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INTERORGANIZATIONAL  
DEVELOPMENTAL  
PROCESSES:

GOVERNANCE AND INTERACTION IN  
CONTINUOUS NEGOTIATED AGREEMENTS

by

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## ABSTRACT

This thesis aims to explore how long-term interorganizational relationships are managed as they evolve over time. The developmental processes in long-term relationships are not very well understood. However, building on recent ideas found in the literature, a conceptual framework is developed. The framework draws on two traditionally separate streams of research: contract theory and negotiation theory. As long-term relationships typically represent agreements that are incompletely specified (as some or many issues are left for future resolution), the relationships are characterized by a planning gap. Thus, issues occurring as the relationship evolves must be dealt with and settled in order to achieve the intentions in the agreement. Thus, occurring events in the relationship might be viewed as a series of unfolding joint decision episodes. As the parties to an agreement are assumed to have both common and private goals, their motives are mixed. Thus, they have a choice between pursuing own or common goals at each decision point.

From contract theory we know that different kinds of governance mechanisms are combined in order to create flexible frameworks that exchange takes place within. However, we know little about how these mechanisms change over time. As contractual mechanisms represent *structural* conditions, there is a need to address the *interaction* that take place between agents in order to understand developmental processes. The perspective adopted here contends that joint interaction and decision-making can be viewed as negotiation incidents. As mixed motives are involved, the agents must choose a negotiation strategy that suits their purpose. Thus, the study adopts a view of long-term relationships as *continuous negotiated agreements*.

Based on the ideas developed in the first part of the thesis, a longitudinal study of three evolving interorganizational relationships in the Norwegian retail sector is conducted. The study suggests that the general perspective developed can give valuable insight into interfirm developmental processes. Over extended periods of time the decision points in the cases were tracked in order to study the evolution of governance mechanisms, negotiation strategies, and the outcomes achieved. Thus, the study sheds new light on these important developmental aspects of long-term relationships. Further, the study identified several developmental aspects that the current literature has awarded little attention, such as the interdependencies between structure and action, the evolution of practices, interdependencies between issues, interdependencies between different interaction levels in relationships, evolving states in relationships, emerging change and the impact of observed performance, and impact of personnel turnover. Finally, the study suggests that alliances with different initial conditions and different aims evolve along different, but converging, paths.

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I am out in the Sahara heading due south  
with each day of travel less sure of just  
who I am, where I am going or why.  
There must be some easier way to do it  
but this is the only one I know so,  
like a man drowning in a sea of sand,  
I struggle back into this body which has been  
given me for my trip across the Great desert.

Brion Gysin  
"The process"



## **1: INTRODUCTION AND RESEARCH PROBLEM**

*In this chapter, the research question is posed. After a brief account of the background, the main research question is presented. Then I will turn to position the research question within current research on interorganizational relations (IORs), emphasizing research on processes in IORs. Based on a discussion of current trends in research, the research question is specified, an initial research model presented, and the expected contributions identified. Empirical issues, methodological approach and empirical setting, are then presented. Finally, the structure of the thesis is described.*

### **BACKGROUND**

Interorganizational relationships have for decades been of interest to organizational scholars, and several different theoretical traditions have been developed. Based on the work of Coase (1937), Williamson (1975, 1979, 1985) developed the transaction cost framework focusing on efficient institutional forms for organizing transactions between firms. Based on the works of Macaulay (1963), Macneil (1980) developed the relational contract theory that focuses on how exchange partners (firms) relate to each other, especially when firms are engaged beyond traditional market exchange. Other theoretical frameworks have been concerned with resource dependencies between firms (Thompson 1967, Pfeffer and Salancik 1978), political and economic conditions (Benson 1975, Stern and Reve 1980), or understanding the firm as part of interconnected networks (Håkanson 1987, Powell 1990). Common to these perspectives is that they view traditional market based perspectives on transactions and exchange as insufficient in order to understand how organizations relate to their environments.

In 1967, Warren argued for more research focusing on the "field" within which organizations interact. Being concerned with the impact of structural dimensions and decision making, Warren suggested that "the dynamics of the structure of the field are pertinent in attempting to assess the interaction processes taking place" (p. 409). Warren suggested that organizations aimed at "maximizing" several different values under influence of several contextual dimensions. As different values represent possible value conflicts, Warren (p. 413) suggested that joint decisions "usually satisfies no one completely, it produces a resolution well within the bounds of acceptability ...", and that "the outcome of interaction ... is not predetermined, but emerges in a social-interaction process within the interorganizational field" (p. 416). Thus, the managerial challenge becomes to "optimize" the mix of value satisfaction.

Since then, a vast body of literature has accumulated. A wide range of conceptual and empirical contributions has been published, often well within, or attempting to bridge or compare some of the above mentioned "schools". As a consequence we have substantial knowledge of many aspects of interorganizational relationships. However, Ring and Van de Ven (1994 p.91) observe that "relatively little scholarly attention has been devoted to studying developmental processes of IORs. Instead, most of the research to date has been focused either on the antecedent conditions or the structural properties of interorganizational relationships in comparison with other governance forms". A similar observation is found in Sydow and Windeler (1998). They argue (p. 265) that more balanced and integrated accounts of IOR processes, "which focuses on organizational and interorganizational practices and, at

the same time, takes the interplay of action and structure, as well as of power, sense-making and legitimacy issues involved in economic practices", must be taken. Gulati (1998) discusses similar ideas.

## THE RESEARCH PROBLEM

This study focuses on developmental processes within interorganizational relations. Ring and Van de Ven (1994, p.113) wrote that: "As the uncertainty, complexity, and duration of economic transactions within and between firms increase, it becomes increasingly important for scholars and managers to understand developmental processes of how equity, trust, conflict-resolution procedures, and internal governance structures emerge, evolve, and dissolve over time". This is a humble attempt to investigate these process dimensions.

From the briefly described background, several key words can be listed: Contracts, Structure, Governance, Different values, Dynamics, Joint Decisions, Social interaction, and Practices. Although these key words are rather general, they seem to share a set of ideas. For instance, they seem to assume some kind of agreement, or contract, that represents a "shadow of the future". These agreements tend to have several aims, as the organizations pursue different values. Thus, there are structural conditions that involve means for governance. However, these are assumed to change over time. Further, within these agreements social interaction occurs where joint decisions are taken. As several goals are pursued by both organizations, potential conflict is present, and acceptable resolutions must be sought out. Finally, over time practices become established as the dynamics involved calls for additional joint decisions. A key aspect of these ideas is that *interorganizational relationships develops through a series of joint decision points, and that these events are influenced by structural conditions as well as the interaction process itself*. These ideas are not novel; they are part of an emerging literature. Interestingly, they are not new either; they are just "left behind" both conceptually and empirically. Thus, there is an opportunity to be seized.

Although I make the claim that these ideas are "left behind", I will quickly add that both structural aspects and joint decisions in interorganizational relationships have been of interest, but typically *not from a processual perspective* and typically *one of these aspects* has been addressed *at the expense of the other*. As I will return to in more detail in Chapter 3, structural conditions have been of great interest to interorganizational scholars particularly in terms of contracts and governance mechanisms, and joint decisions have been studied from negotiation perspectives. In addition, some very recent contributions (which I soon will turn to) have suggested that a *combination* of these perspectives might be (particularly) relevant.

Thus, consider the following argument:

When business firms enter into long-term relationships, they agree to cooperate without having complete knowledge of all relevant future contingencies. It is impossible for the actors beforehand to calculate and agree upon everything that might occur during the time the relationship will exist. From a contract perspective, long-term relationships represent incomplete contracts, since the contract document itself cannot contain all relevant information about future contingencies (cf., Tirole 1989). Long-term contracts, whether they are called relational (Williamson, 1991; Macneil, 1980), administrative (Borch, 1994), or implicit contracts (Milgrom & Roberts, 1992), are by nature typically far from specified. This

uncertainty is often handled through combining contractual governance mechanisms, to establish a sufficiently flexible exchange structure. However, having a flexible structure *ex ante* does not represent a sufficient set of means in order to manage the relationship (make decisions) as it evolves. Basically, contracts represent frameworks, or conditions, under which interaction and exchange occurs.

To handle the challenge following from the inability to write complete contracts, the parties need to find joint solutions and decisions as events occur over time. Thus, basically, organizational actors need to respond to unforeseen events as joint decision points. The main aim in these events is to reach a decision that "closes" the planning gap that caused it. In other words, the planning gap represents aspects of the relationship that are left for future resolution through joint decisions. These decisions are enabled and restrained by the contractual relationship and the governance mechanisms available. However, joint decisions do not emerge from governance mechanisms alone; they involve interaction. Thus, in order to understand relational development, structural elements have to be complemented by elements of (inter-) action (i.e. behavioral conduct of representatives of the cooperating organizations). Consequently, one needs to study the relationship between structure and interaction in specific events over time.

Although IORs typically are based on some common and often strategic goals, they also, as a consequence of the organizations' autonomous and legally equal status, most likely have a set of private goals (initial or emerging; Van de Ven 1976). Thus, both common and private goals create a tension between two options: to pursue own or mutual interest. The ability of the two parties to make the cooperation work thus might depend on their ability to balance these concerns. Such a situation where each organization, exposed to potential opportunism, seeks to do better through jointly decided action than they could otherwise, may be studied as negotiation incidents. Consequently, as decisions are reached under the influence of structural conditions the process involves a complementary aspect of administrative behavior, namely use of negotiation strategies. Thus, as relationships evolve, it becomes possible to track a chain of decision episodes as they unfold over time.

Following from the above, I view long-term interorganizational relationships as *continually negotiated agreements*. Arguing that the execution of long-term contracts is dependent on negotiations to reach joint decisions, I focus on the interplay between contracts and negotiations. By combining contract theory (Macneil 1980, Stinchcombe 1985, Bradach and Eccles 1989, Williamson 1985, 1991) and negotiation theory (Lax and Sebenius 1986, Greenhalgh 1987, Putnam 1990, Corfman and Lehmann 1993, Bies, Lewicki and Sheppard 1995) I will develop a conceptual framework that explains interorganizational developmental processes from a balanced and integrated perspective.

From the above reasoning the following research question can be posed:

*How are long-term incomplete contracts managed as a sequence of decisive events unfolds over time within interorganizational relationships?*

I will return in more detail to this question, but first I will present and discuss some recent process models of IOR development to support and position my argument.

## **POSITIONING THE STUDY**

In this section I will place the study in relation to the current research in this particular area of interest. Based on a review of some key conceptual and empirical contributions, it will be evident that the research question is worthwhile and a natural continuation of these former achievements. The section has three main purposes: 1) present a representative account of the current state of research on interorganizational developmental processes, 2) discuss the significance of the presented contributions, identifying emerging views found in these, and showing that this study is a natural step forward, 3) introduce a sketch of the framework that is developed in the second part of the thesis.

### **Current research on developmental processes in IORs**

The "review" presented here attempts to reflect the current research on developmental processes in IORs. The contributions that are included are considered as the core conceptual and empirical works of relevance to the research question posed. Further, they represent "the state of knowledge" in this small but emerging literature. Thus, the review is not intended to be exhaustive, and focus is kept on the works that explicitly adhere to processual perspectives and analysis. However, no theoretical or empirical contribution of significant relevance known to me is left out. Having said that, I mention in passing that in the following chapters a much wider literature base is introduced.

Discussing research on IORs, Heide (1994) develops a typology of three different forms of governance: market governance, and two kinds of non-market governance, namely unilateral/hierarchical and bilateral governance. Market governance means that firms engage in transactions with other organizations through the market. Unilateral governance means that firms produce a given service or product internally (the transactions considered take place within the firm). Bilateral governance refers to durable and somewhat collaborative interorganizational relationships. A basic assumption is that these different forms of governance vary systematically in terms of how specific governance processes are carried out. Heide emphasizes that governance forms are second-order constructs that are defined "in terms of particular constellations of processes" (1994 p.81). In concluding his discussion, Heide (1994 p.82; agreeing with Ring and Van de Ven 1992) states that "research could be directed usefully toward exploring the dynamics involved in organizing interfirm relationships".

However, success in cooperative long-term contractual relations is not given, and many attempts fail (Mohr & Spekman, 1994; Lorange & Roos, 1991). In order to achieve successful cooperative relations, certain factors seem to be of more crucial importance than others. In a cross-sectional study, Mohr and Spekman (1994) attempted to identify some core success factors in cooperative relations. They found that characteristics of partnership success seem to be related to attributes of the partnership where commitment, coordination and trust were central aspects. Further, communication behavior with respect to quality and participation from both sides, and conflict resolution techniques with emphasis on joint problem solving were found significant. Thus, both governance-related variables and variables related to negotiations and strategic behavior were key aspects of successful IORs.

*Conceptual contributions*

In 1987, Dwyer, Schurr and Oh presented a conceptual model of developing buyer-seller relationships. Based on a comparison of discrete transactions and relational exchange (drawn from Macneil 1978, 1980) they suggested that relationships develop from awareness as an early unilateral consideration, through bilateral stages of exploration and expansion. As bilateral (dyadic) interaction occurs, a set of five inter-related "enabling sub-processes for deepening dependence" (Dwyer, Schurr and Oh 1987 p.21) takes place. These were labeled attraction, communication and bargaining, power and justice, norm development, and expectations development. They suggested that these stages and sub-processes lead to a commitment stage where "shared values and governance structures support joint investment in the relation" and ensure sustained interdependence (p. 21), and finally dissolution.

In a similar manner, Ring and Van de Ven (1994) discuss how interorganizational relationships emerge, grow, and dissolve over time. In order to understand these phenomena, they developed a process framework. They view "the development and evolution of a cooperative IOR as consisting of a repetitive sequence of negotiation, commitment, and execution stages, each of which is assessed in terms of efficiency and equity" (Ring and Van de Ven 1994, p. 97). Thus, in the simple form the model is a *cycle* of three sequential stages that repeats continuously. The cycle suggests the following: First there is a negotiation stage where the parties develop joint expectations for the exchange relationship. The focus in this stage is on the formal bargaining and a social-psychological process of informal sense making underlying and interacting with the formal bargaining. Next, in a commitment stage an agreement is reached and the rules for future action are established as a mutual understanding between the parties. A formal legal contract has now emerged from the negotiation, and is complemented by a co-existing psychological contract. The final stage in the cycle is an execution stage. As the relationship moves through and between these stages, the performance is monitored and assessed based on efficiency and equity criteria.

