet their needs and handle their requirements in the most efficient manner.

In regards to adaptation, the parties have a somewhat more differing perspective. Again, the buyers emphasise that the providers should meet their needs and not become a hindrance for the buyers’ development. Still, they point out their willingness to adapt to the providers’ standards in some areas. In this concern, the buyers strongly emphasise the need for communicating IT-solutions with the provider, made clear by their examples of adaptation to the providers’ IT-solutions. From the providers’ perspective on adaptation, they do not seem particularly willing to make relationship-specific investments. Rather, they emphasise the need for some kind of match with the buyer concerning goods handling, geography and usability of solutions, in order to maintain economies of scale. Finally, both buyers and providers emphasise that for a relationship to develop properly, they need to be able to communicate and find solutions to arising challenges together. This is specifically mentioned in relation to accepting some level of conflict as a part of doing business together.

Lastly, addressed from the interviewees concerning TCE is the need for both parties to minimize their cost, and that the development of the relationship should work in favour of this. There are, however, also some differing viewpoints concerning the TCE aspect. The buyer companies emphasise their use of KPI measurement, while the providers highlight their legal contracts as a framework for how to deal with the other party. In the literature it was addressed that coordination cost and operational- and opportunistic risk were factors that would increase transaction costs in the relationship (Clemons et al., 1993). The findings in this study seem to contradict this statement to a certain degree. It appears that the use of legally binding contracts decreases the parties’ perception of monitoring and safeguarding as highly important, and therefore operational and opportunistic risk does not seem to be of great concern among the parties. The coordination cost
aspect, however, seems to be relevant among the parties for exactly the same reason, that they need to spend resources on keeping to the contracts.

Also mentioned in the literature was the viewpoint of the social context, rather than legally binding contracts, as a key feature in establishing inter-organisational relationships (Jones et al., 1997). From this study, a contradicting viewpoint is noticed, since the actors emphasise their use of contracts as a framework for the development of their relationships, and that the contract also works as a foundation for building and gaining trust.

No obvious relations were detected between the parties' description of their relationship and what factors they emphasised as important for the relationship development. Considering the limited number of interviewed companies, it is natural that a clear distinction becomes difficult. Related to this notion, and perhaps explaining to some extent why no distinction was made, are the providers’ floating descriptions of their relationships. Even though they saw themselves as being more or less within one kind of agreement, they all emphasised that they may provide services in all of the agreements described in figure 2.1 (the relationship model).
6. Conclusions and suggestions for further research

The final chapter presents the conclusions and contribution of the thesis and gives suggestions for further research deriving from this study.

6.1 Conclusions and contribution

Third party logistics (TPL) outsourcing has developed as an alternative to vertical business integration during the last couple of decades, and research in this field has followed the development. Even though long-term relationships are often developed, there are mixed results concerning how successful the cooperation and coordination turns out to be. Literature reviews on TPL research have expressed a need for a simultaneous investigation of provider and buyer perspectives on TPL relationships, and on the bonding of buyer-provider processes. Therefore, the purpose of this thesis has been to investigate how providers and buyers in TPL relationships adapt and cooperate to develop mutually beneficial and long-term relationships.

Theoretical viewpoints from social exchange theory, transaction cost economics, and the network perspective, with a focus on general inter-organisational relationships are applied to a TPL relationship context. The thesis brings these aspects into the context of TPL relationships, enabling an insight into providers’ and buyers’ attitudes on adaptation and cooperation as well as an insight to their practices in this concern. Through this application, the thesis extends the understanding of TPL relationships.

Providers’ and buyers’ willingness to adapt and cooperate in TPL relationships appears to be connected with their perceived potential for economic gain from the relationship, and also to the aspect of being able to trust the other party. Buyers emphasise that the providers should be able to meet their needs and provide solutions for their requirements. They also make an important point in that the providers need to be knowledgeable about the buyers’ business. The providers emphasise a need for some kind of match with the buyer in terms of goods to be handled, geographical fit, and that the buyer fits their solution, and finally that the buyers should be knowledgeable about their own business.

The parties’ attitudes on cooperating and adapting to each other are characterized by different features for the parties. The providers seem to prefer that the buyers are brought into their existing systems and solutions so that they can achieve the economies of scale that they are aiming for. For this reason, they appear to avoid making relationship-specific investments. The buyers, on the other hand, appear to want the providers to adapt to their needs and requirements. Even so, their attitude is that they adapt to their provider’s solutions as far as possible, as long as they do not need to alter their own business structure. Providers and buyers are in agreement concerning their highlighting of information sharing and good communication as crucial for the development of mutual benefits and long-term relationships. The use of contracts in administering the relationships is seen as important for the providers to define their operations and the scope of the
relationship. Although both parties address the use of KPI measurement as part of their control-keeping of the relationship, the use of contracts also seems to reduce the need for monitoring and safeguarding in relation to opportunistic risk, as well as being a facilitator for building trust in the relationship, especially from the providers' viewpoint. It therefore seems to contradict aspects from the literature in this regard.

