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Heuristics in customer-supplier interaction

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ABSTRACT

In customer-supplier relationships individuals representing respective companies interact to solve a number of adaptive problems and how the relationships will develop depends on the solutions they jointly devise. Their interactive meetings are characterized by conditions of limited time, information, and processing capacity that render extensive information gathering and analytical cognitive elaboration impracticable and lead the individual actors to adopt behaviors based on rules and heuristics. In this paper, we review the extant literature on heuristics in management and present the findings of an exploratory study on the use of heuristics in interactions in customer-supplier relationships. We found that preparing for meetings and during them actors use six sets of heuristics. Heuristics used in interaction during the meetings concern the degree of adaptation to the specific counterpart, how to react to unexpected developments, and a general code of conduct. In preparing for meetings, heuristics are used to define the information to collect, its sources, and how to use it. Our study suggests heuristics used are personal, originate in both organizational norms and personal experience, and are seldom shared with others.

1. Background

Interaction processes are key to explaining how and why customer-supplier relationships emerge and develop in business-to-business markets (Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009). In the relationship that links supplier and customer businesses, individual actors have to solve a number of continuously emerging adaptive problems (Hallén, Johanson, & Sayed-Mohamed, 1991). Issues individual actors need to address vary from routine to more strategic issues. Examples are: changes in prices, product features, product delivery schedules, control routines, warranties, etc. Solutions are often defined when actors representing the supplier and customer businesses meet, communicate, and interact (Tuli, Kohli, & Bharadwaj, 2007). Explaining how business relationships emerge, develop, and eventually decay, requires understanding how the actors act and react when they meet, which entails understanding what then guides their behavior.

While in the management literature decision and action are commonly seen as the result of information gathering and analytical cognitive elaboration (Dane & Pratt, 2007), when actors meet, the space for extensive information retrieval and analytical cognitive elaboration is limited, and managers act on incomplete information (Barnard, 1938). Under the circumstances, the parties involved often take action following a limited set of clues resulting from observable reactions to their own actions (Porac, Thomas, Wilson, & Kanfer, 1995; Weick, 1995).

Management studies have examined how decisions are made under conditions of genuine uncertainty (March, 1994), and recently several scholars have focused particularly on the use of heuristics in such circumstances (Bingham & Eisenhardt, 2011; Bingham, Eisenhardt, & Furr, 2007; Guercini, 2012; Maxwell, Jeffrey, & Lévesque, 2011; Wubben & von Wangenheim, 2008). Defined as "rules on the shelves" or "cognitive shortcuts," heuristics emerge and guide the judgments and choices in the presence of limited information, time and/or processing capacity (Newell & Simon, 1972). Heuristics have been studied in particular in experimental psychology (Kelman, 2011) in relation to the themes of "cognitive limits" and "bounded rationality" (Simon, 1972). Research has evidenced the use of heuristics in solving complex problems from only few cues, and the effects of heuristics on judgments and choices have been the object of extensive research programs dealing with different aspects of heuristics (Gigerenzer, 2000; Tversky & Kahneman, 1974).

In this paper, we are mainly interested in the interplay between cognition and action in interaction in business relationships and how that affects the development of business relationships. In particular, our main concern is to explore the use of heuristics when actors meet and interact in customer-supplier relationships. It has been pointed out that there is no previous research on the use of heuristics in coping with interaction in business relationships (Guercini, La Rocca, Runfola, & Snehota, 2014), although various empirical studies of business relationships have pointed out the tendency to rule-based behavior (e.g. Harrison, 2012). As individuals representing respective companies in customer-

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supplier relationships often act under conditions of limited information, time, and processing capacity, it is plausible to assume heuristics play an important part in their interaction behaviors. When extensive problem-solving behavior is not practicable managers striving to act sensibly appear to turn to some kind of rule-based behavior. Because past research on the topic is limited, our study is exploratory and we are set to examine the use and role of heuristics in interaction behaviors in business relationships. We investigate not only if individual actors use heuristics to guide their interaction behaviors, but also how these are used, and in what situations, as well as the origin and nature of the heuristics used. Drawing on a review of the relevant literature and on our empirical findings we aim at contributing to a better understanding of the interaction processes in customer-supplier relationships. In particular, we investigate how behaviors in interaction are related to actors' cognition and how interaction behaviors impact the development of relationships and outcomes for the businesses involved.

This paper is organized as follows. In the next section, we review the literature on interaction processes in business relationships and the role of heuristics in the management context, and formulate the research questions of the paper. In Section 3, we describe our methodological approach to empirically explore the use of heuristics in customer-supplier relationships. In Section 4, we present the main results of an exploratory study of heuristics in customer-supplier relationships, based on 20 interviews with actors representing supplier businesses. We discuss the findings in Section 5, and formulate six propositions regarding the use of heuristics in business relationships and their origin. In the final section, we discuss the implications of our findings for marketing management and for directions of further research.

