

Customer Referencing in the Context of Industrial Buying and Purchasing: the case of a thermal power plant.

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Literature on organizational buying behaviour claims that marketing customer references are highly valuable for firms as they are able to build strategic assets that allow profitable marketing action. This paper proposes that organizational buying behaviour literature still lacks empirical work that may support a theory of customer referencing. In particular, it defends that the potential customer view is missing in the study of the customer referencing practice. In fact, empirical research has favoured the supplier as its unit of analysis and has ignored the other two constituents of the reference triad: the reference customer and the potential customer. Therefore, empirical work featuring the potential customer as the unit of observation is an open research opportunity that allows for a deeper understanding of customer reference relationships and their impact in the buying behaviour of industrial firms. This paper raises the following research question: “does customer reference marketing influence the buying behaviour of the potential customer?” It intends to respond to this question by presenting a single case study featuring a coal power plant. Empirical evidence supporting the existence of a triadic reference relationship was not found. As a result, this research suggests that the influence of customer reference marketing on organizational buying behaviour is not yet proven. Future research on the customer referencing field should aim to understand under what circumstances customer reference marketing influences organizational buying behaviour. Therefore, this paper suggests that the present customer reference body of theory should be reviewed accordingly.

Keywords: Industrial Marketing, Organizational Buying Behaviour, Business Relationships, Customer Reference Marketing, Case Study, Reference Triad, Reference Networks, Project Finance, Energy Sector

Customer References in the Context of Industrial Buying and Purchasing: the case of a coal power plant.

Introduction

The general theme of the present paper is organizational buying behaviour. Despite the importance of the industrial networks literature and the theoretical relevance of the work carried out by the Industrial Marketing and Purchasing Group, the opposing North American approach to organizational buying behaviour is still grabbing the attention of many researchers around the globe. One feature that divides apart these two streams of thought has to do with the role and importance that researchers give to the firm's buying center. For the North American literature it is a nuclear element without which one is not able to understand organizational buying behaviour. In the opposing perspective — the North European literature — it is not even mentioned most of the times. One possible explanation for this occurrence might be found in the different dimensions and complexity levels of the firms under study in these two geographies. The North American scientific tradition features firms bigger in size (being GE a paramount example) and complexity than the ones that are researched in the North European tradition.

This paper doesn't consider these two views as opposing, but rather as complementary. In conjunction they might allow for a more complete understanding of the phenomenon under study. Contributions to customer referencing theory arrived from several authors but primarily from within the Industrial Marketing and Purchasing Group. This means that the North European tradition is mostly predominant in the customer referencing literature. This paper considers the buying center as an essential piece for the understanding of organizational buying. By doing such it aims to push the originality and relevance of the present research even further.

Within the North European approach to industrial networks, Mattsson (2000) highlighted the role of marketing as to establish, maintain, develop and, when necessary, end a relationship in the network. He asserted that competitors strive to develop their own networks. In this sense, this effort acts as a force that dynamically changes the properties of an existing network. Thus, forces of stability and change, such as cooperation and competition, are important aspects of networks dynamics.

According to the same author a firm occupies a specific position in the network which will change over time. This position describes who the company relates to and the content of the established relationships. The position that the company occupies in the network is therefore a reflection of the marketing activities, cumulated over time. However, it also reflects the behaviour of its peers, that is, other actors that are present in the network of relationships that integrates the company. Ford et al. (2002) reinforced this idea. They argued that the firm's position in the network is based on the total set of relationships, and changes through the process of interaction that takes place with other companies which occupy different places on the network.

Mattsson (2000) considered that marketing should be viewed as an investment process that seeks to build, develop and maintain exchange relationships with customers and intermediaries. The company is, therefore, seeking to develop its position in the network with a long-term view. The role of marketing is to focus on the selection and handling of relationships that the company establishes with its peers, and a crucial choice for management is to decide what relationships the company wants to establish and develop. In the same way, Ford et al. (2002) pointed out that the outcome of a firm action will be heavily influenced by the attitudes and actions of those with whom it establish relationships.

This paper contends that organizational buying behaviour literature still lacks empirical work that may support a theory of customer referencing. It defends that the potential customer view is missing in the study of the customer reference practice as empirical research has favoured the supplier as its unit of analysis and has ignored the other two constituents of the reference triad: the reference customer and the potential customer. As a result, empirical work featuring the potential customer as the unit of analysis is an open research opportunity that allows for a deeper understanding of customer referencing. This paper addresses the identified literature gap by raising the following research question: "does customer reference marketing influence the buying behaviour of the potential customer?"

This paper presents a single case study aiming to respond to this research question. Tejo Energia, S.A. is the owner of a coal power plant (Pego) in Portugal and is constituted as an international consortium. The company holds the necessary licenses and consents to operate it. The Pego power plant has a project finance facet. The European Union Large Combustion Plant Directive demanded minimum impact in what concerns the gaseous emissions. To achieve this aim Tejo Energia, S.A. invested circa 170 million euros in the year 2008. The two operating units from Pego Power Plant were retro-fitted with: (i) a flue gas desulphurisation system; (ii) a selective catalytic reduction system; and (iii) an electrostatic precipitator control system.

Evidence collected to build the case and its analysis suggests that the present theory of customer referencing is not fully reflecting reality. For instance, no evidence for the existence of the reference network could be found. Nevertheless, this paper argues that several dimensions belonging to this body of literature remain valid. Thus, this paper ends by claiming that the theory of customer referencing should be reviewed accordingly and new research should be placed forward to achieve this goal.

Literature review

Organizational Buying Behaviour

Organizational buying and purchasing behaviour has been a critical issue in industrial marketing theory (Levitt, 1967; Robinson, Faris, & Wind, 1967). Wind and Webster (1972) defined organizational buying behaviour as an integral part of market research where “a systematic model building, data gathering, analysis and interpretation” takes place with the purpose of improving decision making in industrial marketing. Empirical research featuring industrial purchasing behaviour can be traced back to the sixties (Cardozo & Feldman, 1969; Levitt, 1965, 1967; Webster, 1965; Wind, 1966, 1967). The most active field of research in organizational buying behaviour has been the understanding of decision making in purchasing processes, i.e. “to develop a descriptive model of how industrial buyers make buying decisions and supplier selection” (Sheth, 1996). This activity is intimately related to the need to identify “the locus of buying responsibility and the nature of the buying process within potential customer organizations” (Kennedy, 1983). Johnston and Lewin (1996) framed this purpose in the following way: “in order to succeed in business-to-business markets, selling firms must possess an understanding of customer firms’ buying behavior [sic]”.

As far as the early seventies, Webster and Wind (1972) claimed that research findings about consumer behaviour seldom have application for the B2B marketing manager. They clarified the challenges and differences between organizational buying behaviour research and the study of household behaviour. The authors defended that observing the organizational buying process is not a straightforward task as interpersonal relationships are of key significance and cannot be observed explicitly. Moreover, activities relating to the buying decision are likely to occur simultaneously at diverse locations, making hard for the outside researcher to understand what he is observing.

In short, the authors contended that industrial and consumer marketing were already different and suggested that, as in consumer marketing, a model for organizational decision process related to industrial buying was needed because it could aid in the design of the industrial marketing strategy.

According to Wind and Thomas (1980), organizational buying behaviour research falls in one of the following research objects: “the buying centre [sic], the organisational buying process, or the factors affecting the buying centre [sic] and process”. The concept of buying center had been introduced by Robinson et al. (1967) and further developed by Webster and Wind (1972) as a distinct feature of organizational buying behaviour compared to consumer behaviour due to the need of interviewing more than one person as most purchases involve a group of people. The concept of buying center in organizational buying behaviour was paramount in the marketing literature at least up to the mid-eighties when firms started concentrating in their core business and large standards of their activities were outsourced, often from around the globe.

Johnston and Bonoma (1981) advocated that the buying center “has been one of the most important conceptual contributions made in the study of industrial buying behavior [sic]”. The Buying Center included a social dimension as the buying decision unit becomes complex due to its five different roles: (i) users; (ii) buyers; (iii) influencers; (iv) deciders; and (v) gatekeepers. Webster and Wind

(1972) shed some light on this topic by claiming that the buying center can be seen as a subset of the “organizational actors” as people operate as part of the overall organization. Accordingly, the behaviour of members of the buying center reveals the influence of others, the effect of the buying task, the organizational structure, and the targeted technology.