Ring and Van de Ven (1994) discuss developmental processes as they pass through emergent, evolutionary, and dissolution stages. With regard to the emergent stage, they discuss issues like congruent sense making related to conclusion of formal negotiations, and congruent psychological contracts related to establishing formal commitments. Then, they suggest that personal relationships supplement role relationships over time, and that formal contractual safeguards are substituted by informal psychological contracts as trust increases over time. They also propose that formalization of informal agreements will take place when the duration of organizational relations exceeds the tenure of agents (evolution stage). Finally, although an increased tolerance for conflicts develops (before termination is effectuated), they propose terminal effects of sustained significant imbalances between formal and informal processes (dissolution stage). "With time, misunderstandings, conflicts, and changing expectations among the parties are inevitable, and these factors can provide cause for rethinking the terms of the relationship..." (Ring & Van de Ven 1994 p.98).

Dabholkar, Johnston and Cathey (1994) propose an interfirm interaction framework that attempts to integrate approaches to bargaining from social-psychology with institutional economics for understanding the formation and maintenance of exchange relationships. They seek to explain the way organizational and individual influences determine negotiation behavior, and their consequences for outcomes. They also expand the framework to examine the evolution of exchange relationships. Dabholkar *et al.* (1994, p.133) argue that an

"examination of the negotiation process as it evolves over a series of exchange transactions is critical to developing an understanding of how businesses build and/or maintain exchange relationships. The negotiation process in turn depends on the type of negotiation behavior used by the negotiating parties". Based on a two-dimensional frame (gain perspective continuum – maximize individual/joint gain, time perspective continuum– long/short term), they identify four kinds of negotiation behaviors: Competitive (short term/individual gain), command (long term/individual gain), cooperative (short term/joint gain), and coordinative (long term/joint gain). Based on this model, they "speculate" how relationships might develop and move between strategies over time. Although I share some of the underlying ideas found in Dabholkar, Johnston and Cathey (1994), I have chosen to deal with these in a fundamentally different way (as will be evident in the following chapters).

Influenced by the writings of IOR scholars Ring and Van de Ven (1994) and Doz (1996; which I will return to), as well as the idea of "absorptive capacity" (Cohen and Levinthal 1990), Kumar and Nti (1998) develop a dynamic model of alliances by examining potentially evolving process and outcome discrepancies between firms. Especially, they are concerned with issues relevant for knowledge intensive alliances, where economic value and *knowledge acquisition* are basic goals. The model assumes that firms enter an alliance with different absorptive capacities (abilities to learn from their joint interaction). Their basic argument is that the outcomes achieved from the interaction, and each party's share of these, are determined by the resources and efforts contributed to perform certain joint activities and the *strategies* (cooperative or non-cooperative) adopted by each organization. In addition, Kumar and Nti propose that the partners "develop certain *managerial mechanism to govern* the alliance" (1998 p.357). The managerial mechanism, they state, defines the decision making process, allocation of responsibilities between the firms, and coordination of work, and are represented by implicit contracts, norms, routines, procedures and incentive structures. Together, "the collaborative strategies adopted by the partners and the managerial mechanism governing the alliance influence each other and constitute the pattern of interaction" (Kumar and Nti 1998 p.357). Each firm evaluate their outcomes in relation to their expectations. Over time alliances might produce unfavorable outcomes resulting from inability to produce the desired economic value or learning from the alliance, or develop unsatisfactory patterns of interaction. Thus, outcomes are perceived as favorable or not. At any point in time, an assessment of the current combination of process and outcome discrepancies defines the state of the alliance, which affect their ability to sustain a positive psychological attachment to the relationship. The combination of discrepancies, and the way the parties respond to them, determines the developmental path of an alliance. They suggest that favorable outcome and process discrepancies represent stable alliances; if both kinds of discrepancy are unfavorable the alliance is unstable, and in mixed situations the alliance is labeled contested. Each of the states is assumed to have "its own dynamics, and may require different action from the partners to direct the alliance" (p.364). Kumar and Nti (1998) place their model within cybernetic, or systems, theory.

In a related paper on interorganizational learning, Larsson, Bengtsson, Henriksson, and Sparks (1998) suggest that the way partners manage the collective learning process is central to success or failure. In principle, they see a learning dilemma arising from two fallacies: 1. The good partner fallacy, in which "good partners with high transparency and collaborative intent tended to be exploited by the more selfish partners with lower transparency and more competitive intent" (Larsson *et al.* 1998 p.287), and 2. The learning race fallacy, where the

"competitive learning strategy of taking more than one is giving (i.e. own receptivity being greater than own transparency) can also be defeating", as opportunistic strategies undercut the collective knowledge development. Adopting negotiation theory models, they suggest a two-dimensional space with low/high transparency and low/high receptivity continuums. With regard to the distributive efforts in interorganizational learning, they identify competition, accommodation and compromise as possible learning strategies. With regard to integrative efforts, they identify avoidance, collaboration and compromise as possible learning strategies. As each party might adopt any of these five strategies, they develop a five-by-five matrix of possible interorganizational learning outcomes, as they assume outcomes to be a function of adopted strategies: "interorganizational learning is therefore a joint outcome of the interacting organizations choices and abilities to be more or less transparent and receptive" (Larsson *et al.* 1998 p.289). Discussing possible dynamic barriers for the learning process (such as power, opportunism, suspicion, asymmetric learning strategies), they propose a scenario leading to disintegration. On the other hand, they also suggest that possible empowering factors (prior related interaction, high learning stakes, trust, long-term orientation) might enhance integrative processes and learning success. A set of propositions is developed with regard to process over time. Primarily based on a "tit-for-tat" reasoning, the framework could be considered highly suggestive. By applying their framework in a re-analysis of others studies (e.g. Ariño and de la Torre 1998; which I will return to), they suggest how the framework might be applied in empirical studies of IOR learning processes.

So far, only conceptual papers have been presented. However, some (although few) empirical studies of interorganizational developmental processes have been conducted. Thus, I will now present some key empirical contributions.

#### *Empirical contributions*

Niederkofler (1991) studied the evolution of strategic alliances. His basic hypothesis was that managerial behavior often caused cooperative relationships to fail, and by adjusting managerial behavior such failure is potentially avoidable. Focusing on relations between large and small enterprises, he conducted a longitudinal study of how six strategic alliances developed. He observed that initial negotiations established a strategic fit - a mutual base for cooperation. However, the same negotiations often failed to establish an operational fit, leading to a situation with operational misfit from the outset of the cooperation. As change over time occurred, strategic fit was secured through renegotiations and repositioning, and operational fit was achieved by means of adjustment. Specifically, he found opportunities for *managerial influence* with regard to the initial negotiation process, the boundary-spanning process, and cooperative flexibility.

Based on a multiple-case study Larson (1992) developed a process model of network *formation* (focusing on dyadic relations). The model describes how formation evolves through three phases. Phase one captures the preconditions for exchange and focuses on history. Phase two emphasizes the conditions to build a cooperative relation. In the third phase integration and control occurred. Larson argues that cooperative long-term relations do not emerge from "thin air". The initial stage concerns the preconditions for exchange history, where personal and firm reputations and prior relations are central. The empirical data showed that a foundation for mutual trust was typically established before transactions began. This served to reduce uncertainty, formed expectations and obligations, and further enhanced early cooperation. As the transacting activity became more involved, a phase of early interaction

initiated by one party developed (labeled "conditions to build"). In this phase a mutual economic advantage was found to be a necessary condition. The phase represented a trial period, where trust, a shared sense of reciprocity, clear expectations and rules and procedures started to develop. As Larson (1992 p.88) writes: "Time was required to develop what was called "the people interface and the systems and procedures"". In the final phase, the focus shifts to integration and control. She found that three kinds of integration occurred: 1) operational integration, 2) strategic integration, and 3) integration and control through social relations (social control). During the third phase trust, honesty, norms of fairness and reciprocity "were assumed and took on an invisible but powerful role" (Larson 1992 p.96), and seemed to be more important than formal contractual aspects.

Based on field interviews, Landeros, Reck and Plank (1995) developed a process model of relationship development. The model suggests that relationships start with an initial stage in which mutual commitments and understanding are achieved, based on the parties' expectations and perceptions. However, when relationships enter a transactional or performance activity stage, the need for adjustments will sooner or later occur. They suggest that problematic deviation will occur, and this activates the last stage named corrective action. Particularly, they suggest three kinds of corrective action: operational unilateral adjustment, which adjusts the performance activity, operational bilateral adjustment, which adjusts their mutual understanding and commitment, and managerial bilateral adjustment, which adapts their expectations and perceptions and thus leads to a new mutual understanding and commitment. An important limitation is that the model is not based on a (longitudinal) study of developmental processes, as the empirical data came from "more than 30" (p. 4) field interviews with supply and marketing managers in manufacturing firms with 2-3 years partnership experience.

Before I end this section, two important papers deserve attention. Doz (1996) conducted a longitudinal study of six projects in three alliances, of which some were successful and some failed. Doz was interested in understanding how learning in alliances (along five dimensions: environment, task, process, skills, goals) mediates between initial conditions and outcomes. He investigated whether firms adapted their collaboration in alliances to learning and feedback, or if they merely implemented initial agreements without much adjustment and evolution over time. He identified four evolutionary cycles: 1. Initial conditions facilitated or hampered learning in the relationship, 2. Learning along the five dimensions allowed for a re-evaluation of the alliance in terms of efficiency, equity, and adaptability, 3. Re-evaluation led to adjustments and a revision of initial conditions, and 4. The revised conditions affected further learning abilities. Comparison of successful projects vs. failed projects revealed different evolutionary paths (or spirals). While successful projects facilitated both cognitive and behavioral learning, failed projects only achieved cognitive learning and did not manage to adapt behavior. In successful projects, learning led to understanding of and adjustments to success requirements, as well as search for hidden agendas. In failed projects, search for hidden agendas and cognitive understanding of success requirements was observed, but inability to adjust behavior led to inertia. In turn these states led to heightened expectations and stable or decreased suspicions in successful projects, and lowered expectations and heightened suspicion in failed projects. This finally led to higher commitments and success, or lower commitments and failure. Within both successful and failed projects, he found that early and "small events" had significant impacts on the subsequent development.



Ariño and de la Torre (1998) studied the evolutionary path of a failed international joint venture by analyzing a series of events over a four-year period. Initially, they were concerned with the impact external shocks had on the organizations' perceptions on efficiency and equity. A tentative model was developed based on Ring and Van de Ven (1994) and Doz (1996). Their analysis showed that the interaction over time was highly intertwined, and that actions and reactions could not be interpreted in isolation. Based on their tentative model and their empirical findings, a model of collaborative venture evolution was proposed. The model suggests that negotiation and commitments define the initial conditions. As initial commitments are executed, learning takes place. Learning and/or external change in turn initiate a re-evaluation of efficiency, equity, and relationship quality. The consequence of the re-evaluation is either further (joint) implementation and learning, a unilateral reaction and learning feeding back on further re-evaluation, or a re-negotiation of alliance contribution and distribution rules. If the re-negotiation leads to no agreement, the process feeds back to further re-evaluation. In case of agreement, the revised conditions or "new equilibrium" result in further execution and learning. As the re-evaluation of the alliance over time results in deteriorating relationship quality, which is not unilaterally or bilaterally corrected, the alliance is likely to be dissolved. They conclude that "positive feedback loops are critical in the evolutionary process, that relationship quality is both an outcome and a mediating variable, and that procedural issues are critical from the start in fostering a climate for positive reinforcement and the building of mutual trust and confidence in the relationship" (Ariño and de la Torre 1998 p.306).

Having presented an account of the current state of research on interorganizational developmental processes, I will now turn to discuss these in relation to the perspective taken here. Interestingly, although the contributions differ in some respects, they seem to complement each other well rather than represent competing perspectives.

### **Discussion**

Although these models at face value might be perceived as different, they share a set of underlying assumptions. The most basic is the idea of a planning gap in long-term relationships. The parties are beforehand unable to conduct a complete planning of the relationship, and unknown future events have to be solved through joint action. These events are basically (joint) decision episodes, in which the actors need to agree on how to handle specific issues. Second, these models acknowledge the existence of contracts and governance mechanisms between the parties. Contracts and governance mechanisms are conceived as "tools", or conditions, available to the parties in joint decision episodes. These structural elements have both enabling and restraining abilities. Third, in addition to these structural conditions, or mechanisms, at the dyadic (macro) level, the models assume interaction between agents at the micro level. Joint decisions are reached through purposive agent's interaction. This interaction, which can be understood as negotiations, takes place within a (initial and evolving) set of contractual mechanisms at the dyadic level. These mechanisms are supplemented by negotiation strategies at the individual level. Fourth, although long-term relations typically are based on shared goals, there exist motives to act in self-interest and thus agents (organizations) might act opportunistically. Fifth, as relationships evolve it is assumed that changes can be observed both with respect to operational and strategic fit, structural conditions, expectations, and behavior in occurring events. Such changes can be caused by factors internal to the relationship as well as by external factors.

Thus, the perspective taken in this study relates well to current conceptual and empirical research. However, as the discussed models to a limited extent deal analytically and/or empirically with the key issues of evolving governance mechanisms and negotiation strategies *in combination*, this study will actually do so. This is not to say that the discussed contributions do not address these issues, but they either represent partial accounts of relationship development or lack sufficiently detailed descriptions and explanations of these phenomena. Finally, more empirical research is badly needed. These claims are discussed below.

*Agreements, conditions, and contracts*

The models proposed by Heide (1994), Ring and Van de Ven (1994), Kumar and Nti (1998), Larson (1992), Landeros *et al.* (1995), Doz (1996) and Ariño and de la Torre (1998), explicitly address structural conditions in terms of initial states and/or formal and informal joint agreements (contracts). Several of these authors are especially concerned with the importance of trust and developing norms and procedures. In addition, they are explicitly or implicitly concerned with economic conditions and realities in alliances, either through established incentive systems or through efficiency and equity considerations as the partners in an alliance assess and evaluate the outcomes of their joint efforts.

Heide (1994) argues that contractual mechanisms in practice will be combined, but suggests that "the particular history of a relationship could serve as a constraint on subsequent attempts to develop particular types of governance. Specifically, it could prove dysfunctional to introduce unilateral elements into a relationship that traditionally has been governed on a bilateral basis, because the very nature of unilateral governance could violate the norm on which the original relationship was established".

