Flanking

An indicator of dis-intermediation in progress or of specialization?

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Abstract: Intermediation, re-intermediation and dis-intermediation refer to processes leading to transformation of the structure of channel relationships. The two basic structures are 1) the intermediated structure; a third party is acting as the indirect link between unconnected suppliers and customers 2) the dis-intermediated structure; suppliers and customers have direct relationships. However, in some channel relationships all three parties are connected with relationships of varying strength. A specific variety of this structure is flanking. A customer, a supplier and an intermediating actor are all connected with direct relationships, but the supplier and the customer are by-passing the intermediating actor. By-passing is often associated with a decision to cut out the middleman, but may indicate specialization. The purpose of this paper is to examine how to distinguish between these two scenarios.

Key words: Channel relationships, intermediation, transformation

1. Introduction

This paper is inspired by data from a study of four cases of customer-merchant-supplier relationships in the building material industry. In three of these cases the supplier-customer relationship is characterized by intense interaction, whereas little interaction takes place between the merchant and the customer, and between the merchant and the supplier. These arrangements, which had existed for a prolonged period of time, are neither intermediated nor dis-intermediated. Rather they are characterized by flanking.

In a channel context flanking refers to a structure of three actors in which the supplier and customer create a direct link as a supplement to their indirect link through the intermediary (Smith, Laage-Hellman 1992). It is a variety of by-passing the intermediary, which may be grounded in a buyer’s wish to access the capabilities of a supplier, or the supplier’s wish to get better information about customer needs. But “the most frequent circumstance associated with this form of behavior is concerned with the decision to cut out the middleman” (ibid. p. 53). Thus, the observation of a structure characterized by flanking can indicate either dis-intermediation in progress, or a need for specialization and expanded communication between the supplier and the customer. The question is: How can we distinguish between the two scenarios? The purpose of this conceptual paper is to take the first steps in this direction.

One of the characteristics of a flanking situation is that three actors are involved. Therefore the study applies a triadic approach which reflects the actual circumstances of flanking. Moreover, the extension from channel dyads to small networks is expected to shed light on two key issues in business strategy: value creation and appropriation (Van Den Bulte, Wuyts 2007). Thus, the analysis of how dyads influence each other in triadic structures is of interest for managerial strategizing (Choi, Wu 2009b, Choi, Wu 2009a, Dubois 2009). Seminal studies of triadic structures in business networks (Havila 1996, Holma 2009, Ritter 2000, Smith, Laage-Hellman 1992) offer descriptions and analysis of various types of triadic structures. However, the triadic structure in flanking, which consists of one strong and two weak ties has attracted little attention. In order to get
a better understanding of this underexplored phenomenon, the paper examines the following question: To what extent is it possible to establish two different transformation processes resulting in flanking, and what are the future trajectories of the relationships involved?

2. The motives behind and the transformation of triadic structures

As pointed out by Smith, Laage-Hellmann (1992), a flanking movement occurs in two steps. For flanking to occur, the indirect link between a customer and a supplier, offered by an intermediary, must be supplemented with a direct link between the supplier and the customer. Consequently, flanking is the result of a transformation process involving the closure of an open triadic structure. In the following this transformation process is examined in three stages; the motives behind the open triadic structure (the intermediated stage), the closure of the triadic structure, and flanking as a result of and resulting in transformation.

Open triadic structures – the intermediated stage of a channel arrangement

Mediation creates an indirect link between two otherwise unconnected actors, or substitutes / supplements direct links between two actors with indirect links. This structure offers the opportunity for an intermediating actor to perform diverse mediation functions; joining, relating and insulation (Holmen, Pedersen 2003). As joining initiates a new direct relationship and signals the closure of an open triadic structure, it is described in the following section.

Insulation refers to a situation in which the coordination of the activities between a focal actor and a third party is handled by the intermediary. Relating refers to the coordination offered by an intermediating actor. Relating and insulation differ somewhat. Relating is grounded in the intermediary’s ability to economize on information processing, as well as his ability to reduce risk i.e. in functional specialization. Relating takes place between actors, who are aware of each others’ existence, but who are not interacting directly. In comparison, insulation is based on one of two differing motives. Insulation occurs in a situation where the mediating actor contributes to the value creation by offering cost-economization as a result of functional specialization. This arrangement enables the focal actor and the third actor to economize on resources for mutual coordination; they need not know each other. But insulation also entails the risk that the intermediary can manipulate and control the business arrangement in a way which enables him to appropriate extra value.

Such situations, which are described as brokerage, occur when an intermediary holds a network position, from which he is spanning a structural hole (Burt 1992). A structural hole describes a situation, in which the intermediary offers the only indirect link between two disconnected actors. As long as the broker is able to keep his two connected parties apart, and no other indirect links develop, he is able to preserve his advantageous situation. Thus, insulation is related either to value creating specialization or value appropriation resulting from the implementation of structural power.

Summing up, relating and insulation in open triadic structures offer opportunities for value creating functional specialization, whereas brokerage as a variety of insulation describes value appropriation achieved from exercising the power of spanning a structural hole. The different motives in open triadic structures create the foundation for two distinct drivers of the closure of open triads.

The closure of open triadic structures – neither intermediated nor disintermediated

Madhavan, Gnyawali, & Jinyu He (2004) points to two possible motives for the closure of open triadic structure; countering and clustering. The purpose of countering is to nullify the third actor’s control of the structure, and thus his ability to appropriate extra value from the business
arrangement. This is achieved through coalescing between two parties (Caplow 1956). Clustering is related to the collaborative aspect of alliance-building (Ireland, Hitt & Vaidyanath 2002). Thus, clustering results in functionally motivated collaboration and can be approximated with value creating specialization between the three involved actors. In comparison, countering results in coalescing, which is spurred by a desire to block or nullify the extra value appropriated by one of the parties. The two different motives are linked to two different intermediating roles, which a third party can have and play.