Additional work of Johnston and Bonoma (1981) postulated the existence of five dimensions that could be specified and measured in order to isolate the uniqueness of the buying center: (i) vertical involvement (relates to the amount of hierarchical levels which exert influence in the buying center); (ii) lateral involvement (relates to the amount of departments that exert influence in the buying center); (iii) extensivity (relates to the total number of individuals who are involved in the buying center); (iv) connectedness (the level to which the members of the buying center are connected with each other); and (v) centrality (the degree of influence of the purchasing manager in the network).

Spekman and Stern (1979) claimed that “there is a noticeable increase in research reflecting the dynamics and complexities of multi-person decision processes” as organizational buying behaviour theory develops. Moreover, other traits of the buying center present additional challenges to the study of organizational buying behaviour, like for instance the fact that it changes over time. According to Kennedy (1983), the buying center can be seen as a temporary organization unit where purchase decisions are done incrementally. Field research featuring the purchase of steel plate has led her to the conclusion that at each stage of the buying process the buying center changes and the locus of responsibility varies accordingly.

Another distinctive feature of organizational buying behaviour is the degree of loyalty that exists between the buyer and the seller. This topic has served as the basis for research (Wind, 1966, 1970). Nevertheless, based on empirical research, Cunningham and White (1974) asserted that the low search behaviour of buyers is due to the high risk involved in the purchase decision, among other factors like inertia and recall of past experience. According to Johnston and Lewin (1996), purchase risk is a function of: (i) the importance of a particular purchase; (ii) the complexity associated with the purchase; (iii) the uncertainty of the purchase outcome; and / or (iv) the need to reach a decision quickly (time pressure). The authors argued that the organizational purchase complexity increases as the buying center becomes larger. In this context, the decision-making participants will possess greater levels of experience and will have more education. Sellers who offer proven products and solutions will be favoured. Information search will be active and a wide variety of information sources will be used to mediate a purchase decision conflict between buying center participants. It may be hard to use formalized decision-making guidelines and purchase control mechanisms. Role stress will increase and, lastly, buyer-seller communication networks and relationships will become even more important.

Attempting to get a deeper understanding of the organizational buying behaviour, a number of models grounded on empirical work were presented to the scientific community. Sheth (1996) and Johnston and Lewin (1996) identified three conceptual models as seminal to organizational buying behaviour literature, namely those presented by Robinson et al. (1967), Webster and Wind (1972), and Sheth (1973), that are revised next. According to Johnston and Lewin (1996) those three models created the conceptual foundation for the study of organizational buying behavior as over the years many conceptual and empirical articles have either tested or extended them. Johnston and Lewin (1996) claimed that nine concepts (environment; organization; group; participant; purchase; seller; conflict / negotiation; information; and stages in the buying process) significantly affect organizational buying behaviour and that can be found in all those models. They concluded that these three models were correct in approaching the nine concepts, after collecting evidence from diverse published research that revealed several years of empirical testing.

According to Wind and Thomas (1996) the BuyGrid (1967) model had a considerable success as an organizational buying behaviour framework, having survived for more than 30 years in use. This model requires the understanding of three dimensions related to the buying behaviour: (i) the buying situation (the purchase status is one of the following: new task, a straight rebuy, or a modified rebuy); (ii) the buying process (the phases through which the process takes place); and (iii) the buying center (who is involved in the buying process). Although this model has emerged from exploratory field research, it combines these three major dimensions in order to serve as a normative framework. The buying situation is represented in the “buyclasses”, the buying process is the “buyphases”, and the buying center is implicit in the “buying influences”.

The BuyGrid model entered deeply into the practitioners’ arena. Managers adopted this model in the past due to its simplicity of use and generic field of application although it is no longer used as a

business-to-business marketing framework. However, two concepts originated from this model have survived its epoch and would persist in future studies of organizational buying behaviour: the (i) buy phases; and the (ii) buy classes. The interesting feature of this model arrives from its ability to relate them.

The second model mentioned above for organizational buying behaviour that followed in the marketing literature was that of Webster and Wind (1972). Cunningham and White (1974) said that the model proposed by Webster and Wind (1972) handles organizational buying behaviour as “a decision-making process carried out by individuals through interaction with other people within a formal company organizational structure, which is itself set in the context of a number of external environmental influences”.

Webster and Wind (1972) attempted to include all the elements that could impact or influence the buying decision and had them organized in four major dimensions: (i) the environment; (ii) the organization; (iii) the buying center; and (iv) the individual participants. Due to its complexity, the model seems to have never been adopted by practitioners. Nevertheless, toggled with this model the authors provided an overriding amount of relevant concepts for organizational buying behaviour literature that were described in a clear manner. Still today, these notions are central to the organizational buying behaviour literature.

Finally, Sheth (1973) aimed to conceive an “integrative model of industrial buyer behavior [sic]” by integrating existing knowledge into a descriptive or general model that would be able to explain all types of industrial buying decisions and aid in industrial market research. The author acknowledged the complexity of the proposed model and justified it due to “the large number of variables and complicated relationships among them”. He also recognized the influence of a previous model arriving from consumer behaviour theory — the Theory of Buyer Behaviour (Howard & Sheth, 1969) —, but contended their main differences. Sheth (1973) claimed that organizational buyer behaviour consisted of three distinct features. The first was the subjective world of the actors involved in organizational buying decisions. The second were the conditions that allow combined decisions among these actors. The third featured the process of combined decision making with the conflict which takes place between the actors and its solution by a diverse range of tactics.

Apart from the three organizational buying behaviour models that have already been presented, there are others that do not share theoretical concerns but, in contrast, have a managerial purpose thanks to their prescriptive concern. The normative framework Superior Value in Business Markets presented by Anderson et al. (2007) serves as an example. This framework addresses the topic of customer value management and is in line with previous works promoted by different authors (Anderson, Narus, & Rossum, 2006; Anderson & Narus, 1998a, 1998b). The interesting feature of this work for this present study lies on the importance the authors gave to customer referencing. Concepts like ‘reference customer’, ‘success stories’, ‘value case histories’, ‘customer value assessment tools’ or ‘value calculators’, ‘value documenters’, ‘customer value management’ are used as cornerstones in the building of the above mentioned framework.

A view of the buyer as an entity that is able to freely choose from alternative suppliers is implicit in this framework where the interaction between the buyer and the seller is considered as an ‘atomistic’ relation where the short-term gain is the main objective of both parts. This idea is also present in the work of Kumar (2004), where customer value is discussed through the lenses of a transactional relation.

In the literature reviewed so far, the firm is perceived as being the major focus of analysis. Within the firm, the researcher focuses on the organizational buying behaviour in particular. The authors take individual, isolated and transactional episodes which are later related to topics like buying behaviour information, decision criteria, and influence structures in the buying centers. Nevertheless, emphasis on the reciprocal nature and two-sided influence structure of exchanges are not considered which removes a considerable amount of realism. This literature views the customer as autonomous and insignificant, being part of a faceless market, and is assumed to respond to the offers arriving from the vendors, without any complex interactions, so that each transaction becomes an isolated event.

All the three models reviewed ignore the long term relationships between the buyer and the selling firms. In contrast with the above exposed, a new perspective has emerged in the mid-seventies by the hand of an European research community who began to explore the implications of continued and stable relationships in industrial markets. The Industrial Marketing and Purchasing Group perspective on business-to-business marketing was founded on the proposition that business is not an isolated

activity that occurs between independent organizations. On the contrary, it is established in the interaction process that takes place among interdependent companies, might they be customers, suppliers, business partners, or competitors. Several authors and lines of research gave a robust contribution to build this perspective. Araujo and Easton (1996) acknowledged that its antecedents date back to studies on the interaction and relationships in industrial markets, research on distribution channels and theories on internationalization of firms.

In conclusion, the literature seen so far offers concepts and models belonging to a body of knowledge which aims to explain the organizational buying behaviour phenomenon. Therefore, a theory of industrial marketing is in place and its understanding is highly valuable for the study of customer referencing practice. Nevertheless, this stream of thought is deeply associated with the North American business context inasmuch as it is mostly brought to us by academics researching in this geographic area. In the context of this paper it's relevant to explore theories arriving from other geographies. In particular, in the next topic this paper is addressing the Markets-as-Networks Theory which arrives from the European academic and empirical context. This paper doesn't consider these two streams of thought as opposing, but rather as complementary, allowing for a comprehensive view on the topic organizational buying behaviour.