Ariño and de la Torre (1998 p.323) discuss the importance of procedural solutions for conflict resolution, as part of initial conditions in relationships: "We propose that the existence of such procedures will influence the choice between the partners negotiating their differences or their undertaking unilateral action in early stages of the relationship, thereby building the store of trust and goodwill necessary for long-term success". This is also consistent with Doz (1996) findings. Doz (1998 p.80-81) writes that his findings "suggests that framing the debate in simple vs. evolutionary terms may not capture the essence of the phenomenon. In our observations, adaptive processes were neither just teleological nor emergent. Alliances were not just the implementation of initial designs toward set objectives, nor were they evolving independent from initial conditions". These ideas are also consistent with Ring & Van de Ven's (1994) model of IOR development as they state that "from a developmental process perspective, cooperative IORs are socially contrived mechanisms for collective action, which are continually shaped and restructured by actions and symbolic interpretations of the parties involved" (Ring & Van de Ven, 1994, p.96).

Dwyer *et al.* (1987) also identified different contractual processes when comparing discrete and relational exchange. These differences are based on evolutionary possibilities. In discussing further research they suggested the usefulness of studying buyer-seller interaction as bargaining processes, as they note that "negotiation provides an excellent framework for research on relational exchange" (1987, p.22). However, their focus on (high degrees of) conflict might be misleading, simply because relational exchange very often is based on a set of shared goals.

Thus, it seems particularly important to understand the evolution of contractual aspects. This focus also fits well with the extant literature on IORs from a structural point of view. However, previous research has rarely been concerned with how structural conditions evolve over time in relationships. The introduced models of IOR processes clearly indicate the importance of understanding structural change over time. As the empirical body of literature is very small, it seems particularly important to address this issue empirically. Thus, the development of the conceptual framework for the study will draw on contract theory as a key theoretical foundation. Further, the discussed research also draws attention to the importance of understanding joint interaction and decision processes. In particular, negotiations are introduced as a key element of developmental processes.

### *Negotiation*

Contributions from Dwyer, Schurr & Oh (1987), Niederkofler (1991), Ring & Van de Ven (1994), Dabholkar *et al.* (1994), Kumar and Nti (1998), Larsson *et al.* (1998) and Ariño and de la Torre (1998) all bring negotiations closer into attention in the development process of cooperative IORs. Further, several of these authors argue that contractual aspects (or structural conditions) and negotiations should be addressed in relation to each other. Ariño and de la Torre (1998 p.323) end their concluding discussion by stating: "Finally, an exploration of the relative effectiveness of different conflict resolution or trust-building mechanisms is sorely needed".

Although the above mentioned contributions acknowledge the importance of negotiations, limited attempts are done in order to *understand negotiations* in IORs or to provide frameworks that in a meaningful way explore the potential contribution from negotiation theory. Exceptions are the conceptual contributions from Dabholkar *et al.* (1994) and Larsson *et al.* (1998). However, these two "step-motherly" address the contractual conditions that negotiations occur within. Thus, the perspective taken here complements and extends former research on interorganizational developmental processes.

Two historical dominant themes in negotiation research are distributive (focusing on distribution of value) and integrative bargaining (also focusing on creation of value). These have often been treated as separate and different (Putnam 1990). However, Raiffa (1982), Lax and Sebenius (1986), and Putnam (1990), have in a clarifying way explained how both distributive and integrative elements may be intertwined in a single negotiation episode. This view is based on the existence of motives to act in concordance with both own and mutual interests. These aspects are well reflected in Lax and Sebenius' definition of negotiations as "*a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise*" (1986, p.11).

However, Greenhalgh (1987) criticizes and challenges traditional perspectives in negotiation research, as he observes that relationships have been neglected, partly because "researchers have *deliberately* tried to eliminate the effects of relationships" (p. 235). Arguing that relationships and their evolution are overlooked but important phenomena in "real" negotiations, Greenhalgh argues that research should take into account how negotiators experience their relationships (in terms of interdependence, commitments, indebtedness), how they experience their roles (negotiate on own behalf or as a representative, or some other

social role), what kind of time horizons negotiators operate with (single episode or long term), and how trust in relationships affect behavior.

Other negotiation scholars have subsequently addressed the issues Greenhalgh (1987) brought up. Shapiro, Sheppard and Cheraskin (1992) discuss trust in business relationships in relation to negotiation research. Greenhalgh and Gilkey (1993) show that relationship-oriented negotiators have a continuous view of their interactions rather than episodic, and thus adopt flexible postures and avoid relationship-impairing tactics. Rognes (1995) proposes a planning framework for negotiating cooperative supplier relationships. Sheppard (1995) discusses negotiations in long-term interdependent relationships between relative equals based on a discussion of markets, hierarchies, and hybrid modes (e.g. strategic alliances) of organization. Greenhalgh (1995) argues for a new paradigm in negotiation research "in which the relationship is the focal point, the unit of analysis, and the context of disputes; and a theory of relationships that accommodates the impact of conflict situations, and looks at how different relationship dynamics influence the approach individuals take in dealing with disputes" (p.267). Sheppard and Tuchinsky (1996) discuss different forms of interfirm relationships, the importance of sustainable trust, and further research opportunities concerning negotiations in relationships (see also Bies, Lewicki and Sheppard 1995).

Thus, in the following chapters, I will also draw on theory on negotiations in order to complement contract theory in the development of my conceptual framework. As both contract theory and negotiation theory are concerned with outcomes in cooperative relationships, this issue will be dealt with in subsequent chapters as well.

### **The what, the how, and the why**

#### *Research question revisited*

Being interested in developmental processes in IORs, seen as continuous negotiated agreements, I want to study *how* the use of different combinations of governance mechanisms and negotiation strategies in long-term cooperative IORs affects relationship outcomes. I am also interested in how they change as long-term contracts are repeatedly and exceedingly specified. Adopting a "continuous negotiated agreement" perspective implies that a series of negotiation incidents are necessary to specify the long-term contract as time unveils the realities of the planning gap. I am interested in how structural conditions (governance mechanisms) evolve, how the use of negotiation strategies and tactics change over time, and how different combinations affect the outcome and the relationship between cooperating parties. The negotiated outcome in each incident is understood in relation to previous outcomes, applied governance mechanisms and use of negotiation strategies. The question I ultimately ask is what the outcomes and consequences of the use of different governance mechanisms and negotiation strategies over time are? So once again:

*How are long-term incomplete contracts managed as a sequence of decisive events unfolds over time within interorganizational relationships?*

*How does contractual conditions and behavior in joint decisive events evolve and affect outcomes in IORs?*

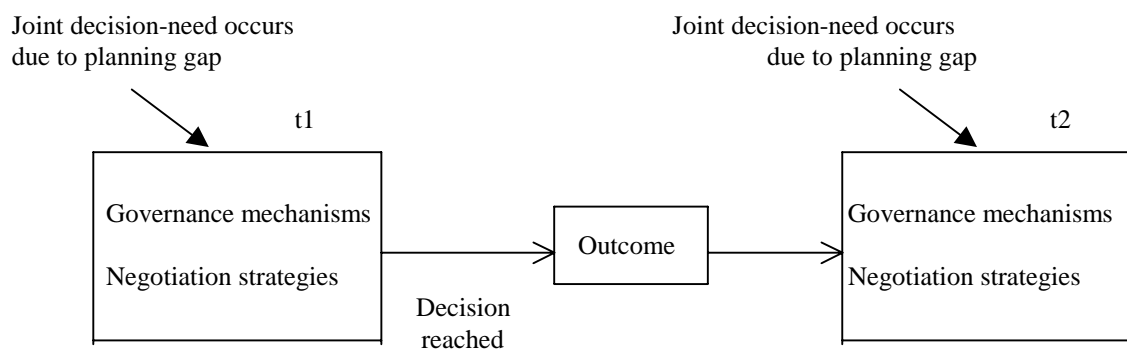
In order to answer these questions, some aspects of the IOR have to be specifically looked at. Important aspects concern:

- *How the use of governance mechanisms affects later use of these mechanisms*
- *How the use of negotiation strategies influences later use of these strategies*
- *How the governance mechanisms and negotiation strategies relate to each other over time?*
- *How they influence the outcomes achieved in IORs*
- *How negotiators perceive their outcomes over time*

These are the questions that this thesis will attempt to answer. From the previous discussion, an initial framework for the study will be proposed below. This perspective will be elaborated on and refined in the next few chapters.

#### *Initial model*

Based on the research question asked, and the perspective argued for, an initial model can be presented. The model is suggestive in terms of how I will approach the problem. As the model basically represents the main ideas previously discussed, I will not explain the model further at this stage.



*Figure 1.: Initial research model*

#### *Expected contribution*

The thesis is expected to contribute in several ways. First, the study is expected to complement and extend the ideas that are found in the relatively limited literature on interorganizational developmental processes. Second, the study attempts to combine theory related to key developmental aspects, namely structural conditions and behavior in order to understand how they relate and evolve over time. Third, the thesis provides an answer to recent calls for more and badly needed empirical research on interorganizational developmental processes. At the current stage of research in this area, another empirically based description and explanation of processes in IORs might be considered a contribution in itself.

Further, two additional contributions are expected as well. As a semi-flexible approach is taken with regard to the empirical investigation (I will return to this), I hope that the data

offers a potential to explore relevant themes and issues not initially considered. Finally, I hope that the study will be able to generate new research questions that are worthwhile to pursue.

## EMPIRICAL ISSUES

### Methodological approach

Having introduced my research question, discussed recent theoretical and empirical contributions in order to position it in a contemporary and relevant research context, and introduced an initial research model, it is appropriate to briefly discuss some basic methodological issues. As Chapter 5 will deal with these issues extensively, the purpose of this brief discussion is to identify an overall approach for the empirical investigation.

Most of the conceptual papers discussed previously suggest suitable methodological approaches to study IOR development processes. A commonality is that they argue for the need to conduct *longitudinal* empirical investigations in order to deepen our understanding of how relationships evolve, thus suggesting the usefulness of *partly inductive* approaches. In addition, a focus on *events* is suggested. Most of the empirical papers discussed adopt this research strategy, and argue that although it is a potentially risky and cumbersome one, it is both needed and worthwhile.

According to Ring and van de Ven (1994) a suitable approach to studying process is "to undertake longitudinal research that tracks a set of cooperative IORs in their natural field settings from beginning to end. The actions and interactions of all parties would be recorded as they repeatedly negotiate, make commitments, and execute these commitments in both formal and informal ways over time". Further, they suggest that future research on relationship development should focus on events, "*defined as critical incidents when parties engage in actions related to the development of their relationship*" (1994, p.112), as the unit of analysis. This view is supported by Anderson (1995), who writes "to develop our knowledge sufficiently to meaningfully conduct field-survey, longitudinal research, detailed case studies of customer-supplier relationship development are needed" (p. 349). In addition to focus on events, Doz (1996) suggests that research based on evolutionary perspectives could benefit from a combination of units of analysis at various levels of aggregation (such as individual, organizational, dyadic). Furthermore, Doz (1996) argues that content, context, and process should be blended in order to understand developmental determinants. Sydow and Windeler (1998), who also argue for a combination of qualitative and quantitative approaches, offer a similar view.

Within the emerging relational paradigm in negotiation research, similar views are expressed by Greenhalgh (1995; who fears, as Anderson (1995) does, that this will not happen), Sheppard (1995), and Sheppard and Tuchinsky who argue that "research on relationships will need to be more dynamic, evaluating how both expected and unexpected behavior and decisions at one point influence future levels of trust, social behavior and even the nature of the relationship itself" (1996 p.368).

Thus, the most suitable approach to my research question is do undertake longitudinal, detailed case research, focusing on a chain of unfolding events, allowing for multiple levels of analysis, and incorporating context and previous history.

### **Empirical setting**

The empirical study will be conducted within the Norwegian retail sector. Initially, the retail sector is broadly defined, with several business environments included. Generally, the retail sector has gone through structural changes the last decade, with increasing importance of vertical and horizontal integration. A former emphasis on market interaction has slowly changed towards more durable relationships with a limited number of key exchange partners. The use of arms-length contractual arrangements seems to be challenged by more long-term contractual agreements of a more cooperative kind. However, keeping a competitive edge is increasingly important, and this is likely to cause termination of relationships that do not prove to be economically efficient.

Three cases will be presented. The first is Scandinavia Online (SOL), and their cooperation with Europay related to electronic commerce. The second is NKL (Norwegian co-operative union and wholesale society), one of Norway's four leading grocery retailers, and their cooperation with Lilleborg, a major producer/distributor of detergents and personal products. The third is Esthetique, a perfume retail chain owned by Narvesen, and their relationship to one of their key suppliers, Norelor (L'Oréal).

### **THE STRUCTURE OF THE THESIS**

Before I summarize, I will outline the structure of the thesis.

In Chapter 2 I will discuss the challenges of doing a process study. I discuss the characteristics of process theory and the nature of processual research. Then I turn to clarify the underlying theory of process in this study.

Chapter 3 presents the theoretical foundation of the study. It explains how structures and contracts are related, and identifies different kinds of contracts. Each kind relies on specific mechanisms of governance, which are in turn discussed in detail. A central point is that different mechanisms are combined in long-term contractual relationships. Then I turn to negotiations and behavior in negotiation incidents. First, different perspectives in negotiation research are discussed, and the issue of relationships in negotiations is brought up. It is argued that due to the mixed motives of negotiators, use of different strategies can be expected. Each of these strategies is operated through a set of tactics, which in turn are discussed. Based on recent contributions in negotiation research, it is discussed how mixed motives create tension between cooperative and competitive moves, and that behavior might serve both distributive and integrative functions. Finally, I turn to discuss outcomes. Recent writings on outcomes in relationships both from IOR and negotiation research suggest a multi-dimensional approach.

In Chapter 4 the conceptual model is presented. The model is based on the theoretical discussions in Chapter 2 and Chapter 3. The model combines contract theory and negotiation theory, and explicitly directs attention to the evolution of relationships through a chain of events.

Chapter 5 discusses methodological issues related to the empirical study. Focus is on research design, data collection, data analysis, as well as reliability and validity. As qualitative research "lacks" some of the "standard procedures" for the reporting of methodological issues and

analysis found in much quantitative research, the choices made and steps taken are argued for and dealt with in a detailed manner.

Chapter 6, 7, and 8 presents descriptions of the evolving relationships between Scandinavia Online and Europay, NKL and Lilleborg, and Esthetique and Norelor, respectively. Each case description is followed by a within-case analysis.

A cross-case analysis is presented in Chapter 9. Initially, some basic similarities and differences between the cases are discussed, before I turn to analyzing development and change over time focusing on governance mechanisms and negotiation strategies. Then some common issues found in the case data are discussed. The last section attempts to explore and exploit the data in order to provide additional explanations for the observed alliance dynamics.