The attitudes and factors of willingness to cooperate and adapt are evident in how the providers and buyers work in practice to develop their relationships. First and foremost, both parties emphasise the importance of being able to communicate, and the buyers mention integration of their IT-systems with the providers’ as something they have done and will do to enable quick information sharing. Besides the aspect of IT-information sharing, the actors also emphasise that they have close cooperation and follow-ups on aspects that are important for their relationships to stay healthy. Finally, concerning communication, regular operational meetings are emphasised by both parties as a part of the practical work to develop the relationship's future and to discuss day-to-day issues.

**Contribution**

This thesis has discussed factors which both parties in TPL relationships state as important for their willingness to cooperate and adapt to their partner. TPL relationships consist of buyers and providers of a service, where both actors need to adapt to each other to enhance a mutually beneficial relationship. It is therefore helpful to be aware of factors that both parties see as crucial to enable development of long-term relationships. This thesis applies inter-organisational relationship theory in a TPL context, and its findings can be used by managers in firms considering entrance into a TPL relationship, or that are already in existing relationships, in order to improve their understanding of what factors may be important to consider when cooperating with and adapting to the other party.

### 6.2 Suggestions for further research

As noted in the analysis summary, no obvious connections were detected between the parties’ description of their relationship and what factors they emphasised as important for the relationship development. Considering the limited number of interviewed companies, it is natural that a clear distinction becomes difficult. For further studies, it would therefore be of interest to apply the conceptual model that has been developed in this thesis to a larger sample of relationships in order to investigate more closely which factors are seen as important for the different kinds of agreements. It would therefore be interesting to see a quantitative research applying the viewpoints put forward in this study. Further, it would also be recommended to investigate the topic in perfectly dyadic relationships in order to more specifically highlight potential differences and/or similarities that may be present. Finally, this study has only investigated relationships among Norwegian and Swedish providers and buyers. Further research should consider bringing the research topic into a wider geographical context.
References


Jensen, L., & Hertz, S. (2011). Outsourcing to TPL firms: Present customers as a decision criteria. IMP-conference 2011, presented as WIP.


Appendices

Appendix 1 – Interview guides

The interview guides were developed and presented to the interviewees in Norwegian and translated to English. Following is the interview guide to the TPL providers, first in Norwegian and then in English, and then the interview guide for the buyer firms, also in Norwegian followed by English. For the relationship model, the same description was given to both parties, and it is therefore only given once here in the appendix.

Norwegian interview guide for TPL providers

Innledning
1. Beskriv din stilling i bedriften
2. Hvilke faktorer er avgjørende når dere inngår et forhold til en ny kunde?
   o Hvorfor valgte dere å inngå samarbeidet med (NAVN)?
   o Hva går forholdet deres med (NAVN) ut på?
3. Hvor vil du plassere deres bedrftsforhold til deres kunder i den oppgitte 'relationship modellen'? (Se vedlagt figur)

Spørsmål knyttet til tillit og tilpasning.
4. Hvor lang tid vil du si det tar før dere kan stole på samarbeidspartneren og 'senke skuldrene'?
5. Hvor vanlig er det at kunden tilpasser seg dere for at forholdet skal kunne fungere?
6. Hvor aktuelt er det for dere å tilpasse deres virksomhet til kunden?

Spørsmål knyttet til sikkerhet og risiko
7. Bruker dere mye resurser på overvåkning av kundens oppførsel?
8. Føler dere at kunden overvåker dere for å være sikker på at dere leverer kvalitet som avtalt?
9. Har dere opplevd opportunistisk oppførsel fra kundens side?
10. Bruker dere mye ressurser på å koordinere og følge opp forholdet?
11. Hvor formelt i form av kontrakter vil du si at deres forhold er?
12. Har dere gjort noen spesifikke økonomiske investeringer for å få spesifikke forhold til å fungere?

Spørsmål knyttet til sosiale aspekter
13. Hvor viktig vil du si at tillit er for å skape et fungerende forhold? Hva med:
   o kommunikasjon
   o Respekt
   o Deling av informasjon/kunnskap
14. Hvordan løser dere problemer/konflikter som oppstår i forholdet?
15. Føler dere at oppnådd gevinst blir jevnt fordelt i forhold til investerte ressurser?
16. Hvordan jobber dere sammen i forholdet for å utvikle og skape gjensidig gevinst for begge parter?
English interview guide for TPL providers

Introduction
1. Can you shortly describe your position in the company?
2. Why did you choose to enter into an agreement/relationship with your customer(s)?
   o What factors were crucial when deciding for whether to enter into the relationship(s)?
   o What does your relationship with your customer(s) concern?
3. Where would you place your relationship with your customer(s) in the 'relationship model'? (Model with description on next page)

Trust and adaptation
4. How long would you say it takes before you can trust your partner and 'lower your shoulders'?
5. What factors must be present for your company to want to develop a relationship with its customer(s)?
6. How would you say that the trust in the relationship with your customer(s) has developed since you entered into the relationship?
7. How appropriate is it (or has it been) for your company to adapt its business to your customer(s)?