Markets-As-Networks Theory

Over the years, a dense body of knowledge has been generated by researchers that belong to the Industrial Marketing and Purchasing Group, providing a solid contribution for marketing science. For instance, Sousa and Castro (2006) identified five core propositions within Markets-as-Networks theory: (i) the existence of business relationships, as well as their connectedness and uniqueness; (ii) business relationships as a third type of governance structure, alternative to hierarchies and markets; (iii) knowledge development via business relationships; (iv) firm performance explained by both internal operations and exchange processes; and (v) the significance of business relationships for the focal firm (or "relationship significance").

In the next paragraphs the most relevant theoretical contributions originated from the Industrial Marketing and Purchasing Group are portrayed. The three models acting as the cornerstones of the industrial networks perspective are the Interaction Model, the ARA (Activity-Resource-Actor) Model, and the 4R (Four Resources) Model.

The Interaction Model

Useful organizational buying behaviour knowledge was gained from studying the purchasing manager as an individual (Johnston & Bonoma, 1981). Johnston and Bonoma (1981) contended that most researchers were incapable to "capture the real life complexity of the buying interactions that occur in a company, much less the influences coming from selling representatives and the environment (competitors, government)". According to these authors the obstacle was the inexistence of suitable interaction theory being able to understand the "involvement and interaction of organizational members in the buying decision process, information transmission and processing in the buying center".

The Interaction Model is the outcome of the first research project promoted by the Industrial Marketing and Purchasing Group and features the book entitled "International Marketing and Purchasing of Industrial Goods: An interaction approach" (Håkansson, 1982) where all the research produced during this first stage has been published. This first research programme was carried out in five countries (France, Germany, Italy, Sweden and United Kingdom), where more than 800 interviews (that used and shared the same questionnaire) took place.

This research was triggered by the recognition that empirical observation didn't correspond with mainstream theory about 'atomistic' behaviours in business markets that had its emphasis in a single discrete transaction. Turnbull, Ford, and Cunningham (1996) realized that in those markets the majority of companies had a small number of suppliers and customers which were individually accountable for considerable volumes of their purchases or sales. They also recognized that the relationships between those firms and their customers and suppliers tended to be "close, complex and long term, with extensive contact patterns between many individuals from each company and

significant mutual adaptation by both parties”. Accordingly, this idea was not aligned with previous research that observed markets as atomistic and consisting of large numbers of nameless customers with which firms dealt at a distance.

Zaltman and Bonoma (1977) also debated the need to overcome research difficulties and improve the methodologies associated with the study of this phenomenon. For instance, the authors claimed that in the study of organizational buying behaviour, the researcher faced two options regarding the selection of the unit of analysis. The first option was to take the individual in consideration. This might be the individual purchasing agent or the vice-president for procurement. The second option was “to start with an individual while taking into account relevant other individuals within and without the firm”. They considered the second option (the one that included a view on the interaction occurring between individuals) as being more appropriate. From their perspective this option was more meaningful albeit more difficult from a methodological point of view. Therefore, these authors argued that to study the firms’ buying centers as units of analysis (rather than individuals) one needs to develop innovative research methodologies.

In order to overcome this constraint, the relationship was assumed as the unit of theoretical analysis, rather than individuals or single transactions. According to Håkansson (1982, p. 14) industrial markets feature stability and long lasting relationships, rather than fast change or short business transactions. In fact, buying and purchasing behaviours seemed to be more stable and associated with long-term relationships where the traditional marketing mix approach gives place to a more active involvement from both sides.

According to Sousa (2010) two relevant empirical findings derived from this first research project. The first is that industrial purchasing and marketing cannot be seen just as market transactions, but as part of a lasting pattern of interactions between active buyers and sellers. The second is that business-to-business markets are “neither faceless nor atomistic, often including close and long-standing business relationships”.

As the result of this seminal work, a dynamic model of buyer-supplier relationships has emerged. The model is based on the idea that buyers and sellers maintain stable and complex relationships where products and services exchanged by both parts are constructed in interaction:

Håkansson (1982) asserted that the obstacles to change of provider severely restrict the applicability of the concept of free movement within business markets which is implicit in traditional economic theory. The author claimed that stability, source loyalty and inertia are natural outcomes of the learning process that buyers and sellers face in their relationship, specifically due to its technical, commercial and social dimensions. These benefits of stability are also known as the bias towards incumbents.

The interaction model considers and relates four types or groups of variables that describe the interaction that takes place between two firms (or even within the context of a several party relationship): the interaction process and associated elements, the parties involved in the interaction process, the environment within which interaction takes place, and the atmosphere affecting and affected by the interaction (Håkansson, 1982, p. 23).

The ARA Model

The outcomes of the second research project promoted by the Industrial Marketing and Purchasing Group were published in the manuscript “Developing Relationships in Business Networks” (Håkansson & Snehota, 1995). The three major goals for this research project were: (i) to gain additional insight on business relationships and networks; (ii) to recognise the processes that occur within them; and (iii) to understand how individual companies act in these circumstances. As a result, a new dynamic model has arisen. Sousa (2010) shortens the principal outputs of this second research project to (i) a comprehensive database of business relationships; (ii) diverse exhaustive case studies; and, above all, (iii) the Actors-Resources-Activities model.

Although this new model has been released as a result of a second research project, it was built upon the seminal work of Håkansson (1982) featuring the Interaction Approach. In fact, relationships can be understood as the outcome of the interaction process by which connections have been established between actors that “produce a mutual orientation and commitment” (Håkansson & Snehota, 1995). According to Sousa (2010) interdependences among business relationships observed in the first project pushed researchers to start on a second venture which initiated in 1986. While the first project fixated

on buyer–seller relationships, the second project focuses were the complex networks that such relationships formed. The second research project was much similar to the first research project from a methodological point of view, namely due to the intensive adoption of case research.

The ARA Model hypothesizes business relationships as being constituted by three different dimensions or layers where activities are performed by actors who have access to resources.

A business relationship links activities that relate to various internal activities of both entities. Additionally, relationships merge resources which arrive from both parties. A relationship makes diverse resource elements available for the two firms and, therefore, it becomes an available resource that also can be utilized. Actors become more bonded as the business relationship grows. These bonds affect the way actors perceive, evaluate and treat themselves.

Another central element of this second research project was the dyad (Thibaut & Kelley, 1959). The dyad is originated in the conjunction of the two companies. Nevertheless, as a theoretical concept, the dyad is not new in the organizational buying behaviour literature. Webster and Wind (1972) related it to the “interpersonal (...) interaction between persons in the buying center and between members of the buying center and «outsiders» such as vendors’ salesmen”.

According to Anderson, Håkansson, and Johanson (1994), special attention should be provided to the context where the dyadic relationship takes place in case a comprehensive understanding of business relationships is required. The dyad is profoundly associated to the three layers that constitute the business relationship. A business relationship is developed as the two companies establish connections in the activity, resource and actor layer. The activities, resources and actors of the two firms are merged together in a unique way. The essences of the dyad are the activity links, resource ties and actor bonds. The dyad will not be just the sum of what the two parties turn towards each other; it will become something qualitatively different. This relationship becomes a ‘quasi-organization’, explicitly, its value increases above the sum of its basic elements thanks to the existing bonds, links and ties.

Together, the two firms are able to exploit resources and execute activities that were not possible to achieve in separation. As the relationship develops, the amount of benefits firms are able to access increases, allowing them to accomplish new possibilities, including having access to additional relationships from companies they are not directly related to. Therefore, the outcome of relationship can affect and is affected by other relationships which involve other participants in the network. Håkansson and Snehota (1995) stated that the consequences on “third parties and from third parties and their relationships on the relationship in any of the three layers of substance depend on how tight the connectedness of relationships is in the overall network”.

In reality, the original interpretation of the dyad — arriving from the seminal Interaction Approach — has been widened to consider the augmented network in which it is located. This phenomenon was already described by Håkansson (1987) who contended that single dyadic relationships are interrelated into wider structures.

The 4R Model

After the closing of the two initial research projects, new challenges and ideas have emerged to be developed in further initiatives. The third research project promoted by the Industrial Marketing and Purchasing Group assumed the goal of analysing the interaction among business resources. The 4R Model emerges as an answer to this challenge and is the underlying concept portrayed in the manuscript “Managing Technological Development. IKEA, the environment and technology” (Håkansson & Waluszewski, 2002).