A third actor, who enjoys the benefits of a position between two disconnected parties, and who actively attempts to preserve this separation, is called a tertius gaudens (Simmel 1950). A tertius gaudens spans a structural hole and offers the only indirect connection between two disconnected actors. Due to his position, the tertius gaudens can manipulate and exploit his connected parties and appropriate extra value for himself (Burt 1992). In these brokerage situations the closure of the open structure is the result of countering. However, the same structure offers a potentially opposite role to the third actor as the mediator, who creates or preserves group unity (Simmel 1950); the tertius jungens (Obstfeld 2005). The tertius jungens closes the gap between disconnected parties by bringing them together. This situation equals initiation or joining. By bringing his two connected parties together the intermediary facilitates the next step in the transformation; the development of functional collaboration, which can support value creation.

Thus, it seems possible to create a link between brokerage, coalescing and countering on the one hand, and initiation, collaboration and clustering on the other. These links outline two differently motivated transformation processes leading to closure.

Flanking—the result of transformation which may result in further change

The interesting aspect in flanking is that at this point of transformation the processes may change direction. It signals a cross-road in the transformation of channel relationships. Flanking resulting from countering is expected to result in dis-intermediation. But if flanking is a result of clustering, the continuation of relationships seems to be the obvious outcome. However, the contrary is equally possible from a structural point of view. The direct link, which facilitates functional specialization based on communication and interaction, offers a potential platform for dis-intermediation, too. The continuation of relationships depends on the intermediary’s continued participation in value creating activities; otherwise he may be dis-intermediated. If so, value appropriation substitutes value creation as the driver of change. Likewise, an intermediary who is at the risk of being dis-intermediated may re-invent himself and his offering. If so, continuation of relationships is an equally possible outcome. Value creation substitutes value appropriation as the driver of change.

But these alternative outcomes not only depend on the existence of relationships or bonds between actors, but also the contents in terms of resource ties and activity links (Håkansson, Snehota 1995). Disintermediation is only possible if the two countering parties do not depend on the intermediating actor for access to resources needed to perform value creating activities. If the two actors depend on offerings contributed by the intermediating actor, other trajectories may emerge: Re-intermediation is one possibility, substitution another. Re-intermediation offers the intermediating actor the opportunity to preserve his relationships with the other parties, but depends on his willingness and ability to adapt to the conditions in the transformed structure. Substitution, on the other hand, depends on the actors in the surrounding network. If none of them can or will substitute the intermediating actor, some sort of dead-lock exists; at least in a short or medium term perspective.
Thus we can distinguish between value creation and value appropriation as the motives which drive the transformation and result in flanking. But the motives driving further change may differ from the ones resulting in flanking. Further change depends not only on the structure of relationships, but also on the contents in terms of resources and activities. The transformation processes leading to flanking and the possible future trajectories are outlined in figure 1 below.

Table 1: Transformations leading to flanking and potential future trajectories
3. Discussion and conclusions

The conceptual analysis shows that it is possible to trace two structural transformation processes leading to flanking. Both set off from the analysis of open triadic structures and outline how value appropriation and value creation as drivers of change may both lead to closure. However, the analysis of the future trajectories of a flanking structure emphasizes that structure alone does not determine action (Uzzi 1997). Actions influence structure as well, but depend on the resource ties and activity links within the triadic structure, and on accessibility of alternative resources in the surrounding network. We may be able to analyze flanking as a structural phenomenon resulting from clustering or countering, value appropriation or value creation. But there is no simple link between the drivers of the transformation leading to flanking and the probable future development of the structure.

This implies that flanking is not a point of no return, even if it has come about as a result of countering. Several future developments are possible: Disintermediation is one trajectory; re-intermediation and substitution are other possibilities. Moreover, flanking is not an inherently instable situation: Flanking may continue for better or for worse as a relative stable arrangement. However, the significance of nullifying extra value appropriated by an actor as a driver of change will motivate change, if one of the actors is in a position enabling him to appropriate such value.

The analysis of flanking is of managerial interest for several reasons. It points to the fact that channel arrangements are not necessarily direct or indirect. They may involve both direct and indirect relationships as in flanking. The indirect link can supplement a direct link and vice-versa and result in 1) further value creation 2) the possibility, if not to nullify, then to reduce extra value appropriation by an actor. And for practitioners involved in a structure characterized by flanking, the study indicates alternatives to dis-intermediation and continuation. If the flanking situation is unbalanced in terms of value creation and appropriation, re-intermediation may be attempted. Alternatively, the active cultivation of alternatives, which can substitute the present arrangement, is a viable solution. In addition, it points out that flanking may offer a stable platform, if only the arrangement is attractive to the parties involved.

From a scholarly perspective, the analysis seems to confirm that the extension from channel dyads to small networks offers the potential of new insights. Triadic analysis is still a relatively underexplored phenomenon in business studies; both in the quantitative structural tradition of social network analysis and in the predominantly qualitative IMP inspired markets-as-networks approach. But this paper indicates that new insights may result from combining structural network analysis and analysis of interaction in relationships. Structural analysis is helpful in establishing two transformation processes leading to flanking, driven by either value creation or value appropriation. And the analysis of the interaction perspective is helpful in the conceptualization of the possible trajectories in the further development of a triadic structure characterized by flanking. However, further conceptual and empirical research is needed to get a better understanding of the influence among and between dyads.
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