2. Interaction in business relationships and heuristics in extant research

Research on interaction in business relationships draws extensively on research in other disciplines, notably social psychology, where one of the core issues is how interaction behaviors link to actors' cognition and cognitive processing. Our study, which focuses on the use of heuristics by the interacting actors, should be seen as part of an enquiry into factors underlying the development of customer-supplier relationships. This framing also orients the subsequent review of the literature on topics of interaction in customer-supplier relationships and the use of heuristics in the management context that has led to formulating our research questions in more detail.

2.1. Interaction in customer-supplier relationships

Customer-supplier relationships in B2B markets are subject to constant change as various actors representing respective businesses attempt to alter the existing arrangements by applying new solutions (Hallén et al., 1991). Interaction is a central process through which new and effective relational solutions are identified and implemented (Ciabuschi, Perna, & Snehota, 2012; La Rocca & Snehota, 2014). In this paper we use the notion of interaction process to denote actions and reactions of actors when they meet face to face in their attempts to solve various adaptive problems that arise (Håkansson et al., 2009). This definition is in line with the one proposed by one of the founders of the interactionism stream of research, who defined the interaction process as “all interaction which occurs throughout any one occasion when a given set of individuals are in one another's continuous presence” (Goffman, 1959, p. 15). Multiple individual actors tend to be involved in a customer-supplier relationship, and solutions that emerge from their interactions entail interfacing resources and configuring activities in the two companies (Håkansson & Snehota, 1995). Interaction is important for how business relationships develop because the solutions to problems that emerge from such interaction have consequences for both efficiency and development of the businesses involved.

While research has focused on what issues are likely to arise in customer-supplier relationships (Ford, Gadde, Håkansson, & Snehota, 2011; Håkansson & Ford, 2002; Håkansson & Snehota, 1995), less attention has been given to how the solutions to these issues emerge and how decisions are made about actions to be taken. Rational decision making models, that enable “individuals to learn information deliberately, to develop ideas and to engage in analysis in an attentive manner” have “garnered the lion's share of research on managerial decision making” (Dane & Pratt, 2007, p. 36). However, such a systematic and formally rational decision-making mode seems to be rarely used in management practice, and acting on partial information is common (Mintzberg, 1973). In the context of business relationships, when parties meet to solve problems that arise, the scope for planned behavior and analytical elaboration based on extensive information is often limited. Yet the actors in business relationships are accountable for finding workable solutions and for making the relationship work satisfactorily, and individual managers solve problems based on interpretation and some cognitive elaboration of the situations they face (Patterson, Quinn, & Baron, 2012).

That raises the question: what kind of cognitive processing is involved when the scope for analytical decision making based on extensive information is limited and solutions emerge under time constraints between actors in a context of generalized interdependences and uncertainty? Parties tend to pursue conflicting goals, the means for achieving them are often vague and the knowledge of available alternatives and the frameworks actors use to link ends and means is often partial at best (March, 1994). That notwithstanding, managers try to find sensible solutions that allow them to continue operating their respective businesses. That begs the question what do they do to find sensible solutions?

2.2. Management behaviors and heuristics

Research in social psychology suggests that when actors are immersed in uncertain situations, such as handling problems that arise in business relationships, they appear to activate certain socio-cognitive processes that allow them to cope with the situations and to avoid the risky consequences of making “bad” choices. That is also the theme in research on heuristics defined as simple rules used to make inferences in uncertain environments (Gigerenzer & Brighton, 2009), or as “simple procedure that helps find adequate … answers to difficult questions” (Kahneman, 2011, p. 98). Conceptually, however, heuristics are at the same time wider and smaller than ‘behavioral rules’ that include routines, while heuristics contain also judgmental and not only behavioral rules. Research on heuristic processes is associated with the concepts of “bounded rationality” (Simon, 1972) and “cognitive limits” (Miller, 1956). Simon (1967, 1972) argued that humans rely on heuristics not only because of their cognitive limits, but also because of the characteristics of the “task environment” they face. The classical model of rational choice (Goode, 1997; Hargraves Heap, 1989) requires that the decision maker has the knowledge of all the relevant alternatives, their likelihood, and consequences and requires that the available data are as valid for the future as they were in the past. Such circumstances are not common in management practice, where actors mostly have limited time to make decisions and act on limited information. A considerable body of research shows that when time and information are limited, individuals tend to rely on heuristics to act and highlights the positive and negative aspects of using heuristics (e.g. Gigerenzer, 2008; Gigerenzer & Brighton, 2009; Kahneman, 2011; Todd & Gigerenzer, 2012; Tversky & Kahneman, 1983).

Tversky and Kahneman (1974) opened a line of study on the biases associated with heuristics. Their “heuristics-and-biases” research program has explored various types of heuristics (representativeness, availability, simulation, anchoring, and adjustment) and concluded that, “in general, these heuristics are quite useful, but sometimes they lead to severe and systematic errors” (Tversky & Kahneman,