The 4R Model (Håkansson & Waluszewski, 2002) is based on four main categories of resources. The first category is ‘products’, that is, an object that is exchanged between economic actors. The second category is ‘production facilities’. For example, equipment and facilities used to create or transform products. The third category is ‘business units’. A department or a division within a company may be conceived as a business unit but in this particular case the authors (Håkansson & Waluszewski, 2002) explicitly contend the organizational structure, competence and personnel skills characterizing companies. The fourth category is ‘business relationships’, that is to say, the links, ties and bonds derived from the interaction that takes place between the two parts.

Products and production facilities are considered as ‘physical resources’ while business units and business relationships are designated as ‘organizational resources’. Business units and business relationships are social resource elements that organize the physical facilities where products and

production take place. Social exchange involves the adaptation of the products exchanged. Therefore, it influences both the requirements and the products offered. In this sense, exchanged products are not given, but are the outcome of the interaction process. Business relationships are resources that generate value for the involved firms. In fact, business relationships can be considered as relevant assets or tools once they allow firms to achieve strategic goals.

The 4R Model derives from the idea of “resource heterogeneity” (Penrose, 1959) which contends that the value of a resource is not given by the resource itself but by being combined with others. Håkansson and Waluszewski (2002) introduced the notions of “resource interaction” and “resource embeddedness”. These concepts suggest that interaction in business networks concerns also physical, technical, and economic elements. In reality, firms do not interact in a void. Resources interact among themselves, in the context of business networks. To better understand the value of a specific resource one needs to understand how each resource is related to the surrounding ones. This may be achieved by deepening the notion of ‘resource embeddedness’. Minde (2007) shed some light over this concept by claiming that resource embeddedness suggested that each resource is surrounded by other resources. Hence, a resource cannot be considered as an isolated element, because the other relevant neighbouring resources should also be taken into consideration. The author concludes that thanks to the interactions which take place at social, technical, and economical levels, these neighbouring resources jointly define each other’s value.

To sum up, one should consider that the value of each resource must not be assessed independently but in toggle with the network of other resources from which it participates.

Customer References

Customer referencing has been the target of the work of several authors who used different research strategies. In addition to industry reports, also a book chapter (Rese, Pick, & Maiwald, 2012), teaching material (Godes, 2008), and three doctoral dissertations featuring customer referencing contributed to the same body of literature (Jalkala, 2009; Ruokolainen, 2008b; Salminen, 1997). This stream of research arrives from two different geographies which adopt opposing research strategies. In a general sense, the north-European authors sustain their field work by adopting the case study while the north-American authors apply a more positivist approach. In reality, contributions arriving from geographies other than north-European are scarce. Therefore, one might consider that this research topic has been dominated by authors belonging to the north-European stream. This fact confirms the pertinence of having empirical research arriving from other countries, like for instance Portugal, which is the case that is presented in this study.

The above identified body of knowledge offers various definitions of customer reference. The author that first defined what is a customer reference was Salminen (1997): “A reference is the supplier’s relationship to his existing / former customer that might be evaluated by that customer in terms of the supplier’s product / service, management, and cooperation performance.” (p. 311). He suggested that a customer reference is a customer-vendor relationship that can be evaluated by prospect customers. Building on Salminens’ definition, Salminen and Möller (2006) also suggested a formal definition for customer reference. They argued that a customer reference is a piece of evidence of a supplier’s capability to deliver a product, a service or systems: “An indirect proof, based on some practical or concrete evidence, like product, service or systems delivery, of a supplier’s capability of delivery” (Salminen & Möller, 2006, p. 5).

Nevertheless, Ruokolainen (2008b) disputed Salminen’s (1997) proposition by contending that Salminen’s definition relates two entities that should not be combined: the customer relationship and the supplier’s performance. According to Ruokolainen (2008b): “The former can tell something about the latter but in other cases it also tells nothing about the latter”. Instead, Ruokolainen (2008b) adopted the Wordnet definition (Princeton University, 2004): “A reference is a formal recommendation by a former employer to a potential future employer describing the person’s qualifications and dependability” and extended it to include the reference business case associated to the vendor’s product or services portfolio: “The customer reference consists of a supplier’s commercial product or services and the reference business case of the product or services.” (Ruokolainen & Mäkelä, 2007, p. 169). In order to define customer reference, Jalkala and Salminen (2010) recovered the customer relationship and related it to the marketing efforts of the firm: “[A] customer relationship and the

related value-creation activities that a firm leverages externally or internally in its marketing efforts” (p. 976).

The majority of these contributions mention customer referencing as either a marketing tool or a marketing asset that emanates from a customer relationship. This is interesting due to its simultaneous nature of being both cause and consequence of a marketing effort. The definition of customer reference proposed by Jalkala and Salminen (2010) encloses this idea of dual quality. In the context of the present work this definition also emerges as being the most compelling and useful from an operational research point of view. Hence, it became a strong candidate for basing this project, also because this definition allows for a clear split between customer referencing and both ‘referrals’ and ‘word-of-mouth’. Although one might consider the last two concepts as a marketing tool, contrary to the idea of customer reference, they clearly do not share the dual nature of being a marketing tool and a marketing asset. Their only feature is their handiness as marketing practice tools that do not qualify as firms assets. Therefore, this paper adopts the following definition: “A customer relationship and the related value-creation activities that a firm leverages externally or internally in its marketing efforts”.

The reference triad

This paper suggests that it is possible to mention the existence of a discernible body of knowledge that deals with the customer referencing practice. Contributions to this theory arrived from several authors but primarily from within the Industrial Marketing and Purchasing Group (Axelsson & Easton, 1992; Ford et al., 2003; Håkansson & Snehota, 1995; Håkansson, 1982; P. W. Turnbull & Valla, 1986). Therefore, the Markets-as-Networks Theory has to be considered, especially the Interaction Model (Håkansson, 1982) and the ARA Model (Håkansson & Snehota, 1995) due to the concept of relationships which is rooted at the heart of this conceptual framework.

‘Customer reference’ is a concept seldom used in the business-to-business marketing literature (Jalkala & Salminen, 2009a, 2010; Salminen & Möller, 2006). However, customer referencing is an important component of marketing practice, recognized as such by practitioners and managers (Jalkala & Salminen, 2009a). Salminen and Möller (2006) argued that this practice is theoretically understudied, considered its relevance to management practice. Consequently, the authors presented a theory that aims at a better understanding of the behaviour of customer references which they called the Normative Theory of Referencing (Salminen & Möller, 2006). This paper considers the Normative Theory of Referencing (Salminen & Möller, 2006) as the major stream of thought featuring customer referencing, based on which other authors contributed with additional ideas which enhanced its comprehension.

Communicating customer references is one of the marketing activities in which relationships are of nuclear importance because the released message is based on the portfolio of the relationships that the company has established with its customers (Jalkala & Salminen, 2009a). Such relationships involve at least three actors: the supplier, the reference customer, and the existing customer. And this is why the theory of referencing has established the notion of triadic value creation. The seminal studies on triads took place within the field of sociology (Thibaut & Kelley, 1959) and moved into the fields of management and marketing. Holma (2009) asserted that a “triadic business relationship setting consists of three dyadic relationships, i.e. relationships between actors A, B, and C. Adaptations occur in the dyadic relationships A-B, B-C, and A-C, which are interconnected, either directly or indirectly”. According to this author, a ‘triadic relationship setting’ consists of three actors that may have both direct and indirect connections. This work accepts the subsequent definition: “A phenomenon which exists at the firm level between three actors, and it consists of three independent actors (firms) that are connected to each other, either directly or indirectly, for the purpose of doing business”.

Nevertheless, the author (Holma, 2009) stressed that this triadic setting exists at the firm level between three independent actors who are linked to each other with the goal of doing business. The co-operation among actors is a voluntary and intentional action. That is to say that this action is designed deliberately to meet specific purposes and, therefore, it is not the outcome of coercion to which the firms may have been exposed.

Helm and Salminen (2010) claimed that “a purely dyadic supplier–buyer perspective no longer serves the needs of firms embedded in network structures”. The additional relationship with the reference customer comes into play — especially in the so called ‘reference business’ — and gives place to a new construct: the reference triad. In short, the reference relationship constitutes a reference triad. For

instance, a concrete example of a reference triad was studied by Salminen (2001) where the value of a reference visit was identified for each element of the analysed triad. The author argued that although the value gained by the potential customer is similar to the value gained by the supplier, the value gained by the reference customer might be more difficult to anticipate. This work accepts as valid the following definition of reference visit: “A market where the existence of customer references is emphasized by potential customers due to the high complexity nature of the exchanged goods”.