The findings from the cross-case analysis are discussed in Chapter 10. In order to develop explanations for the observed interorganizational developmental processes, the findings are confronted with, and discussed in relation to, other conceptual and empirical studies. Basically, the discussion supports the relevance of the perspective taken in the thesis, but also offers extensions and revisions of the theoretical framework developed earlier in the thesis.

Chapter 11 concludes the thesis. The contribution of the thesis is discussed, as well as weaknesses and limitations. Some managerial implications are suggested, before some suggestions for further research are proposed.

## SUMMARY

This chapter has introduced the research question. Based on a review of recent conceptual and empirical contributions on developmental processes in IORs, the study was positioned in relation to contemporary research. As shown, research on IOR developmental processes both in terms of conceptual and empirical contributions are small, but emerging. Contributions seem to be complementary, rather than contradictory, and certain themes and issues seem to emerge as particularly promising for further research. One prominent theme is negotiations. A brief presentation of recent developments in the negotiation literature indicates that relationships have been basically a non-theme in negotiation research, but a relational perspective, or paradigm, might be emerging (at this point, this actually depends on future research).

Theory focusing on the governance of IORs, and negotiation theory, are both theories that seek to explain how two "decision entities" try to make common decisions for the best of both parties. Governance mechanisms (contracts) are theoretically speaking general tools for handling a *planning gap* resulting from incomplete contracting. These mechanisms may be used in different ways for different purposes. However, contractual mechanisms do not act themselves. They represent structural conditions that managers draw upon as they interact in joint decisive events. In these events, managers also adopt certain negotiation strategies in order to achieve some agreement. Thus, joint decisive events are seen as negotiation incidents. Over time, evolution of long-term relationships can be studied as continuous negotiated agreements.



On one hand, theories focusing on the governance of contractual relations have to a very large degree been lacking negotiation as a central process. On the other hand negotiation theory has not been particularly concerned with long-term relationships; far less with governance mechanisms. Arguing that the evolution of long-term relationships is dependent on contractual conditions and negotiations, I focus on the interplay between these over time. By combining contract theory and negotiation theory, I will develop a conceptual framework that explains interfirm development from a perspective neither of our two building blocks could do alone.

To answer my research questions, a longitudinal approach was found appropriate. The findings from the study may be important for several reasons. Theoretically, I contribute in several ways: first, I add another process model to the understanding of how IORs develop (as discussed, there is a need for more process studies on IORs). Second, I may contribute to the understanding of how governance mechanisms and negotiation strategies are used and what consequences such use may have on relationship outcomes and relationship development. Third, in order to understand this I link two research traditions that, taken together, may enhance our understanding of IORs beyond what is possible in each perspective alone. Thinking *practically*, if there are some answers given to these research questions, it may be of importance to practitioners and managers involved in cooperative IORs. These people may be given a chance to add further knowledge on how to make such arrangements work for the best of the participating parties.



## **2: PROCESSUAL RESEARCH AND CHALLENGES OF THE STUDY**

*The first main section in this chapter addresses some key aspects related to the term process, process theory, and the actual conduct of empirical processual research. The terms process and events are defined, and a set of (guiding) assumptions relevant for process research are discussed. The requirements for a processual analysis, and the strategies of induction, deduction, and abduction are then addressed. The second section clarifies the underlying theory of process that the conceptual framework will build upon. Structuration theory is discussed, with emphasis on the duality of structure and the recursiveness of social practices.*

### **INTRODUCTION**

The first aim of this chapter is to clarify some key issues related to the concepts *process* and *event*, to explain some basic aspects of process theory as opposed to variance theory, and present some assumptions for processual research and analysis. As the perspective taken here involves phenomena on different levels, different levels of relationships will be addressed. Further, as the research questions require a blending of inductive and deductive steps, this issue will be discussed.

The second aim is to clarify the *underlying theory of process*. As I have chosen to focus on aspects of both *structure and action*, the processual framework must be open to such a perspective. The theory of structuration will be discussed as it suits my purpose. The framework is due to its abstract nature, best suited a *meta-theory that provides a foundation that other more specific theories (i.e. contract theory and negotiation theory) can be related to in combination* (hence, this will not be a "structuration theory study"). In addition to being an evolutionary framework, which treats agents as purposive and knowledgeable, it offers two core ideas that serve my purpose well. These are referred to as the duality of structure and the recursiveness of social practice. In particular, they provide a logic that can be used to *develop explanations* for developmental processes. As the theory seems "remote" from an empirical point of view, implications for the study will be discussed.

Some aspects discussed in this chapter relate directly to research design and a range of methodological issues. However, these issues will be dealt with in Chapter 5.

### **THE CHARACTERISTICS OF PROCESS THEORY AND THE NATURE OF PROCESSUAL RESEARCH**

Process theory and the conduct of processual research has during the last decade received increasing attention, with an escalating output of textbooks and publications in academic journals (see for instance special issues of *Organization Science* in 1990, *Strategic Management Journal* in 1992, and the *Scandinavian Journal of Management* in 1997). However, as argued in the previous chapter, little empirical research into developmental processes of long-term interfirm relationships has been conducted. Hence, little is known about how these evolve over time. In addition, there is a need to discuss the implications for the actual conduct of process research in this area.

### **Process theory**

The concept *process* is commonly used in the literature, but no single common understanding seems to exist. According to Van de Ven (1992), the term is often used in *three different ways* in the literature. *First*, it is a *logic* used to explain a causal relationship in a variance theory, where the process itself is not directly observed. In traditional variance theory, one seeks to explain the causal relationship between a set of independent variables and one (or several) dependent variable. Although one assumes that the independent variables precede the dependent in time, the time sequences are not of special interest; it is just a theoretical assumption. More specifically, it is assumed that the independent variables occur at time 0 and the (possible) effect in the dependent variable at time 1. However, assumptions related to the order and sequence *in which events occur* are typically highly restrictive and unrealistic (Van de Ven and Huber 1990, Mohr 1982). Focus is on the statistical relationship: which independent variables can statistically explain change in the dependent variable (Mohr 1982). Basically, variance theory deals with *variables* (where the precursor, X, is a necessary and *sufficient condition* for the outcome, Y), *not events*.

*Second*, it is a *category of concepts that refer to actions* of individuals or organizations (such as decision making, strategy formulation and implementation), and that is distinct from other categories of concepts (such as structure and environment). These concepts are measured as variables. In turn, the measured attributes of the concepts take on only one causal meaning in a given study (Abbott 1988). As above, this use of process does not deal with actual unfolding sequences of events.

The *third* way the process concept is used in the literature is different, and more "true" to the meaning of the word, as it refers to a *sequence of events that describe how things change over time*. This definition of process "takes an historical developmental perspective, and focuses on the sequences of incidents, activities, and stages that unfold" (Van de Ven 1992 p.170). Mohr (1982 p.44) expressed a similar view: "loosely, a process theory is one that tells a little story about how something comes about". According to Mohr (1982) there are two critical aspects of process theory: 1) it focuses on a recurrent flow of events, and 2) it explains existence as a result of encounters or re-combinations. Of these two, Mohr regards the second as the more critical one.

### **Definition of process**

In this study, process is defined as *the unfolding sequence of events and (inter)actions in and between organizational parties to shape and modify their (contractual) relationship over time*. It should be noted that this definition does *not* exclude external influence on the relationship and the events encountered, be it through other external relations of an organization, incremental environmental change, or "shocks". What is important is that this external influence must be reflected in events, interactions, or unilateral actions that are relevant for the relational development.

#### *Events and incidents*

As the focus is on events, one needs to have a clear understanding of *what constitutes an event*. In the above definition of process, I have included interaction and actions in addition to events. These terms will be used interchangeably to indicate an event (the conceptual construct in a model) or incident (the empirical observation) (Van de Ven and Poole 1990). Such an understanding of an event does *not require joint interaction*, and (unilateral) actions

are included. It is, however, reasonable to assume that joint interaction in decisive incidents will be typical. Ring and Van de Ven (1994 p.112) suggest the following definition of events: "Events are defined as critical incidents when parties engage in actions related to the development of their relationship". A similar definition will be used in this study, with one crucial difference: the incident does not have to be *critical*. I argue that incidents that are non-critical often can outnumber the critical ones in a given unfolding sequence, and that the cumulative effect of such non-critical incidents might be equally important to consider in a processual analysis. In addition, the term *critical* itself carries a sense of urgency, conflict, and abnormality or unusual conduct. Thus, I view the requirement of critical incident as an unnecessary limitation, and define an event as *any incident where parties engage in, or take, actions of relevance to the relationship*. By using events as the unit of observation, the researcher can focus on both organizational and individual units of analysis simultaneously (Ring and Van de Ven 1994 p.112).

### **Conducting processual research**

The above definitions of process and event have important implications for the actual conduct of process research, such as data collection, the assumptions made, and analysis. These will be discussed below.

#### *Reality "in flight"*

First, the focus on an unfolding chain of events has obvious implications: there is a need for "catching reality in flight" (Pettigrew 1990 p.268). Thus, one needs to observe events and interactions as they *unfold over time*. This could be done in two basic ways: by observing a chain of events in real-time, and by establishing retrospective event histories. Often, a combination of these two approaches is useful, and can be accomplished under financial and time constraints. The researcher can observe the process directly in a field study (see for instance Barley 1990), or use participants as observers and conduct interviews (see for instance Glick *et al.* 1990). Both approaches can make use of additional data sources, such as archival information and other secondary material (e.g. trade statistics and news reports; see for instance Dutton and Dukerich 1991).

#### *Assumptions*

Pettigrew (1997, 1992, 1990 p.269) offers a set of five guiding assumptions for process research. First, he strongly argues for contextualism and *embeddedness* as a principle of method: "A contextual analysis of a process ... draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The vertical level refers to the interdependence between higher or lower levels of analysis upon phenomena to be explained at some further level; ... The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character". Thus, the second is the assumption of *temporal interconnectedness*.

Further, Pettigrew (1992) calls for additional attention to the *enabling* and *constraining* aspects of firms' inner and outer context upon content and process. Building on Sztompka (1991), he states that "exploring the how of social life begins with a theory of *action or agency but with due recognition of the structural framework* within which human conduct takes place" (Pettigrew 1992 p.8; emphasis added). In his development of a theory of *social*

*becoming*, Sztompka (1991) outlines several agential and historical postulates, of which the most important for process scholars are, according to Pettigrew (1992 p.8): 1. Social reality is not a steady state, but a dynamic process; 2. The social process is constructed, created by human agents through their actions; 3. Social life is a process of structural emergence via actions, and the tension between actions and structure is the ultimate moving force of the process; 4. Action occurs in the context of encountered structures, which in turn are shaped; 5. The interchange of action and structure occurs in time and is cumulative, such that the legacy of the past is always shaping the emerging future. Similar ideas are expressed in Giddens works (1979, 1984), that I will return to later in this chapter.

Pettigrew (1992) also argues that one should search for *holistic* (not linear or singular) explanations of process, based on longitudinal research where established (identified) event histories are achieved through combining retrospective and real-time data collection and analysis. Finally, his fifth guiding assumption emphasizes the "need to link process analysis to the location and explanation of *outcomes*" (Pettigrew 1992 p.9).

### *Analysis*

To move beyond producing a mere case history to a case *study* requires (processual) *analysis*. Building on Pettigrew (1992, 1997) three important attempts should be made. First, one should *search for patterns* in the process. If several cases are included, the nature of this pattern should be compared between cases. Second, one should attempt *to reveal the underlying mechanisms which shape and drive any patterning* in the observed processes; "one of the greatest inductive challenges for process scholars" (Pettigrew 1997 p.339). Third, *inductive pattern recognition also has to go hand in hand with deduction*.

### *Interaction, analysis, and levels*

Following from the definition of process, the established understanding of events, and the arguments put forward by Pettigrew, a model of different *interaction levels* in a relationship (Holmlund 1997) appears to be complementary. The models suggest that relational interaction over time occurs on five different levels: *actions, events, sequences, relationships, and partner base*. Holmlund argues that in order to "offer deeper analytical descriptions of business relationships, a ... number of aggregation levels need to be developed" (1997 p.95). The levels she presents are hierarchical, and range from actions within an episode to the entire portfolio of relationships of a particular firm.

Actions may concern any exchange element, and are connected to other actions. In turn, interrelated actions constitute what in the model (see below) is referred to as episodes. An episode can for instance be a negotiation process. Interrelated episodes are correspondingly grouped into a sequence (for instance a campaign period or a project) on a higher interaction level. It is assumed that a higher interaction level represents a larger unit than lower interaction levels, as it represents an aggregate of lower levels.

Holmlund (1997 p.97) writes "sequences may naturally be overlapping in the sense that a firm may have several simultaneous projects with one particular counterpart". I argue that this is an unnecessary limitation, as this might as well be the case with actions and episodes as well, and that overlap of relevance does not have to be related to one particular counterpart. Above sequences is the entire (interorganizational dyadic) relationship. This level comprises all

actions, episodes, and sequences within a relationship. Finally, the partner base represents all relationships of a particular firm.