Safety and risk
8. Does your company use a lot of resources on monitoring your customer(s) to ensure that they deliver quality as agreed (quality of service provided)?
9. Have you experienced any opportunistic behaviour from your customer(s)?
10. How do you coordinate and follow up on the relationship with your customer(s)?
11. How formal, considering contracts, would you say that the relationship with your customer(s) is?
12. Have you made any specific financial investments to make the relationship work or any investments during the relationship?

Social factors
13. How important would you say that trust is to create a functioning and long-lasting relationship?
14. How are problems solved, that arise in the relationship?
15. Would you say that achieved gains are evenly distributed in the relationship, compared to invested resources?
16. How do you work together in the relationship to develop mutual benefits?

Norwegian interview guide for buyers

Innledning
1. Kan du kort beskrive din stilling i bedriften?
2. Hvilke faktorer var avgjørende når dere inngikk forholdet til deres TPL-leverandør?
   o Hva går forholdet med TPL-leverandøren deres ut på?
Tillit og tilpasning
4. Hvor lang tid vil du si det tar før dere kan stole på samarbeidspartneren og 'senke skuldrene'?
5. Hvilke faktorer må være til stede for at dere ønsker å utvikle forholdet?
6. Hvordan har tilliten i forholdet til TPL-leverandøren utviklet seg siden dere innigkt forholdet?
7. Hvor aktuelt er det for dere å tilpasse desers virksomhet til TPL'en?

Sikkerhet/risiko
8. Bruker dere mye ressurser på å overvåke TPL-leverandøren for å være sikker på at de leverer kvalitet som avtalt?
9. Har dere opplevd opportunistisk oppførsel fra deres TPL-leverandør?
10. Hvordan er ressursbruken deres med tanke på å koordinere og følge opp forholdet?
11. Hvor formelt i form av kontrakter vil du si at deres forhold er?
12. Har dere gjort noen spesifikke økonomiske investeringer for å få til dette forholdet, eller underveis i forholdet?

Sosiale aspekter
13. Hvor viktig vil du si at tillit er for å skape et fungerende forhold?
14. Hvordan løser dere problemer som oppstår i forholdet?
15. Føler dere at oppnådd gevinst blir jevnt fordelt i forhold til investerte ressurser?
16. Hvordan jobber dere sammen i forholdet for å utvikle og skape gjensidige gevinst for begge parter?

English interview guide for buyers

Introduction
1. Can you shortly describe your position in the company?
2. Why did you choose to enter into an agreement/relationship with your TPL-provider?
   o What factors were crucial when deciding for whether to enter into the relationship?
   o What does your relationship with your TPL-provider concern?
3. Where would you place your relationship with your TPL-provider in the 'relationship model'? (Model with description on next page)

Trust and adaptation
4. How long would you say it takes before you can trust your partner and 'lower your shoulders'?
5. What factors must be present for your company to want to develop a relationship with its TPL-provider?
6. How would you say that the trust in the relationship with your TPL-provider has developed since you entered into the relationship?
7. How appropriate is it (or has it been) for your company to adapt its business to your TPL-provider?
**Safety and risk**
8. Does your company use a lot of resources on monitoring your TPL-provider to ensure that they deliver quality as agreed (quality of service provided)?
9. Have you experienced any opportunistic behaviour from your TPL-provider?
10. How do you coordinate and follow up on the relationship with your TPL-provider?
11. How formal, considering contracts, would you say that the relationship with your TPL-provider is?
12. Have you made any specific financial investments to make the relationship work or any investments during the relationship?

**Social factors**
13. How important would you say that trust is to create a functioning and long-lasting relationship?
14. How are problems solved, that arise in the relationship?
15. Would you say that achieved gains are evenly distributed in the relationship, compared to invested resources?
16. How do you work together in the relationship to develop mutual benefits?
Appendix 2 – Description of TPL agreements for use in interviews

Relationship model

The lower left part of the figure includes single transaction and repeated transactions, and relates mainly to informal and short term relationships. The degree of integration and commitment is low and the price will be the main focus. The next three levels are viewed more as forms of strategic alliances, and these are seen as forms of TPL relationships in this thesis.

*Partnerships* are the lowest form of strategic alliances when it comes to degree of both commitment and integration. The parties will try as far as possible to preserve their independence from each other. Normally in this agreement the buyer will manage the planning and management functions in their own house, while they outsource the logistics functions. The provider will try to combine different customers and implement standard systems to create efficiency.

*Third party agreements* have a higher degree of integration and commitment. Normally the provider is adapting more to the specific customers’ needs. For the provider to be able to meet these requirements they may do some investments in equipment, facilities and personnel. Frequent information exchange and trust is a crucial aspect in this type of agreement.

*Integrated service agreements* have the highest level of integration and commitment and are the most formal. In this agreement the provider will normally take over all or part of the buyers’ logistics processes. The provider will adapt to the customers’ requirements and naturally, processes like value-added services and integration of the parties’ information systems will be a natural thing to execute.
## Appendix 3 – Interviews details

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<td>Logent Orcus</td>
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<td>Carl-Axel Eriksson</td>
<td>Business Developer</td>
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<td>Tomas Axelsson</td>
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<td>Anders Larsson</td>
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