Helm and Salminen (2010) presented a framework which aimed to integrate customer referencing relationships and reputation building, that is to say, it describes the process of reputation building based on reference relationships within a reference triad. Despite its simplicity, it is consistent and aligned with the model proposed by Salminen and Möller (2006) once it includes and works on top of the three elements that were also present in the foundational model. Moreover, it considers the established relationships among these three actors and its focus is not the supplier but the established network in which all the actors are present.

The reference triad is a small network “in which three dyadic business relationships are embedded” (Helm & Salminen, 2010). The relationship that takes place between the seller and its reference customer becomes, therefore, a foundation for reputation building. Nevertheless, the reputational effect only becomes effective when the relationship between the seller and the potential customer is established. Additionally, it takes several deals with different customers to reach credibility and build a reputation.

According to Helm and Salminen (2010), in reference triads dense reputation transfer takes place in three distinct domains. The first domain is the individual features of the three actors of the reference triad. The second domain is the factors affecting the relationship between the three actors. The last domain is the market determinants of reference driven reputation formation.

Aarikka-Stenroos and Jalkala (2012) argued that customer references are active network actors, and not pieces of the marketers’ toolkits. The authors claimed that value is generated reciprocally among all the actors present in the network. This means that if it is true that reference customers create value for new customers and for the seller, it is also true that new customers and the seller generate value for the reference customers. Therefore, a triadic value creation aftermath takes place in such conditions. Based on their work it is possible to collect useful insights which help to define the concept of reference network.

A reference network is, therefore, a network that includes at least three actors (sellers, potential buyers, and reference customers) who create value for each other and enables interaction through co-creation of marketing messages that resonate with customer’s problems and needs. This study accepts the following definition of reference network: “A network that includes at least three actors (sellers, potential buyers, and reference customers) who create value for each other and enables interaction through co-creation of marketing messages that resonate with customer’s problems and needs”.

Aarikka-Stenroos and Jalkala (2012) described what potential customers, reference customers and suppliers experience as ‘co-created value outputs’ of a reference network. They defended that reference customers provide credible data featuring the acquired solution. This information is evidence for the realized value-in-use. It demonstrates and concretizes the content of the solution and its benefits to potential customers. According to these authors reference networks allow the co-creation of powerful marketing messages as they resonate with potential customer’s problems and needs.

The theoretical framework presented above highlights a body of knowledge that deals with the customer referencing practice. This is known as the “theory of customer referencing” and it provides not only a description but also an explanation for this phenomenon. The core models and concepts in this theory are: the Normative Theory of Referencing, the Reference Model, the Reference Customer, the Potential Customer, the Reference Triad, and the Reference Network. These models and concepts are the cornerstones of this research work.

Methodology

The literature on customer referencing raises the hypothesis of customer references having a positive impact on vendors marketing activity (Helm & Salminen, 2010; Jalkala & Salminen, 2005, 2009a, 2010; Ruokolainen & Mäkelä, 2007; Ruokolainen, 2008a; Salminen & Möller, 2004, 2006; Salminen, 2001). Empirical work done so far in the field of referencing has had its main focus on the supplier as

the main unit of empirical observation, and has ignored the other constituents of the reference triad (Helm & Salminen, 2010): the reference customer and the potential customer. Therefore, it remains unclear how customer reference marketing influences the buying center to acquire goods from a specific vendor. Accordingly, the purpose of this study is to contribute to organizational buying behaviour literature by describing the facts and circumstances associated with the customer reference practice and to explore ways in which they take place from the potential customer point of view. As a result, the research question aims to understand the facts and circumstances associated with customer referencing, in concrete how these influence the buying center of a potential customer. The research question is “does customer reference marketing influence the buying behaviour of the potential customer?”

Ruokolainen (2008b), and Salminen and Möller (2002) suggested that more theoretical models featuring customer references are needed. More importantly, Jalkala and Salminen (2006) and Salminen and Möller (2002, 2006) argued that future research on customer references should take place in the context of the industrial networks theoretical approach. There is also a need for additional qualitative research, especially case studies, because it increases the understanding of the customer references phenomenon and provides additional and far-reaching insights of the variables related (Ruokolainen & Mäkelä, 2007; Salminen & Möller, 2004, 2006). Contrary to this understanding, Ruokolainen and Mäkelä (2007), Ruokolainen (2008b), and Salminen and Möller (2004, 2006) argued that running large-scale statistical studies would play a significant role in what regards the prevalence of the conceptual frameworks associated to customer references.

The present research is explorative (Saunders, Lewis, & Thornhill, 2003; Zikmund, 2003) and adopts a research strategy based on case study (Darke, Shanks, & Broadbent, 1998; Easton, 1998, 2010; Gummesson, 2007; Halinen & Törnroos, 2005; Patton & Appelbaum, 2003; Shanks, 2002; Stake, 1995; Woodside & Wilson, 2003; Yin, 2009). Several authors (Ruokolainen & Mäkelä, 2007; Salminen & Möller, 2004, 2006) recommended case studies as the main research strategy for customer references research. This paper follows a methodological framework which includes recommendations such as those provided by Eisenhardt (1989), Yin (1989, 2011), Stake (1995), and Dul and Hak (2007).

Building theory from case studies is a research strategy that uses empirical evidence from one or more cases to create “constructs” or theoretical propositions (Eisenhardt, 1989). Case studies are empirical descriptions of a particular phenomenon and are built using a variety of data sources (Yin, 1989).

Interest in qualitative research methods such as case study has been growing, especially when researchers are seeking to understand the social phenomenon in its natural environment (Darke et al., 1998). Darke et al. (1998) warned about the practical difficulties that arise from the need to provide this kind of research with scientific rigor. Perry (1998) confirmed this constraint by noticing the lack of scholarly publications based on this method. Johnston, Leach, and Liu (1999) emphasized that case-based research has traditionally been the target for scientific community criticism due to its lack of objectivity and scientific rigor. However, these authors pointed out its relevance in exploratory phases. Woodside and Wilson (2003) stated the need to change the research paradigm in organizational behaviour.

Macpherson, Brooker, and Ainsworth (2000) defended the case study ability to produce consistent data and to deepen the understanding of rich social contexts. In the same line of thought, Rowley (2002) highlighted the most challenging aspect of the case study involving the elevation of the investigation from a purely descriptive stage to a higher level of contribution to the body of theoretical knowledge. Patton and Appelbaum (2003) suggested that case studies represent an important way to conduct scientific research in organizational sciences, not only as a method of generating hypotheses for quantitative studies, but also as a way to generate and test theory. Eisenhardt and Graebner (2007) considered that one of the reasons for the growing popularity and relevance of case studies lies in its ability to establish links between qualitative evidence and the mainstream deductive research.

The buying of capital goods in the energy industry

This paper offers the case of a firm acting in the Portuguese energy sector. Jalkala and Salminen (2009b) recommended that future research should consider different industry sectors from the ones that already have been studied. According to these authors, by following this recommendation it is

possible to broaden the scope of the theory of referencing. Ruokolainen and Mäkelä (2007) acknowledged the existence of “reference business”. In “reference businesses” corporate customers typically buy complex, high technology, products or services. The studied case of Tejo Energia, S.A. possesses the features of a reference business.

According to Salminen (2001), customer references play an important role in heavy equipment or capital equipment business. This idea is also defended by Salminen and Möller (2004) who claimed that references play a key role in the bidding process of capital equipment. Additionally, Salminen and Möller (2006) described the contextual factors affecting the importance of references. They argued that high technological and market uncertainty raises the relevance of customer references by augmenting the potential customers’ perceived risk. Among others, these uncertainties are impelled by the total amount of investment and by the innovation embedded in the offered product or system.

The unit of analysis selected for this research is the potential customer, a subset of the reference triad (Helm & Salminen, 2010). Triads have already been researched in the context of a doctoral dissertation where Holma (2009) addressed the complexity of business relationships, having the topic ‘adaptation’ as the main phenomenon under investigation and the ‘triadic relationship setting’ as the research structural context. According to the author the triadic approach to business relationships is relevant, not only in situations where an intermediary is involved, but also where the three actors are directly connected with each other, which is the case of customer referencing. The focus of that study was the triads in the context of corporate travel management. It integrated theory from the industrial network approach and theory from the sociological landscape, which were used to understand the triadic relationship setting. However, the author states that only a few studies applied a full triadic approach due its difficult application in the research practice. This conclusion supports the argument presented in the present work, to be more precise, the decision to focus on just one side of the reference triad.