### E V O L V I N G   S T R U C T U R A L   P R O P E R T I E S / C O N T E X T

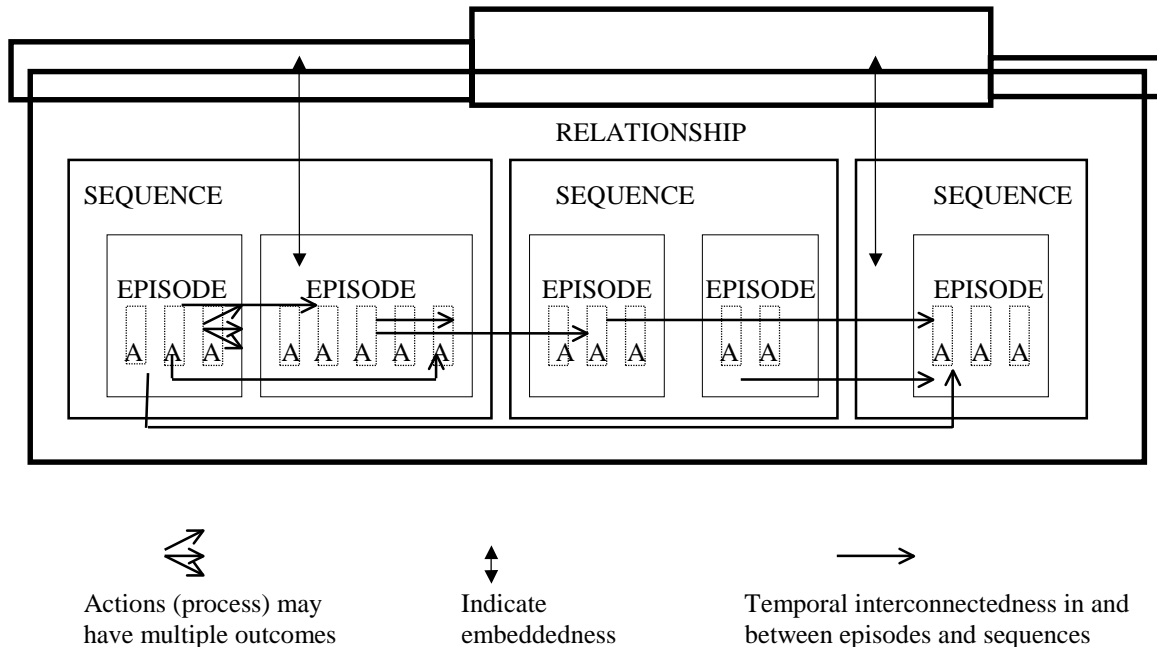


Figure 2: Interaction levels in a relationship (slightly adapted from Holmlund 1997 p.96)

The model, in addition, assumes a dual categorization of interactions on each level into process and outcome aspects. For instance, on the action level, each action entity can be analyzed with regard to a process and outcome component, seen as micro-processes resulting in micro-outcomes. As they add up, episodes comprise a number of micro-processes and micro-outcomes. The same holds for the remaining levels. Following from the identification of outcomes, evaluations can also be made at all levels. However, in long-term cooperative relationships, the sequence and relationship levels seem to be more important than single episodes with regard to evaluations. Adapted to the earlier presented arguments, actions, episodes (and so on) might have multiple outcomes. The (interconnected) interaction levels are embedded and temporally interconnected in intricate processes. In addition, the process is not only formed and shaped by an aggregate of actions, but context and structural properties are accounted for equally.

#### *Induction, deduction, and abduction*

Pettigrew wrote (1997 p.339) "... my own inclination over time has been to increase this deductive component", as a comment to the need for moving between inductive and deductive "modes" of analysis. This implicit former domination of induction might stem from the position of milestone contributions and "open" approaches, such as "grounded theory" (Glaser and Strauss 1967, Strauss and Corbin 1990). However, use of existing theory and building conceptual frameworks in the early stage of the research process is important, as it specifies "what will and will not be studied", and "the framework assumes some *relationships*" (Miles and Huberman 1994 p.18, Yin 1993). Maxwell (1996 p.36) makes similar points, but gives an

apt warning: "... researchers often fail to make good use of theory: by not using it enough and by relying too heavily on it".

The question seems to be *how much* shape should the research (question, design) have prior to fieldwork; tight or loose? (Miles and Huberman 1994). Inductive (loose) and deductive (tight) research is often seen as polar opposites of logic. While inductive research often refers to a research-then-theory-strategy, deductive research refers to a theory-then-research-strategy (Frankfort-Nachmias and Nachmias 1992). Thus, tighter approaches are more suitable for research that draws on initial conceptual frameworks.

Coffey and Atkinson (1996 p.155) argue that both (strict) inductive and deductive approaches can prove "sterile", and that abductive reasoning is "one useful way to think about the process of generating ideas". The term *abduction* (introduced by Pierce; see Pierce 1979) implies examining a set of data in order to suggest a theory that represents the most probable description (or solution) of a phenomenon. Coffey and Atkinson's main point is that abductive reasoning "seems to capture more productively how researchers ... actually think and work. It allows for a more central role for empirical research in the generation of *ideas as well as a more dynamic interaction between data and theory*" (Coffey and Atkinson 1996, p.156; emphasis added). Abduction moves beyond the data themselves, locates them in conceptual frameworks, and is used to stimulate new ideas: "There is thus a repeated interaction among existing ideas, former findings and observations, new observations, and new ideas" (p.156). They conclude "abductive inferences lead us from specific cases or findings toward generic levels that allow us to move conceptually across ... social contexts" (p.162). In other words, abductive reasoning (might) allows us to move from substantive theory (applicable to a particular context) towards a more formal theory (more abstract and generic).

Alvesson and Sköldbberg (1994) concluded that case studies that aim at theory building are mostly abductive, using both empirical data and existing theory. In this sense, the following study is traditional, as I will develop a conceptual framework in the following chapters. Before I turn to this, the next section will serve to clarify the underlying theory of process.

### **CLARIFYING THE UNDERLYING THEORY OF PROCESS**

The above expressed views of process theory and process research correspond to recent models and contributions on development in collaborative interfirm relationships. "From a developmental process perspective", Ring and Van de Ven (1994 p.96) writes, "cooperative IORs are socially contrived mechanisms for collective action, which are continually shaped and restructured by actions and symbolic interpretations of the parties involved. Thus, just as an initial structure (of safeguards) establishes a context for interparty action, so also do subsequent interactions reconstruct and embody new (governance) structures for the relationship" (parentheses added). However, as this literature is limited interorganizational developmental process is not very well understood (Sydow and Windeler 1998). Contributions are, according to Sydow and Windeler (1998), concerned about explaining the emergence of interorganizational relations but *neglects* processes and practices. Further, contributions are concerned with relevant aspects *separately* (such as power, sense-making, economics), and "they either emphasize action at the expense of structure ... or analyze structure while neglecting the strategies and the behavior of agents" (p.265). They argue that a more balanced and integrated view, that focuses on organizational and interorganizational practices and takes



the interplay between structure and action into account, should be adopted. As a solution they suggest that the work of Giddens could be applied, and particularly the *theory of structuration* presented in his 1984 book "*The constitution of society*".

**Linking structure and action: the process of structuration**

Structuration theory (Giddens 1984) focuses on the interplay between what in the social sciences has been described as objective and subjective dimensions of reality. Traditionally, these dimensions have often been treated as opposed to each other, but this view has been challenged (Giddens 1984, 1979, Bhaskar 1979, Bernstein 1978). Central in Giddens contribution is to replace the dualism between structure and action (or agency) with a duality, where they are inseparably interdependent on each other. Thus, two fundamental building blocks can be identified in the theory of structuration: the existence of *structures* that are reproduced, continued, and transmuted by active and purposive *agents*. These two building blocks, and their inherent inseparability, give rise to two fundamental theorems of structuration theory, namely the *duality of structure* and the *recursiveness of social practice*. We shall discuss these in turn.

*Structure - Systems - Structuration*

Underlying the duality of structure are the core concepts of structure, system and structuration, central to the theory of structuration:

Table 1.: Three core concepts (Giddens 1984 p.25)

STRUCTURE(S)	SYSTEM(S)	STRUCTURATION
Rules and resources, or sets of transformation relations, organized as properties of social systems	Reproduced relations between actors or collectives, organized as regular social practices	Conditions governing the continuity or transmutation of structures, and therefore the reproduction of social systems

*Structure*, in Giddens (1984 p.xxxi) words, "is regarded as rules and resources recursively implicated in social reproduction; institutionalized features of social systems have structural properties in the sense that relationships are stabilized across time and space. `Structure´ can be conceptualized abstractly as two aspects of rules: normative elements and codes of signification. Resources are also of two kinds: authoritative resources, which derive from the co-ordination of the activity of human agents, and allocative resources, which stem from control of material products or of aspects of the material world".

Structure, at a given point in time, may be viewed as a *state*. As this structure is drawn upon in social interaction, it is given meaning and enables as well as constrains economic and social behavior. This way it is understood as inherent in *systems* of social action. These systems *act upon the structure* and reinforce or change them. This process is *the process of structuration*.

*Agency and the agent*

The theory of structuration emphasizes human actors and structural features of their environments (e.g. organizations) in a reciprocal interaction: "man actively shapes the world he lives in at the same time as it shapes him" (Giddens 1984 p.21). In this view structural

features are results of previous actions (history dependent), and enable as well as constrain human action. Accordingly, agents can act to change these environmental features (though it may be a slow process), or simply reproduce them.

Man is viewed as a knowledgeable *purposive agent* who monitors his actions over time (see figure below). This monitoring of the ongoing flow of social life is called "reflexivity", and is interconnected with the idea of continuity of social (and inter-/ organizational) practices. In addition to the "reflexive monitoring", rationalization and motivation are central aspects of the actions that constitute social practices, and are embedded sets of processes. Reflexivity and rationalization reflects a practical consciousness of the agent as (s)he takes action, but (s)he is not able to fully control the outcomes of actions as they also (can) produce unintended consequences.

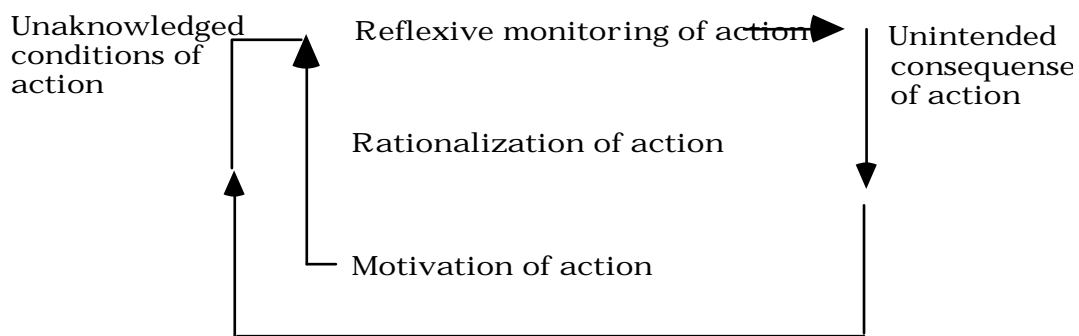


Figure 3: The stratification model of the agent (Giddens 1984 p.5)

#### *The duality of structure*

Structures (and context) are not viewed as mere constraints and barriers to action, but rather interdependent on purposive agents' actions through which they in turn are being reproduced and changed. Similarly, as agents' actions reproduce and transform the structures they take place inside, the reproduced structures in turn enable and restrain further action. Thus, the structural properties co-evolve with developing social praxis. As a consequence, action can and should be analyzed with reference to structures, and structure can and should be analyzed with reference to agency (action). Thus, analysis of interfirm developmental processes "requires investigation of *how structures form from actions and how action flow from structures*" (Sydow and Windeler 1998 p.266; emphasis added).

The process of structuration, in which agents interact with their environments, is *relevant at multiple levels* of analysis. In fact, structuration theory states that, in its most fundamental (and philosophical) sense, *institutional properties* traditionally treated as constraints are dependent on the actions of conscious knowledgeable agents who reproduces and transforms these properties. Turned upside down, actions without structures and structures without actions become meaningless.

#### *The recursiveness of social practices*

Structuration theory focuses on *social practices* (or praxis) ordered across space and time. Actually, the development of social practices is at the core of the theory, where agents have

sufficient power to "make a difference". Following from the view that agents are purposive and interact and draw upon structural properties of their context, social practices are neither random nor purely voluntaristic, but *routinized* and *recursive*. Thus, through regular interaction between agents patterns become established as more or less standardized social practices in and between organizations (that over time become institutionalized; see figure below) These manifest themselves, for instance, as certain manufacturing procedures, give rules for logistics, specific managerial rites, or habitual behavior in dealing with business acquaintances (Orlikowsky 1992, Giddens 1990, 1984, Clark 1990). "... awareness of social rules, expressed first and foremost in practical consciousness, is the very core of that 'knowledgeability' which specifically characterizes human agents. As social actors, all human beings are highly 'learned' in respect of knowledge which they possess, and apply, in the production and reproduction of day-to-day social encounters" (Giddens 1984 p.21-22).

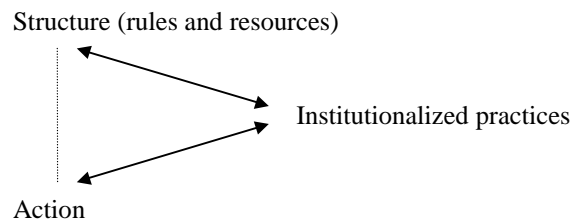


Figure 4: The recursiveness of social practice (Giddens 1990 p. 301)

Giddens also suggests that development of social practices involves integration; "understood as involving reciprocity of practices (of autonomy and dependence) between actors or collectives" (1984 p.28). Two kinds of integration are identified: social integration meaning reciprocity between actors in contexts of co-presence, and system integration meaning reciprocity between actors or collectives across extended time-space.

### Summary

The process of structuration centers on the interaction of individual actors as knowledgeable agents and the structural properties that restrain and enable their actions. Through the actions of agents, patterns of interaction become established as routines, or standard practices, that over time form the structural properties of organizations. These structures may be viewed as states at a given point in time, and they are inherent in systems of social actions and established practices. As these structures enable and restrain social action, they are at the same time reinforced and/or changed by this action. This mutual constitution reflects the duality of structure (see Appendix for additional information on Giddens model of structuration and the dimensions of the duality of structure). Thus, "Giddens overcomes the dualism between objective, structural features of organizations and subjective, knowledgeable action of human agents" (Orlikowski 1992 p.404). In addition, the problem of level of analysis raised by several authors (e.g. Rousseau 1985) is overcome (Orlikowsky 1992), as the theory integrates the institutional (macro) level with the micro level where agents take purposive action.

### Critique of structuration theory

Although undoubtedly a leading contemporary sociologist, whose works have had impact on the course of academic thinking, Giddens has also been criticized. This section will not be an exhaustive touring of the critiques of Giddens works, but a couple of central points relevant here should be made.

In Giddens view, being an actor and exercising agency is inseparable from some sort of power, as the transformative capacity of action logically involves power. Giddens does recognize "no-choice" situations, but does not accept that action is replaced by mere reaction in such situations. "An agent ceases to be such if he or she loses the capability to ... exercise some sort of power" (Giddens 1984 p.14). This view is strongly contended by Margaret Archer who is concerned with the question of structures as social constraints, which she thinks structuration theory does not deal adequately with. Archer (1990 p.81), in direct opposition to Giddens, "maintain that the actors' freedom for action, i.e. their capacity to transform, is logically independent of power, the relationship between them being one of contingency. Thus, while systemic factors can determine a given potential for transformation: ... 2 the exploitation of a given potential may not necessarily involve the use of power; 3 the deployment of considerable power may not actually produce any transformation". Thus, she views structuration theory as over-voluntaristic, as she contends that structures do have independent properties.

Archer's point related to the constraints of structure, and the potentially insufficient power of agents, is not out of place. In the field of interorganizational research, structural aspects and consequences have been of primary interest, and appear to have been a fertile approach. In a recent paper by Argyres and Liebeskind (1999) the term *governance inseparability* is introduced to describe a contractual situation in IORs where certain structures survive and spread as a result of prior contractual commitments, even if organizations have power and/or purposely attempt to change it.