As said before, the particular kinds of triads that are investigated in this research are the reference triads. The concept of reference triad considers that interaction takes place among three key actors: the seller, the buyer and the reference customer (Helm & Salminen, 2010). The broad entity of theoretical inquiry for this research is, therefore, the reference triad and it will be studied through the lenses of one specific actor: the potential customer. In concrete, the fieldwork is carried out by tackling the buyer perspective which means that the potential customer is selected as the unique source for data collection. In short, the present research has the potential customer as the unit of empirical observation. This decision might be questionable from the Industrial Marketing and Purchasing Group perspective. According to Gemünden (1998) authors who contributed to develop theories about relationships use only one side of the dyad in their empirical research. Therefore, the Industrial Marketing and Purchasing Group framework overstates the relationship as the selected unit of analysis. From a theoretical stance, this paper aims to integrate the North American perspective in this research which means bringing the buying center into a more visible position.

Concerning the collection of primary data for the case creation process, semi-structured interviews were conducted following a generic predefined outline (supported by a case protocol). Side comments and additional relevant elements (e.g. reference material, brochures, press releases, web pages, etc.) were also valued as secondary data. This approach is considered useful, especially when there is a need to study more subtle issues and when long answers are required to deeply understand the topics being reported by respondents (Ackroyd & Hughes, 1992). The interviews were taped and transcribed *verbatim*. Also a guided visit to the power plant took place by the hand of a member of the production team. A formal letter requesting research access to Tejo Energia, S.A. was sent. The firm formally accepted to participate in this study. The case was reviewed and commented by several members of the firm. The data collected from the interviews provided the strong empirical foundation for the theoretical contribution that emerges from this research.

The Case of Pego Thermoelectric Power Plant

At present, two conventional coal power plants exist in Portugal. Plants are located in Sines and Pego. Sines power plant is located in the south of Portugal and belongs to EDP — Gestão da Produção de Energia, S.A. This infrastructure has a capacity of 1 180 megawatts (MW). Nowadays it accounts for four operating units. The first unit was commissioned in the year 1985 and the last in the year 1989.

Sines power plant runs four units of 314 MW each, reaching a total of 1 256 MW. The company Mague manufactured the boilers. Brown Boveri and Cie (BBC) provided and installed the turbines and the generator. Regarding sulfur oxides (SOX) control, Sines runs a wet lime flue gas desulfurization unit, installed by Hitachi and Cobra. In what concerns nitrogen oxides (NOX) control, the plant installed selective catalytic reduction equipment from Alstom. This retrofit ammonia-based system reduces NOX by 80%. In addition, an electrostatic precipitator (ESP) was settled in to control the emission of particulates.

The history of Pego power plant

Pego power plant is located in the center of Portugal, in the district of Santarem, and was built by EDP (the old incumbent firm) between the years 1988 and 1995 to satisfy the requirement for more diverse sources of energy. This infrastructure has a total installed capacity of 628 MW. It has two productive units of 314 MW each. The consortium Mague/Foster Wheeler EC manufactured the Boilers. Asea Brown Boveri (ABB) provided and installed the turbines and the generator. Equipment from other vendors (like transformers from Efacec) has also been deployed in this power plant. The first productive unit was commissioned in the year 1993 and the last in the year 1995. It is operated by Pegop — Energia Eléctrica, S.A. on behalf of Tejo Energia, S.A. Tejo Energia, S.A. is responsible for the management of the Power Purchase Agreement celebrated with REN (the “off-taker”).

In 1990, as part of a government initiative to restructure EDP and to encourage private sector investment in the electricity sector, Pego power plant was marketed for sale in an international bid. The purchase of Pego power plant by Tejo Energia, S.A. took place in the year 1993. The sale resulted in an infusion of 155 billion Escudos (PTE) to the national treasury. At the time, this was the largest financial transfer across European international borders. It represented the first big ‘project finance’ taking place in southern Europe. It involved some of the largest Portuguese and international Banks. Nowadays, Tejo Energia, S.A. is one of the largest Portuguese private companies in terms of Assets. When Tejo Energia, S.A. was established, back in 1993, over 100 contracts regulated the company’s legal and financial framework. At the time of its foundation, the percentage of borrowed capital was circa 85%, that is to say, the total project cost was funded by a mix of debt and equity, in an 85/15 split. In 2006, the business was re-financed with a consortium comprising of 13 banks, including some of the largest national and international financial institutions. Alongside with the shareholders, the banks played an important role in monitoring the project’s technical and financial performance. According to the procurement & contract manager, this specific nature of being a ‘project finance’ demands specific adaptations from many business activities. For instance, procurement activities must include a special care regarding contracts and legal requirements. Those demands are mainly set by the consortium of banks running the ‘project finance’ agreement.

CarboPego, S.A. was incorporated in Portugal as a joint venture of National Power (UK), Endesa S.A.(Spain) and EdFI (France)each with 33.3% of the company. The firm is responsible for supplying Pego power station with the coal it requires to produce electricity (this firm is also known as the “fuel provider”). The Pego power plant has an annual consumption of approximately 1 500 000 tons of coal. CarboPego, S.A. is responsible for purchasing coal in the international market and for its delivery inside the premises of the power plant. Imported coal is brought into Portugal at the port of Sines and then delivered by rail to the power plant. Pego power plant is located 290 km away from the port of Sines.

Pegop — Energia Eléctrica, S.A. was incorporated in Portugal as a joint venture of National Power (UK) with 50% of the shares and Endesa, S.A., with the other 50%. This company is responsible for operating and maintaining the Pego power plant (also known as “O&M”). Pegop, S.A. was specifically created for this purpose but nowadays it works both for Tejo Energia, S.A. and for ElecGas, S.A. The company manages a broad set of contracts with external companies, but it also employs its staff in direct operations or maintenance activities. This outsourcing option takes place when Pegop — Energia Eléctrica, S.A. is not able to provide high complexity or specialization services. Sometimes, contracting an external provider for maintenance services is mandatory, most often due to formal equipment guarantees that are requested by the consortium of banks managing the ‘project finance’.

In 2008, International Power plc. partnered with Endesa, S.A. for the construction of a new 830 MW combined-cycle power plant (ElecGas, S.A.). The engineering procurement and construction agreement was signed with Siemens in the form of a turnkey project. The fuel (natural gas) is provided by Endesa, S.A. and the entire output of this new plant is sold to Endesa Generación, S.A., a subsidiary of Endesa, S.A., under a 25 year Tolling contract. Initially the plant was owned and operated on a 'fifty-fifty' basis by International Power plc. and Endesa, S.A. ElecGas, S.A. is located inside the premises of Pego power plant, on a site adjacent to the existing coal power plant and benefits from shared services such as cooling water infrastructure.

Tejo Energia, S.A. was owned by International Power plc. (50%) (replacing the former shareholder National Power), Endesa Generación, S.A. (38,9%), and EDP — Gestão da Produção de Energia, S.A. (11,1%) until 2012. In that year International Power plc. sold 50% shares of Tejo Energia, S.A. to Trustenergy, S.A., a joint-venture (50/50) between the French group GDF SUEZ (nowadays ENGIE) and Japanese firm Marubeni. In addition, Trustenergy, S.A. also bought a 50% stake in CarboPego, S.A., Pegop — Energia Eléctrica, S.A., and ElecGas, S.A. Thus, in 2015, Tejo Energia, S.A. is owned by Trustenergy, S.A. (50%), Endesa Generación, S.A. (38,9%), and EDP — Gestão da Produção de Energia, S.A. (11,1%). CarboPego, S.A. is owned by Trustenergy, S.A. (50%) and Endesa Generación, S.A. (50%). Pegop — Energia Eléctrica, S.A. is owned by Trustenergy, S.A. (50%) and Endesa Generación, S.A. (50%). ElecGas, S.A. is owned by Trustenergy S.A. (50%) and Endesa Generación, S.A. (50%).

Purchasing and general buying behavior at Pego

Among other responsibilities, Pegop — Energia Eléctrica, S.A. runs the production and the maintenance departments of Pego power plant. Both departments, as well as other staff units, are supervised by the head of the power station. The objective of the production department is conducting the power plant productive units as to fulfil with REN's despatch instructions. For instance, it starts and stops each of the productive units. The maintenance department of Pegop — Energia Eléctrica, S.A. guarantees the power plant working conditions and is responsible for managing all the maintenance activities taking place on a regular basis or not, among others: (i) corrective maintenance; (ii) planned maintenance; (iii) predictive maintenance; and (iv) preventive maintenance.

The procurement office of Pegop — Energia Eléctrica, S.A. is a sub-set of the maintenance department. It is responsible for running major procurement processes, for instance involving the acquisition of: (i) spare parts; (ii) contracts (maintenance or others); (iii) EPCs ('turn-key' contracts or also called 'special projects'; and (iv) other non-critical goods. The regular mode-of-operation for purchasing is the tender, and more aggressive purchasing tactics (like for instance reverse auctions) are not employed. This office is composed by one procurement & contract manager, and two operational buyers. The office is ruled by processes that, according to its manager, are well designed, and set the rules and boundaries for its operation. Nevertheless, and according to the same source, due to its small dimension high flexibility exists inside the procurement office allowing adopting light and agile procedures, according to the relevance and complexity of the item being bought. The firm trusts each one of its purchasing staff, expecting them to behave according to the interests of the firm.

Downtime is the most critical factor in this industry, as one cannot find available redundant gear to replace a malfunctioning part. Even if this was to be the case, that is to say, even if one could find a replacement for a malfunctioning part, the time consumed during the process of replacement would be too long and would still become highly expensive due to the cost of no production. The cost of not selling is not comparable to the cost of the intervention or maintenance, being the first several thousand times higher than the second. In this context, the price is not the principal criteria for selecting a vendor, either for equipment or services. The primary criterion becomes the economic value of the adopted solution.

The purchasing manager defends that in this sector an unbalanced power exists between the buyer (the power plant) and the vendor. He claims that once a decision to buy a critical element from a specific vendor is taken, and then all the maintenance services and spare parts also have to be bought from the same vendor. This reality is even harsher in the context of a 'project finance' — which is the reality of Pego power plant — where a formal guarantee for all production equipment is requested. According to the same source, several tactics can be adopted to overcome this hazard. One option is to drive buying

negotiations based on future business expectations. Another option is to leverage on shareholders support to gain information on prices and to increase negotiation power.

The handling of Customer references

The purchasing office assesses a vendor experience by analyzing two elements: (i) reference lists; and (ii) the checking of those references. Overall, the checking of customer references is an informal process. It is only done if it is accepted that it is needed, for instance, to provide the buying decision with additional credibility. When needed, contacts made with counterparts may have three different types of objectives: (i) to know about the solution adopted for solving a problem; (ii) to know how much it cost; and (iii) to know if the supply went, or not, well. It is not needed to request a reference list from vendors as they all deliver it by default. Customer references are often the target of an email, a phone call, or a site visit. Nevertheless, there is not a formal process to handle them. According to the purchasing manager this informality does not represent an obstacle, as in purchasing it is only possible to find three elements of objectivity: (i) the price; (ii) the expected delivery date; and (iii) the extension of the guarantee. Accordingly, all the rest becomes subjective. Most often, checking on customer references is performed by the maintenance department and not so often by the purchasing office. Once again, no formality or rigid processes apply. The information on customer references is being filled into the buying process as it is collected. It ends up to be an ad-hoc, interactive and dynamic process.

On the edge, customer references can reverse the direction of a buying decision. During customer referencing diverse questions arise, like for instance: (i) “is this company working for you?”; (ii) “what have they been sourcing you for the last five years? Where and what values have been involved?”; (iii) “was it ok? What problems arrived?”; (iv) “are they delivering what has been previously agreed? How do they behave?”; and (v) “is the price aligned with the market?”.

The procurement & contract manager defends that when a vendor is good, honest, and transparent (that is to say, it does not hide behind false excuses for delaying or mistaking); it is often common hearing reference customers saying positive things about it. In fact, he claims that if one can speak to the technician responsible for running the equipment operation or its maintenance, the true will immediately come out from his lips about the vendor. The purchasing manager argues that his entire trust on the technician words is because technicians don't have a “commercial filter”, that is to say, their situation is not affected by any sales incentive.

The purchasing manager argues that customer references don't allow assessing neither vendors' reputation nor their credibility because “they are much more than what their references tells about them” (this is even more valid due to the present concentration of vendors which is considered oddly high). But, customer references allow to be knowledgeable about problems (expected or unexpected), constraints (what went right or wrong), regarding a certain investment. Above all, references allow assessing suppliers' competencies to deliver a specific contract or technology and reducing project risks (they validate a solution proposed by a vendor). This manager defends that risk reduction is the most important benefit arriving from customer references. He also defends that customer references allow learning how to implement a new technology and estimating the return on investment (ROI), as well as other economical related key performance indicators (KPIs). Several times, request for information (RFIs) are triggered due to the analysis of customer references.

Since the installation of the new flue-gas desulfurization (FGD), selective Catalytic Reduction (SCR) and ESP units, Pego power plant has received many visits from other coal plant managers who wanted to know more about the solution adopted, its features, and the quality of the relationship with the vendor. The plant welcomed all these managers, providing them with information and dedicated site visits. From all the visits that took place since then, no more than three were promoted by Alstom, the solution vendor.

The FGD/SCR and ESP purchase

Under European Union green legislation, member states had until 2008 to reduce emissions of acidifying pollutants, particles, and ozone precursors from power plants with a rated thermal input

equal to or greater than 50 MW. The new environmental regulation was set by the European Commission, aiming to establish emissions levels and to encourage the combined production of heat and electricity (cogeneration). The 'large combustion plants directive' entered into force in 2001, replacing an old directive. According to a manager from the production team, the old NOX limits were 800mg/m³ while the new NOX limits become 200 mg/m³. SOX levels also had to be reduced due to the same regulation, as well as the level of particles.

Tejo Energia, S.A. invested an amount of around 170 million euros to comply with the new regulation requirements, like dust removal, desulphurisation, and denitrification. This investment took place between the years 2007 and 2008. Pego power plant installed new FGD unit adopting a wet limestone forced oxidation (LSFO) technology. An FGD unit uses a set of technologies to remove sulfur dioxide from exhaust flue gasses arriving from fossil-fuel power plants. Due to environmental regulation, the FGD, SCR and ESP are considered as critical equipment because the power plant is not in conditions to operate without it. In what concerns NOX control, the power plant adopted a selective catalytic reduction gear. In addition, an ESP was acquired to control the emission of particulates.

The whole contract was awarded to Alstom in the form of an Engineering Procurement and Construction (EPC). Alstom is a French vendor who had already been the provider for the coal power plant core elements. According to the purchasing manager, the relationship with Alstom is described as "regular" and "without any quarrel, just the normal conflicts between people who buy and sell". Without considering the operational expenditure (especially the cost of coal), Alstom is the major supplier of Pego Power Plant, even when EPCs are not considered. According to the purchasing manager, it is possible that the fact of Alstom being an incumbent supplier could have had an influence in making its offer stronger and more competitive, above all due to its experience and know-how while working for Pego power plant for so many years.

Almost all Pego power plant EPCs have benefitted from the external support of both technical and legal consulting firms. The same took place for the new FGD/SCR and ESP acquisition. Tejo Energia, S.A. contracted the services of an independent consulting firm which helped to establish the technical specifications, to assess the solutions offered by different competing vendors, and to help to manage the contract implementation after it has been signed off. In addition, the company received support from technical teams arriving from their shareholders (Endesa, S.A. and International Power plc.). A legal firm was also involved supporting the buyer in this contract. This firm already worked and had a solid relationship with Tejo Energia, S.A. Pegop — Energia Eléctrica, S.A. acted on behalf of Tejo Energia, S.A., leading the procurement process. This EPC dealt with the acquisition and installation of the new FGD/SCR and ESP units. Nevertheless, it didn't involve any maintenance services as they were to be performed by Pegop — Energia Eléctrica, S.A. The buying team also counted with the help Tejo Energia, S.A. staff who were involved in defining the specifications, assessing the solutions presented by competitive bidders, as well as in the financial assessment of competitive bidders (for instance by tracking their status with rating agencies like Dun & Bradstreet). Regular meetings took place on a weekly basis, to assess the EPC progress.

The buying process started by running a "theoretical analysis on several alternative solutions". The goal for this buying decision was to comply with the European directive. Different technical options were assessed, and project constraints were identified, like, for instance, the available space to implement the solution, considered as being scarce. After completing the initial phase, the team listed European power plants that had already installed similar solutions. Their goal was to gather owners' feedback and other relevant information that could provide important insight for the decision to be taken. Several power plants located in France were, therefore, visited. Alternative viable solutions became available, as well as a rough estimate of their costs. Next, a technical solution was chosen, giving place to the tender dossier or set of specifications. Owners' engineering team (shareholders) supported the local team with advice and guidance.