"Giddens is certainly not afraid of terminological innovation, as a glance at the glossary in *The Constitution of Society* ... will confirm", Outhwaite (1990) writes (mainly being a defender of Giddens). However, this aspect is not appreciated by Stinchcombe (1990 p.47), who points out what he calls "rhetorical devices of obscurity". His phrasing is telling of his view: "the systematic avoidance of examples that might tell what the abstract concepts mean; diagrams whose elements are words and whose spatial organization has no discernible meaning; citations almost entirely to work of one's own that is at the same level of abstract emptiness; extremely cryptic references to complex bodies of thought", and so on. He concludes: "what it needs to give it an air of concreteness and reality ... is a set of variables... Giddens has given us a good sketch of what is needed for a theory of institutional dynamics, but has not provided the concepts at lower levels of abstraction" (1990 p.56).

Stinchcombe's critique addresses a key issue. Giddens responded that "structuration theory, like social theory in general, has its own logic and development and ... is relatively autonomous from research" (1990 p.299). Giddens also made a similar point in *The Constitution of Society* (1984 p.326): "The concepts of structuration theory ... should for many research purposes be regarded as *sensitizing devices, nothing more*" (emphasis added). However, this way Giddens avoids a direct response to the (empirical) challenge.

In this study, I will take these cautions seriously, and the concepts of structuration theory will be used as "sensitizing devices". The conceptual framework that will be developed in the next two chapters will be given empirical content by means of *specific theories*. The framework will be based on contract and negotiation theory, theories with strong empirical traditions.

This way I will avoid the problems Stinchcombe raises, but still be able to apply the evolutionary logic and the integration of levels.

### **Adaptation and contribution of structuration theory in this study**

Although the above critiques are harsh, I think that the theory applied as a meta-theory has important contributions, as it is hard to dismiss the main ideas of the duality of structure and recursiveness of social practice. Being sensitive to these contributions has implications for the understanding of IOR developmental processes and dynamics. In addition, structuration theory has been successfully used in the organizational sciences (both in conceptual papers and in empirical studies; see Appendix for examples).

As mentioned, I will take the challenge from Stinchcombe and try to fill the ideas with empirical content. In order to do this, I will in the remaining chapters of this part of the thesis flesh out two empirical research traditions: contract theory - related to the structural aspects and properties of interorganizational relationships, and negotiation theory - related to how agents take action (exercise agency) and use decisive strategies as they interact in order to make joint decisions.

A couple of adaptations might be in place here. First, structuration theory is basically posed at the macro level of society. I will in this study adapt it to an interorganizational dyadic setting. The structural aspects will be related to the dyadic level, focusing mainly on the contractual relationship as a structure for interaction. However, aspects of higher level structures will be taken into consideration where they seem to be relevant. The micro level of action, where agents exercise agency, will be related to the individual and (decisive) group level, whether it involves top management or lower organizational levels.

Finally, Giddens (1984) and Stinchcombe (1990) discuss the term duration (*durée*). I will not take up this discussion and "get lost" in trying to answer how long is long enough, but simply accept the duration the empirical interorganizational settings provide, informants make available, and funding permits.

### **SUMMARY**

This chapter started with a discussion of process and process theory, which led me to define process as *the unfolding sequence of events and (inter)actions among organizational parties to shape and modify a contractual relationship over time*. An event, in turn, was defined as *any incident where parties engage in, or take, actions of relevance to the relationship*. Following this discussion, some guiding assumptions for process research, as presented by Pettigrew (1990, 1992, 1997), were introduced. Key words were embeddedness, temporal interconnectedness, a role in explanation for context (structure) and action, search for holistic explanations, and explanation of outcomes. These suggestions will be taken into account in this study. Then I turned to the issue of processual analysis. In this study we will identify and establish chains of events, search for patterns in the process, attempt to reveal the underlying mechanisms which shape and drive any patterning in the observations by making use of abductive logic.

Building on recent contributions on interorganizational collaborative relationships, as well as Pettigrew's suggestion to focus on structure and action, I presented the main ideas of Giddens

(1984) theory of structuration. This theory shares many of the basic ideas found in Sztopkas theory of social becoming (1991), suggested by Pettigrew (1992) as important to process scholars. Of central importance in structuration theory are the ideas of the *duality of structure* and the *recursiveness of social practice*. Briefly stated, structuration theory meets the requirements, or guiding assumptions, Pettigrew suggested for process research, and suits as an underlying theory of process for the research questions asked and the following study. However, relevant critique of structuration theory was discussed, and implications for the further use and adaptation of structuration theory were outlined.

Van de Ven (1992) made three interrelated suggestions for studying process. The first was to define the meaning of process. The second was "to clarify the theory of process underlying the substantive investigation" (p. 174). The third suggestion was to design research to observe process. This chapter has mainly dealt with Van de Ven's first and second suggestion. Van de Ven's third suggestion (design research to observe process) will be addressed in Chapter 5.

### **3: CONTRACTS, NEGOTIATIONS, AND OUTCOMES IN INTERORGANIZATIONAL RELATIONSHIPS**

*The purpose of this chapter is to present and discuss the theoretical basis for the study. In Chapter 1., three areas of interest were identified as particularly relevant for understanding developmental processes in interorganizational relations: contracts, negotiations, and outcomes. Existing research on interorganizational relations has to a large extent been concerned with structural conditions, and in particular contracts. It is assumed that different exchange structures make use of different contracts, and that each kind of contract represents a distinct mechanism for governance. The first section of the chapter will discuss these, and show how elements from different contracts are used in long-term interorganizational relationships. While governance mechanisms constitute the structural conditions for exchange, negotiations relate to the actions taken within these structures. These actions are enabled and restrained by the structural conditions, which they simultaneously reinforce or change. Depending on what kind of relationship that exists between exchange partners, and to what degree their interests differ, negotiation theory assumes that different negotiation strategies are used in order to reach joint agreements. Thus, negotiations will be addressed in the second section of the chapter. A key point will be to discuss how current perspectives might be used to understand how contracts and negotiations change over time. The third section will be concerned with outcomes. While contract theory assumes that structural conditions (in part) determine outcomes of relationships, negotiation theory (in part) assumes that use of strategies determines outcomes. Although traditional outcome measures have focused on financial measures and quantifiable value, recent contributions in IOR and negotiation research seems to consider alternative models of outcomes. Based on these, an understanding of outcomes relevant for IOR's will be suggested.*

#### **INTRODUCTION**

As presented in Chapter 1, this thesis aims to explore how long-term incomplete contracts are managed as a sequence of decisive events unfolds over time in cooperative interorganizational relationships. In order to do so the evolution and interdependency of contracts and negotiations were argued to be particularly relevant and important in order to understand the outcomes achieved in IOR's.

Although these phenomena have for a long time been separate research traditions, this chapter will argue that they could and should be combined as they represent complementary perspectives on interfirm processes. While contract theory relates to structure, negotiation theory relates to action, and it was argued in the previous chapter that research on developmental processes in IOR should consider both. Conveniently, as discussed in Chapter 1., recent contributions from both interorganizational and negotiation research has argued for similar combinations of perspectives, while others have actually (to some extent) combined them. I will return to these.

This chapter is organized in three sections: Structure as contracts, Action as negotiations and decisions, and Outcomes. Each of these will present relevant theory for the research question that is asked, and explain how each research tradition contributes to increase our understanding of developmental processes in IORs. As both contract theory and negotiation

theory provides partial explanations of the phenomena under investigation, a combined perspective might offer descriptions and explanations of interfirm processes that each perspective could not do alone.

## **STRUCTURE AS CONTRACTS**

Research on interorganizational developmental processes is a relatively new and small body literature both with regard to conceptual and empirical contributions. Common to the literature, though, is that it to some extent builds on established theoretical frameworks dominated by structural variables and static models, such as transaction cost economics (Williamson 1975, 1985, 1996), the political-economy perspective (Benson 1975, Stern and Reve 1980, Arndt 1983), relational contracting theory (Macneil 1978, 1980), and resource dependence theory (Pfeffer and Salancik 1978). Particularly relational contract theory, transaction cost economics, and political-economy models in interorganizational research have been concerned with contracts.

The purpose of this section of the chapter is to discuss the role of contracts and governance mechanisms in interorganizational relationships. Contracts are assumed to provide a framework for interaction between firms, and are designed to meet future decision needs. However, different kinds of contracts regulate future interactions to different degrees, and in doing this, they rely on different mechanisms of governance. Three basic kinds of contracts are often discussed in the literature: market contracts, internal contracts, and relational contracts. The main governance mechanisms these contracts are operated through are price, authority, and trust, respectively. This chapter defines contracts and governance mechanism, describes the three kinds of contracts, and explains how the primary governance mechanisms work. A key point is that in long-term relationships, characterized by a planning gap, the different kinds of governance mechanisms must be integrated in a common framework for interaction, in order to handle uncertainty and meet future decision needs.

The "contract tradition" pointed to above to a large extent builds on a common contractual framework, and a common understanding of the different governance mechanisms. Judging from the research output from these contract-based perspectives, such a view seems to be fertile. Further, they represent a well-established research tradition as much research combines these perspectives. Broadly stated, this study builds on this tradition, extends it, and should be considered complementary. Although alternative conceptualizations of governance mechanisms are suggested (see for instance Grandori 1997, Grandori and Soda 1995), these will not be used as a theoretical foundation in this study, as they to some extent overlap with the view applied here, to some extent are more fragmented than the perspective presented here, and to some extent relate more to network forms of organization.

## **STRUCTURE, CONTRACTS AND GOVERNANCE MECHANISMS**

Structural perspectives have for the last two decades dominated interorganizational dyadic empirical research. Out of this body of literature, a contract perspective has emerged as influential as it has proved to be fertile. With regards to *structure* in this body of research (typically building on transaction cost economics and political-economy frameworks), it is often translated into governance modes, governance structures, contractual forms, contractual regimes, plural forms, or similar conceptual ideas that in turn initiate theoretical concepts,



operational constructs and indicators. Whatever shade this notion comes in, the twin concepts of *contract* and *governance* is a key focus. Below, I will define the term contract, and discuss what is meant by *governance mode* and *governance mechanism*.

A *contract* is defined as "no more and no less than the relations among parties to the process of projecting exchange into the future" (Macneil 1980 p.4). This definition does not exclude short-term relations where the projection of exchange relates to the *near* future.

The concept of contract is closely tied to the idea of governance in the IOR literature. The term *governance* was by Williamson and Ouchi (1981) defined broadly as a mode of organizing transactions. More precisely Palay (1984 p.265) defines it as "a shorthand expression for the institutional framework in which contracts are initiated, negotiated, monitored, adapted, and terminated". Thus, the term governance is multidimensional (Heide 1994). The terms governance, governance mode, and governance structure are all used in the literature referring to this "institutional framework". TCE, for instance, predicts the most efficient governance mode, given a set of assumptions about the agents (bounded rationality, opportunism) and the transaction (uncertainty, frequency, asset specificity). For any kind of transaction, TCE predicts which of *three basic forms of governance structure* is the most efficient: the *market*, the *firm*, or *hybrid* organizational arrangements (Williamson 1991). Firms and markets are seen as opposites along a continuum, representing different modes of governance. In the market mode, transactions are regulated through classical and neo-classical contracts, inside the firm (or in the hierarchical mode) transactions are regulated through internal contracts, and in the hybrid mode relational contracts are important.

Each of these contractual alternatives relies on a distinct and different mechanism, referred to as a *governance mechanism*. The contractual forms found in the market mainly rely on *price* as the key parameter. Internal contracts, used inside the firm, rely on *authority*. Finally, in relational contracts, relational *norms* are the main mechanisms. While governance structure refers to the institutional framework transactions occur within, *governance mechanism refers to the key characteristics, elements, parameters, agency, instrument, means, methods and/or procedures through which contracts are accomplished*.

Giddens (1984 p.xxxi) regarded structures as "rules and resources recursively implicated in social reproduction; institutionalized features of social systems have structural properties in the sense that relationships are stabilized across time and space. 'Structure' can be conceptualized abstractly as two aspects of rules: normative elements and codes of signification. Resources are also of two kinds: authoritative resources, which derive from the co-ordination of the activity of human agents, and allocative resources, which stem from control of material products or of aspects of the material world". Stinchcombe (1990) argued that the concept of structure and the logic of structural transmutation does not translate to empirical variables in the form in which Giddens presents his theory. To meet this challenge, I suggest that the structures Giddens (1984) writes about can be studied at lower levels of abstraction as contracts as they represent "rules and resources recursively implicated in social reproduction". Contracts are "institutionalized features of social systems" that "have structural properties in the sense that relationships are stabilized across time and space". They represent "normative elements and codes of signification", and involve "authoritative resources, which derive from the co-ordination of the activity of human agents, and allocative resources, which stem from control of material products or of aspects of the material world".

Following from the above argumentation, it makes sense to understand (governance) structures in terms of contractual archetypes. Further, it also makes sense to study structures through the mechanisms of governance that the contractual archetypes represent and rely upon.

## **GOVERNANCE MECHANISMS IN INTERORGANIZATIONAL RELATIONS**

Although emerging from slightly different schools of thought, it can be claimed that a contractual perspective has emerged. The roots of this perspective can be traced back to Coase (1937), Gouldner (1960), and Macaulay (1963), whose ideas were further explored by Macneil's writings on relational contracting (1974, 1978, 1980), Williamson's transaction cost theory (1975, 1979; also building on Macneil), and Stern and Reve (1980) who suggested that distribution channels can be analyzed as political economies. Reve later proposed that a firm could be studied as a nexus of internal and external contracts (1990). These theoretical perspectives view contracts as the means through which organizations are established, held together as corporate units, create efficient boundaries, and interact with their environment.

Different kinds of contracts can be identified, and they represent different mechanisms of governance. In this section of the chapter, I will discuss in more detail three archetypes of contracts, and their primary governance mechanism. The key point is that different contracts represent different mechanisms that are designed to manage, or govern, different aspects of organizational action.

### **Contractual archetypes and the governance mechanisms of price, authority, and trust**

The effective boundaries of the firm have been of central concern in interorganizational research. The problem of interest is simply stated: should a firm manufacture certain things in-house, or provide it from an external source? This question is closely linked to contractual perspectives on organization.

One way of external sourcing is through purchasing in the *market*. These purchases traditionally do not involve commitment beyond the actual exchange of money and goods. These transactions are called *discrete* transactions and are regulated through *market contracts*. Another way of providing whatever is necessary is through in-house production, often referred to as a *hierarchical* solution. Typically this means to produce the service or goods with the firm's own internally controlled resources. These transactions are (naturally) referred to as *internal*, governed through the means of *internal contracts*. A third solution is to engage in some kind of durable (e.g. cooperative) relationship with an external source (i.e. an organization). Such a solution is referred to as a *hybrid* organizational arrangement, falling between the market and the hierarchy. Transactions in hybrid solutions are considered *relational*, and are regulated through *relational contracts*. Each of these contracts (market, internal, relational) represents a distinct mechanism of governance. In market contracts *price* is used (incentive mechanisms), in internal contracts *authority* is used (organizational, or hierarchical, mechanisms), and in relational contracts norms and *trust* are used (social mechanisms).

I will now discuss the three different kinds of contracts, the governance mechanisms they represent, and how these might be understood and used as practical management tools. The

discussion will to a certain extent focus on the mechanisms as independent, but their complementarity will also be indicated.

### *Market contracts*

Market contracts, often called *classical* contracts, refer to "relatively short-term bargaining relationships between highly autonomous buyers and sellers designed to facilitate an economically efficient transfer of property rights" (Ring and Van de Ven 1992 p.485). Thus, classical contracts are designed to regulate discrete transactions. Using the word *discrete* indicates that there is "no relation" between the parties except for the immediate exchange. They are limited in time and build on the assumption that all necessary information is known and usually reflected in the price. A discrete transaction "commences sharply by clear, instantaneous agreement and terminates sharply by clear, instantaneous performance; sharp in, sharp out" (Macneil 1980 p.15); or as Ring and Van de Ven (1992 p.486) adds: "sharp out by *pay* and performance" (emphasis added).

Classical, discrete contracts, in their most pure form are considered a "rare bird" in exchanges between organizations (Macneil 1985, 1980). Discreteness separates the transaction from everything else between the parties before, during and after the exchange, and implies that the ideal form is achieved "when there *is* nothing else between the parties, never has been, and never will be" (Macneil 1980 p.60). Macneil (1980) suggested that any contractual exchange to some extent involves one or several common contract *norms*, defined as "a principle of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior" (p. 38). The norms Macneil (1980) discusses are: 1. Role integrity, 2. Mutuality, 3. Implementation of planning, 4. Effectuation of consent, 5. Flexibility, 6. Contractual solidarity, 7. The linking norms: restitution, reliance, and expectation interests, 8. Creation and restraint of power, and 9. Harmonization with the social matrix. Building on these, Macneil (1980 p.59-60) writes "the discrete norm is the product of great magnification of two of the common contract norms: implementation of planning, and effectuation of consent". Thus, because discrete exchange "performs only the transfer of control function and is only minimally related to physical production of goods and services", it is seldom observed in exchange relations (as the other common contract norms typically will exist in the relationship).

Another key feature of classical contracts, implicit in the above discussion, is that they are designed to regulate all possible incidents that might occur. This might be achieved through reliance on external market norms, extensive use of standards, or extensive and vast contract documents.

In a world of increasing specialization, such a relational one-off transfer of property rights (without transaction-specific investments) does not correspond well to contemporary business practice. Being a comparatively rare phenomenon, classical contracts are complemented by another kind of market contract, referred to as *neo-classical* contracts. Neo-classical contracts on the other hand are designed to regulate *recurrent* transactions with some elements of idiosyncrasy, and correspond better to the "real world". However, neo-classical contracts share many of the basic characteristics of classical contracts (they are certain and complete, leave the parties free and equal, rely on societal legal systems) but are to some extent adjusted for repeated transactions (episodic transfer, might entail transaction-specific investments, can have a moderate temporal duration) (Ring and Van de Ven 1992). As they allow for a

temporal duration beyond here-and-now, they involve uncertainty (which might lead to risk) and thus are slightly more flexible. Still, they only provide a framework for predominantly market-based exchange, as "neoclassical contracts are not indefinitely elastic. As disturbances become highly consequential, neoclassical contracts experience real strain, because the autonomous ownership status of the parties continuously poses an incentive to defect" (Williamson 1991 p.273). Macneil (1980 p.72) makes the point: "(neoclassical contract law) can often deal adequately with the more discrete issues in contractual relations. But when discrete and relational principles conflict, neoclassical law lacks any overriding relational foundation".

Use of market contracts will typically be related to sale or purchase of clearly defined goods or services in a known (short) period of time. These transactions are likely to involve standard products with low levels of uncertainty (Haugland 1994). As complexity increases, neoclassical contracts soon become less efficient, because the specification of eventualities becomes an expensive and ultimately "impossible" task.

*Economic mechanisms: Price and incentives*

The central mechanism in market contracts is *price*. The price is assumed to reflect all information relevant to the exchange, and is the main (and often the only) decisive variable whether to engage in an exchange relation or not.

Most basic to all cooperative strategic behavior is the economic foundation of the relation (Williamson 1991b), at least in an efficient resource allocation perspective. Market contracts are designed to deal with this resource allocation aspect, and will often do this efficiently, because the price mechanism is central and directly related to economic measures. Under traditional market governance, the price or incentive mechanism, is of short-term nature and tied directly to the completion of a transaction (Heide 1994, Ring and Van de Ven 1992).

How can *price* be understood in an IOR setting? Obviously, "price only as price" is central because it is a directly observable cost, and/or represents the ultimate measure on performance in the form of revenues and profits. However, the term price is also used as a "flagging term" indicating something more than a given monetary measure. To understand what is meant by the key term price, it would be more meaningful to use the term (economic) *incentives*. One reason can be that there exists strategic pricing in the market; pricing that does not reflect the total contribution to the exchange (Rognes 1994a). Another can be *sequential contribution* demanded due to complex specifications or change in performance. Others could be the existence of *quantity discounts* and *annual rebates* with fixed intervals based on accumulated expenditure, a practice commonly used in many sectors of the economy. Another economic element closely related to price is the possibility of *delayed payment* (maybe as long as two months or more). This is a question of *interests*, and can be viewed as a "hidden" element of price. Other elements can be short *delivery time*, meaning that your supplier keeps *inventory* for you. Information technology consultants may sell information systems with free *support*, and one can easily imagine free or discount *updates* (e.g. for software). In addition, Heide (1994) mentions *two-party tariffs*, *royalty payments*, and functional incentives as for instance *cooperative advertising*. These examples are some common incentives widely used in business. It is not intended as a "complete" list; rather it is intended to explain different uses of incentives regulating exchange between firms, and provide a set of practical and understandable indicators that translate well to an empirical context.

Table 2.: Indicators of "Price"

ECONOMIC INCENTIVES
Price
Bonuses, discounts, rebates
Sequential contributions
Advertisements
Delayed payments and interests
Delivery times and inventory
Support and updates
Royalties
Etc.

This suggests that *price* as a governance mechanism in IORs should be understood as more contextually embedded (or connected if one prefers) than price in a (spot-) market. Price, then, must be understood more broadly as *economic elements and incentives* relevant to the exchange.

The meaning and content of the incentive mechanisms change under long-term bilateral governance. As Heide (1994 p.77) writes: "... incentive systems become inherently long-term in nature, and parties could forego present rewards on the basis of expectations of long-run equity". This means that the different economic indicators are given relative weights that differ with respect to expected temporal duration, and that indicators included in short-term assessments are excluded or minimized in long-term evaluations. At the same time, the parties must be certain (at least to some extent) that the same solutions could not have been reached more efficiently through traditional market contracts (Rognes 1994a, Ring & Van de Ven 1992, Williamson 1991b). In long-term relations, there will often exist intentions and underlying concerns that price is unable or insufficient to handle. Exchange becomes more complex and intertwined, and the price mechanism must be complemented with additional mechanisms as it only mirrors some aspects of the exchange.

#### *Internal contracts*

Internal contracts differ from market contracts in many ways, as they refer to *intraorganizational* contractual relations. The typical example is employment contracts (Kalleberg and Reve 1993, Ring and Van de Ven 1992, Stinchcombe 1985), but the term also includes corporate inter-division and within-division exchange relations (Altenborg 1997).

Internal contracts can be used to take care of conditions that the market cannot deal with efficiently. Instead of making purchases in the market, the input factors are provided through on-going production. This may be due to several causes such as lack of information, high degrees of uncertainty, levels of idiosyncrasy the market cannot deliver efficiently, and difficulties related to performance measurement. This may demand employment of competent and skilled workers, and investment in necessary machinery and hardware. Often these work processes will be highly complex and have significant importance to the organization, causing

a desire to secure the supply. As opposed to market-based contracts, employment contracts typically have an indefinite time horizon.

The internal organization as a way of providing whatever is needed includes the traditional hierarchical administrative structure and *authoritative* mechanisms at hand as governance tools. Williamson (1985, 1991) refers to this as unified governance. This implies relationships between supervisors and subordinates of unequal legal status, where conflict is resolved through fiat and authority (Ring and Van de Ven 1992).

Through the means of organizational *rules, procedures*, and "pure" *authority* the management is in control of the internal resource allocation. This may be necessary to stay viable, because market solutions may impose unnecessary vulnerability to external (market) conditions. Internal contracts typically also involve mechanisms of governance found in market contracts and relational contracts (that I will turn to next), such as common and relational norms. For instance, employment contracts involve incentives in the form of wage agreements (representing a price for the labor). Further, employment contracts also involve role integrity and some degree of commitment. However, the distinct and dominant mechanism of governance found in internal contracts is authority (the possibility for higher level managerial interference). Also inter-division and within-division contractual relations might build on several aspects from market contracts and relational contracts. For instance, internal transfer prices reflect the main mechanism found in the market, but internal prices might deviate from those found in the market. For instance, the price mechanism inside firms may be cost-based, or set administratively where also other concerns are taken into account.

#### *Hierarchical mechanisms: Authority*

By hierarchical mechanisms, I refer to mechanisms related to the concept of authority. As discussed, the term indicates supervisor-subordinate relationships where decisive power, rules, and procedures are key indicators. Authority in an organizational sense means decisive *power*; an ability to *allocate* resources; to use *rules* and *regulations* and being able to in some sense put *sanctions* behind them, and to have things done certain ways.

According to Kalleberg and Reve (1993), employment contracts are constituted from several components: economic-technical and social-political conditions, control systems, incentives, organizational commitment, and contractual context. These components are related to the hierarchical nature of traditional organizations (even incentives, as they include career opportunities). Internal trade contracts as opposed to employment contracts often focus more on incentives in the form of internal transfer prices (Bradach and Eccles 1989). However, being internal to a particular firm the mechanisms of authority are present: "Transfer-pricing *policies* provide a crystal clear example of how price and authority can be intertwined" (Bradach and Eccles 1989 p.102, emphasis added).

Use of authority can be related to the inability to plan ahead and to specify the final product at the time of the initial contractual engagement. Other reasons can be problems in specifying development and production costs, or inability to measure performance or certain aspects of the product. Economic theories of organization (Coase 1937, Williamson 1975, Teece 1976) have assumed that when performance is difficult to specify in advance and to measure, and/or the costs, prices, and quantities are uncertain at the time of performance, the hierarchy is

preferable to the market due to high costs of negotiating a contract, implementing enforcement, and making adjustments.

A solution to these problems is to build *elements of authority* into the contractual relation. Stinchcombe (1985 p.122) argues that "performances can be adjusted to changing situations by contractual means; administration of performances can be set up by other kinds of contracts than labor contracts", and identifies "structures that work like hierarchies out of contracts between legally equal corporate bargaining agents in a market". Thus, elements of hierarchy are built into contracts obtained through the market. Stinchcombe (1985 p.126) describes such a structure as "a structure with legitimate authority, with a manipulable incentive system, with a method for adjusting costs, quantities, and prices, with a structure for dispute resolution, and with a set of standard operating procedures". Such structures are not found in traditional market contracts, and look more like a hierarchy. Stinchcombe (1985 p.156) uses the term "hierarchical elements" (quotation marks in original), and identifies five elements: 1. Command structures and authority systems, 2. Incentive systems, supporting authority (control) systems and also guiding the use of a contractor's discretion by a structure of differential rewards (motivation) partially isolated from the market, 3. Standard operating procedures, which describe routines that involve actions by both contractual parties, 4. Dispute resolution procedures, primarily through private ordering (partially isolated from the court system and the market), and 5. Pricing of variations in performance partially isolated from the market, or when relevant market comparisons do not exist. These include the (traditional) elements of *formalization* and *centralization*. Further it captures an ability to *monitor* and *control* behavior, outcome, or both. Authority may also come from *superior competencies* that professionals or professional groups have. In this sense, the notion of authority must also be given a meaning wider than the word itself. In addition, if an interfirm relationship consists of multiple contracts, the contractual parties can order the contracts hierarchically by assigning priority to each contract relative to the others.

Thus, we may specify a list of indicators related to authority (which is not intended to be complete):

*Table 3.: Indicators of "Authority"*

HIERARCHICAL AUTHORITY
Supervising
Decisive power (allocative authority)
Rules
Regulations
Sanctions
Formalization
Centralization
Monitoring / Control
Superior competencies
Procedures
Standards

A well-known business practice that can serve as an example of integration of hierarchical mechanisms into market contracts is franchising. Franchising is usually a plural form model of organizing, with both company-owned units and franchise units linked to the firm through long-term contracts. Franchisees are not independent, as hierarchical authority given to the franchiser governs many of the franchisee's decisions and actions. Typically the contract specifies in great detail how the franchise is to be run (Bradach & Eccles 1989). This way the establishment of a cooperative relation governed (partly) through traditional organizational principles becomes an alternative to internal organization (through ownership).

The use of such elements must be understood as situational. One good illustration that authority is contextually embedded is Cyert & March's (1963 p.230-231) discussion of *appropriateness*: " ... an alternative decision logic - the logic of appropriateness, obligation, identity, duty and rules. Much of the decision-making behavior we observe reflects the routine way in which people do what they believe they are supposed to do. Standard operating procedures, professional standards, cultural norms, and institutional structures specify much of the behavior in an organization. Decisions in organizations, as in individuals, seem often to involve finding "appropriate" rules to follow. The terminology is one of duties, scripts, identities, and roles rather than anticipatory, consequential choice. .... Rule-following can be viewed as contractual, an implicit agreement to act appropriately in return for being treated appropriately".

#### *Relational contracts*

Relational contracts aim at regulating the parties future relations without knowing how the development will be like, and thus without accurate prescription for how the relation should be regulated and managed. They are designed to regulate *moderate to long-term relationships* that can be described as uncertain, lacking information about future contingencies, and (highly) complex and they are based on a continuous mutual adaptation between the contracting parties.