At the time of the arrival of the large combustion plants directive, there were not much expertise with the technology needed aiming at complying with this directive requests. For instance, neither in Portugal nor Spain, one could find similar kind of equipment. This technology was, therefore, new to Endesa, S.A., although GDF SUEZ had already deployed some units in France. The visits to French FGD and ESP units were not promoted by any potential vendors. Nevertheless, they allowed for gathering of information and other benefits as if they were promoted by potential vendors.

Formal requests (request for information) for potential vendors to present references for similar projects were placed. Installation date and amount of hours worked needed to be detailed by potential

suppliers. The goal was to assess the vendors' experience in projects of similar dimension. The vendor's claim of owning a new technology does not mean it has already been able to sell it, and, above all, that it has been able to successfully implement it. This is important as no bank will pay for a technological trial in a project finance context, claims the procurement & contract manager. None of the references presented by vendors were checked.

The full buying process took almost two years to come to an end. According to the procurement & contract manager, the major difficulty faced by the team in charge of managing this EPC had to do with the technical part. Once solved, that is to say, once the engineering team has come up with the solution design, all the rest has been easy, like, for instance, the preferred bidder selection, which was done in circa four months. The contract negotiation and agreement also took about four months to complete.

The tender for this EPC had two distinct parts: one related to providing the 'core' equipment and another related to contract works. Consortium leaders replying to the tender were all main providers for contract works. A number of consortium leaders responded to the tender offering the same core equipment. Alstom, Mitsubishi, and Hyundai, were among the several offers received.

Regarding regular EPCs acquisitions, shareholders usually have a word to say about prospective vendors as, most often, they have past experiences that they can share with local companies. This influence arrives in the form of 'soft power' but never reaches out to become 'hard power'. That is to say, it is common to hear expressions like "this is a good vendor" but, on the contrary, at Pego power plant "there is no memory of hearing the expression 'we would like this vendor to be chosen'", claims the purchasing manager. To sum up, shareholders informal recommendations about whom to choose as vendor are not mandatory.

Discussion

The case of Tejo Energia, S.A. presents a buying situation where a significant amount was invested in Capex by awarding an EPC contract to a vendor. The awarded contract estimated value was about 170 million euros. It was the second major investment done by Pego shareholders after the power plant initial setting. This EPC possessed the features of a reference business once it involved an innovative technology and complex solution. Also, it was the first time this kind of gear was being bought in Portugal and, at the same time, the shareholders of Tejo Energia, S.A were not familiar with it. Moreover, the total investment almost equalled the annual revenues of the firm. All these facts allow categorizing this transaction as a reference business where, according to the reviewed literature, the referencing phenomena should be observable. This body of literature contends that customer references should have played an important role in this transaction. However, evidence for reference relevance was not found. On the contrary, case analysis suggests that customer references didn't play any key role in the studied buying decision.

Within this EPC specific context, the buying center of the firm demanded customer references from potential vendors. These references were presented in the form of reference lists. When enquired from a general stance, the firm reveals a positive attitude towards customer referencing. The firms' discourse on customer references is in line with the theory of referencing. The purchasing officer pointed out the benefits of including customer references in the buying decisions taking place at Tejo Energia, S.A. Nevertheless, the analysis of a concrete buying situation revealed that customer reference information was not considered by the decision center of the electrical company. In fact, the case analysis suggests that the buying firm dealt with the reference information in a highly informal fashion. Moreover, references were not confirmed by any members of the buying center, that is to say, no contact was established between any member of the buying firm and the reference customer. Therefore, a relationship (formal or informal) between the buying customer and the potential vendor was not established, neither initiated. This fact reveals that the reference triad was not present in a complex capital investment buying decision. As the reference triad is not present in the studied transaction, it can be assumed that the reference triadic value didn't take place. The implicit conclusion is that, in this buying decision, customer reference marketing didn't influence the organizational buying behaviour. Likewise, no adaptation took place in this situation. Findings infer that high uncertainty is associated with the influence of customer reference marketing on the organizational buying behaviour.

Some ex-post hypotheses can be raised to explain the lack of customer reference marketing relevance in the context of the studied case like, for instance, the following: (i) the project finance feature of Tejo Energia, S.A. affects the firm's purchasing behaviour; (ii) the previous buying relationship with the selected vendor affects the relevance of customer reference marketing; (iii) Tejo Energia, S.A. shareholders interfered with the buying decision; (iv) the informal handling of reference information removed the customer references benefit.

The studied case allows observing the project finance feature of Tejo Energia, S.A. Is this characteristic affecting (or not) the way customer reference marketing influences firm's purchasing behaviour? The long-term financing of Pego Power Plant is based on its projected cash flows. The project financing structure involves a syndicate of banks. They are secured by the involved assets and paid entirely from the generated cash flow. Therefore, cash flow assurance becomes deeply rooted at the buying behaviour of the firm. All decisions taken should submit to this criterion. This is why the economic value of the adopted solution becomes so relevant. Downtime is the most critical factor because it highly impacts on the cash flow of the firm. This project finance context enhances a conservative and risk free buying behaviour. Customer references provide evidence to support a decision of this kind. Hence, customer reference marketing should have played a role in the studied decision. This paper accepts that the project finance nature of Tejo Energia, S.A. should have enhanced the relevance of customer references. However, evidence suggests that customer references were irrelevant for the decision taken.

In the studied transaction, the selected vendor already had a past relationship with the buying firm. How far could this relationship have affected the firm's purchasing buying behaviour? The case suggests that a positive (or at least a neutral) environment surrounds the relationship between Alstom and Tejo Energia, S.A., being Alstom a relevant supplier for Pego Power Plant. This status might have provided Alstom with a privileged position when facing its customer EPC tender. On the other hand, the buying firm considers Alstom as a qualified vendor for the new gear. Nonetheless, Pego Power Plant has also successfully installed equipment from other vendors, like for instance turbines from ABB. Apart from Alstom, other privileged relationships do exist. If that is the case, then other relationships with equal nature should have equally influenced the buying behaviour of Tejo Energia, S.A. This consideration allows this paper to offer a perspective of neutrality regarding relationships with core vendors and the way they impact the firm's buying behaviour.

Were Tejo Energia, S.A. shareholders interfering with the buying decision? This question is, probably, the most striking one assaulting any scholar facing equal research circumstances. The authors of this paper placed a considerable amount of effort, aiming to find any piece of evidence which could suggest that Tejo Energia, S.A. shareholders influenced the EPC buying decision. Unfortunately, no evidence supporting this line of argument was found.

The case reveals that Pegop — Energia Eléctrica, S.A. acted on behalf of Tejo Energia, S.A., leading the EPC procurement process. In addition, the case also reveals that resources needed to fulfil all the buying activity were small in size, which led to a certain amount of informality in what concerns the handling of customer references. Is the informal handling of reference information removing the benefit emanated by customer references? A line of argument could sustain the idea that a more formal handling of reference information would enhance its benefit. Moreover, a more comprehensive and committed approach in the field of customer reference analysis would further sustain the buying decision taken by the power plant. Nevertheless, evidence suggests that informality surrounded the handling of customer references during the studied transaction.

To answer to all these open questions and further understand the customer referencing phenomenon, this paper suggests that new research is needed in the field of organizational buying behaviour.

Conclusion

Empirical evidence supporting the existence of a reference relationship was not found. Findings suggest that the reference relationship might not always be present in a capital goods acquisition context, even in the context of a reference business. The same is to say that customer reference marketing influence on the organizational buying behaviour is not yet proven. In addition, evidence for adaptation was not found despite being suggested by the referencing literature. As a result, the customer reference body of theory should be reviewed accordingly, to include additional

understanding of the reference network phenomenon. New research featuring the potential buyer and its decision center should be put forward as it will contribute to enhance the present theory of customer referencing.

Nevertheless, the general body of theory featuring customer references should be considered for future research as most of it echoed in the researched case. For instance, case study suggests that the benefit of customer referencing is well understood by the buying center of this firm. Among others, several concepts like 'reference customer', 'success stories', and 'reference lists', were observable in the case. In the opposite direction, the 'reference triad' model was not apprehended during the field work. Future research on the customer referencing field should aim to understand under what circumstances customer reference marketing influences organizational buying behaviour. This future research should take place from a potential customer point of view, that is to say, the potential customer should be the empirical unit of analysis and, if possible, new research should select and observe its buying center.

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