In relational contracts the relation between the parties is *the* central concern; it is the development of the relation that decides how transactions should be implemented (Macneil 1978). The uncertainty related to future interaction is secured through techniques and procedures that intend to solve the parties intentions. This can include the use of standards or third parties, but most likely through private ordering by means of *flexible administrative mechanisms* (Ring and Van de Ven 1994, Williamsson 1986).

The theory of relational contracting (Macneil 1980) argues that *political and social processes internal to the relation govern the development, change and adaptation*. Specific events are not attempted solved or planned *ex-ante*; one tries instead to put certain bonds on the handling of events, situations and conflicts that may arise as the interaction stretches out in time. Market contracts can be understood as a *bundle of decisions* that may come into effect given ("if, and only if") the occurrence of a given set of circumstances (planned for). In contrast, relational contracts can be understood as a *chain of committed decisions* through time (long-term). Most important to make such contracts work is the ability of the parties to adapt mutually. The reason for this is the inability to plan for the whole contract period; there exists a *planning gap*. Relational contracts represent sustained production and transfer of property rights, as opposed to the one-off situation in classical contracts. Varying degrees of transaction-specific investments can be found, and learning in the relation- and trust-based



conflict resolution procedures attempt to secure the parties' intentions. However, safeguards can be used to secure investments (Ring and Van de Ven 1992).

To understand how the contracting parties relate to each other under relational contracting, we can go back to Macneil's (1980) common contract norms; "... the relational norms reflect intensification of common norms ... primarily in respect to role integrity, contractual solidarity, and harmonization with the social matrix, but the nature of other contractual norms is also affected by relational contexts. Flexibility, for example, is, in relations, an internal norm, and hence now in partial internal conflict with the planning and consent norms. And mutuality must be tended internally lest the relation break down. Similarly, power too becomes a subject of great internal concern in relations" (p.65). From this, Macneil (1980) identifies what he sees as the main relational norms: 1. Role integrity, 2. Preservation of the relation, 3. Harmonization of relational conflict, and 4. Supracontract norms. Conflict resolution must be dealt with effectively in order to prevent negative impact on the relation, and ultimately threaten and destroy it. Conflicts are not necessarily an undesirable situation; what is important is to be able to settle them. As role integrity also includes an element of individual and organizational utility enhancement (or pursued self-interest) mutuality and reciprocity is important in order to avoid a situation where one party feel directly exploited. Solidarity is important to the *preservation* of the relation into the future. Finally, personal relations are important because patterns of interactions between organizations become established through the actions of individual agents. *Interactions of agents then becomes important* to keep the relational contract "on track", workable, and attractive to the individual(s) and organization(s) that pursue it. However, "if the individual norm threatens the whole structure then the collective preservation norm must win out" (Macneil 1980 p.67).

*Social mechanisms: Trust and norms*

"How can people regularly do business on the basis of "we accept, but do not accept"?", Macneil asks (1980 p.74), and answers "They can do so only because they trust each other". Relational contracts are largely based on *social* mechanisms where *trust* is a key dimension. Trust is highly dependent on the relational *norms* that exist and develop between the parties, and functions as a general governance mechanism (Ring & Van de Ven 1994, Powell 1990, Granovetter 1985, Macneil 1980).

Trust in this study is defined as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (Rousseau *et al.* 1998 p.395). Macneil defined norms as (1980 p.38) "a principle of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior". In this sense *trust* and *norms* seem to be very close concepts, with the consequence that one can view *norms and trust as socially based governance mechanisms*. Macneil's definition of norms is close to Giddens understanding. Giddens states (1984 p.30) that "normative components of interaction always center upon relations between the *rights* and *obligations* `expected' of those participating in a range of interaction contexts".

Trust has been conceptualized in many ways, and often involves different kinds, or levels, of trust (see Rousseau *et al.* 1998 for a review). For instance Shapiro, Sheppard and Cheraskin (1992) discuss deterrence-based trust, knowledge-based trust, and identification-based trust, which they argue are hierarchically ordered. Ring and Van de Ven (1994) identify two views of trust: a calculative view (or business risk view) based on confidence in the predictability of

ones expectations, and a view based on confidence in another's goodwill. Others draw on ideas of informed self-interest (Axelrod 1984), separates between conditional and unconditional trust (Jones and George 1998), or discuss institution-based trust (Gulati 1995). In order to respond to all the different views (and so forth) of trust, I will use the dynamic view of trust development suggested by Rousseau *et al.* (1998 p.401), shown below:

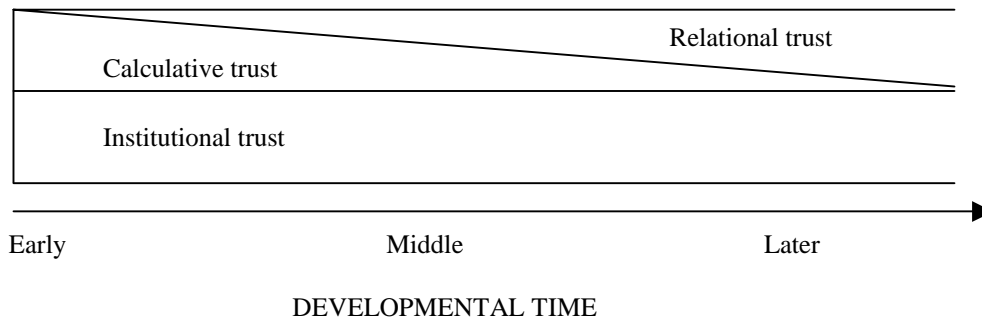


Figure 5.: Three basic forms of trust

The model suggests that due to reputation effects, present at the organizational level or for instance in a teamwork culture, relationships can form in the first place. This reflects existence of institutional trust. Based on this, initial interpersonal trust emerges. Early in a relationship, this trust is more likely to be calculative-based. As interaction takes place over time, relational trust evolves and most likely increasingly replaces the calculative-based trust as the parties learn and share knowledge.

The distinction between inter-*organizational* trust and inter-*personal* trust is important, and is addressed empirically in a study by Zaheer, McEvily, and Perrone (1998). Their data shows that the two concepts are associated with each other (positive relationship) in interfirm dyads. However, they have different implications. While they found a negative relationship between inter-organizational trust and costs of negotiation between the partners in the exchange, the same negative relationship between inter-personal trust and costs of negotiation between the partners to the exchange was not found. Further, while they found a negative relationship between inter-organizational trust and the level of conflict in the exchange relationship, they found a *positive* relationship between inter-personal trust and the level of conflict in the exchange relationship. However, they found no negative relationship between (supplier) performance and the costs of negotiation or level of conflict. Overall, their findings show that trust in interorganizational exchange relations matter. Thus, trust is both related to *collective units*, characterizing the relations among groups of people, and *individuals*.

The table below sums up my discussion of governance mechanisms in relational contracts.

In addition, Macneil (1980) stresses the importance of supracontract norms; norms that are not particularly contractual. As exchange relations expand, they adopt the characteristics of minisocieties. In such ongoing relations "we find such broad norms as distributive justice, liberty, human dignity, social equality and inequality, and procedural justice, to name some of the more vital" (Macneil 1978 p.898). Thus, the contextual nature of norms should be evident.

Table 4.: Indicators of "Trust"

NORMS AND TRUST
Acceptance of vulnerability
Harmonization
Personal relations
Role integrity
Preservation
Solidarity
Reciprocity
Flexibility
Mutuality
Adaptation
Expectations

Trust and norms as governance mechanisms have received considerable conceptual and empirical attention, often based on Macneil's (1980) theory of relational contracting, Gouldner's (1960) discussion of the norm of reciprocity, and on Macaulay's (1963) contribution on the importance of personal relations (see for instance Heide 1994, Haugland and Reve 1994, Heide and John 1992, Ring and Van de Ven 1992, Kaufmann and Stern 1988). Much of the recent literature on trust seems to be more concerned with the concept of trust as such and not particularly in relation to other mechanisms of governance. Examples can be found in Kramer and Tyler's (eds.) 1996 book "Trust in organizations", and in The Academy of Management Review special issue on trust in and between organizations (edited by Sitkin, Rousseau, Burt and Camerer 1998). The concept of mistrust is also discussed in the literature (e.g. Sitkin and Stickel 1996, Brandenburger and Nalebuff 1996, Bigley and Pearce 1998), although to a much lesser extent. While trust can be defined as "confident positive expectations regarding another's conduct", distrust is the opposite: "confident negative expectations regarding another's conduct" (Lewicki, McAllister, and Bies 1998 p.439). Thus, they argue that trust and distrust are separate but linked dimensions. In the following, I will focus on trust and not be concerned with the concept of distrust.

Axelrod (1984) offers an alternative explanation for the foundation of cooperation, stating that the (expected) durability of the relationship, not trust, is the explaining condition, along with the identifiability. A recent study by Hackett (1994), using experimental methods as Axelrod (1984) did, finds that relational contracts *are* achieved even in settings where frequently repeated contacts are absent (no durable relationships). This evidence may suggest that I should stick to "trust, good faith, and norms", leaving Axelrod's durability thesis for further exploration. However, I assume that both expected future encounters and norms are important.

### **INTEGRATION OF MECHANISMS IN LONG-TERM CONTRACTS**

Although the mechanisms of governance were discussed mainly as separated from each other, their relatedness is obvious. Empirical research, particularly within the relational contracting paradigm (based on Macneil 1978, 1980, 1985) and the political-economy framework (Stern

and Reve 1980, Achrol, Reve and Stern 1983, Arndt 1983), has been concerned with how different governance mechanisms are related, with conditions facilitating relational contractual norms, the effects of relational norms, the relationship between governance structure, transaction climate, and performance, and conditions facilitating tight versus loose governance structures (see Rokkan 1995 for an extensive review). However, the dynamic aspects of governance mechanisms and their development have received little attention.

In a review article, Bradach and Eccles (1989) argue that price, authority, and trust are independent governance mechanisms that can be combined in a variety of ways, depending on the nature of the transaction, the exchange relationship, and contextual factors. Building on "make-or-buy" studies, and the empirical evidence of "in-between" organizational forms, they start to show how the mechanisms of price and authority are combined in transactions. As discussed earlier, price mechanisms are sometimes built into hierarchies, and authority mechanisms are sometimes built into contracts emerging from market based exchange. Ring and Van de Ven's (1992) discussion of recurrent contracting transactions rooted in neo-classical contract law, implies at least some degree of trust and norms in addition to the price mechanism, as they argue that "some contingencies may be left to future resolution" (p.487). Further, reputation effects in the market might bring institutional trust into existence (Rousseau *et al.* 1998). Eccles (1981) documents combinations of price and trust. An example given is "quasifirms", where a subcontractor follows plans and specifications in fixed price contracts in the construction industry. Still, such contractor-subcontractor relationships were stable up to 37 years due to experience and trust. However, they periodically tested the market to solicit competitive bids. As a result, the mechanisms of price and trust are combined. Das and Teng (1998) argue that adequate levels of *confidence* in cooperative alliances are necessary, and identify two sources of confidence: trust and control. Means of control involve the mechanism of authority, and thus represent a pair-wise combination.

A central point in Bradach and Eccles (1989) argument is that price, authority and trust are *intertwined* mechanisms. Particularly, they use this point to develop the idea of "plural forms". Plural forms refer to an organizational arrangement where distinct mechanisms are used "simultaneously for *the same functions by the same firm*" (p112). The basic argument is that "transactions controlled by one mechanism are profoundly affected by the simultaneous use of an alternative ... mechanism" (p.112). By operating two distinct mechanisms, a firm is informed about the costs and efficiency of alternative modes of organization. This information is used to play these modes off against one another, "creating in essence competition between them" (p.113). Dutta, Bergen, Heide and John (1995) tested and found support for the plural form argument in a study of dual distribution (simultaneous use of an independent rep system with a company operated "house account" system). However, they argued that trust is not a necessary variable to explain plural forms, an argument they found support for. Based on empirical examples given by Bradach and Eccles (1989) and Dutta et al. (1995), plural form organizational arrangements require only two distinct mechanisms.

In line with Bradach and Eccles (1989), it is assumed in this study that in IORs we will find *elements from all* these governance mechanisms. The main reason is that each of these mechanisms takes care of certain aspects of the relation. Therefore, it is important to combine these elements in such a way that they are designed to match the actual contractual relation and the intentions behind this. Thus, governance mechanisms should be understood more contextually dependent than they traditionally have been. Further, they should not be viewed

as static, but dynamic. Although contractual relations might be stable for some time (typically for shorter periods of time), at least certain aspects are likely to change over time, incrementally, critically, or through shocks.

This view has received further conceptual support. Ring and Van de Ven (1992) discussed four structural forms, referred to as discrete, recurrent, hierarchical, and relational exchange relations. However, their discussion implies that exchange relations can move between these different forms, and that e.g. the development of relational contracts is a dynamic process moving from discrete to recurrent to relational, or that firms move from hierarchical governance to recurrent or relational contracting (for instance in the case of outsourcing). Thus, they indicate a more dynamic view of IOR processes, a view they elaborate on in a subsequent article (Ring and Van de Ven 1994). In this paper, they argue that as relational contracts develop, evolve and dissolve over time, both structural and processual aspects change. Heide (1994) develops a governance form trichotomy, arguing for a distinction between market and non-market governance. Non-market governance can again be divided into unilateral (hierarchical) and bilateral (relational) governance. However, Heide (1994 p.81) argues that "the three governance forms presented are second-order constructs, and are defined *in terms of particular constellations of processes*, such as relationship initiation, maintenance, and termination", and that "within a given relationship, processes from different governance forms can be combined in different fashions" (emphasis added). Heide also points out that evidence shows that individual relationships are embedded in other relationships, and that this might have governance implications. Such implications are discussed by Argyres and Liebeskind (1999 p.49), who argue "that the governance of any new transaction in which a firm may seek to engage may become linked inseparably with the governance of other transactions in which the firm is already engaged". This, in turn, leads to a condition they refer to as *governance inseparability*, "a condition in which a firm's past governance choices significantly influence the range and types of governance mechanisms that it can adopt in future periods. Governance inseparability .... may constrain a firm from *switching* from one governance mode to another for the same type of transaction (or) ... may obligate a firm to use an existing governance arrangement for a new transaction, even if that particular transaction would be governed more efficiently by other means".

Empirical support is also given. For instance, Larson (1992) found that firm and personal reputations were important preconditions in the formation of network dyads. In subsequent phases of dyad formation, economic and hierarchical elements were important conditions to build the relationship. Ultimately, social means of control (trust and reciprocity norms) in the dyad became important mechanisms of governance. This indicates that price, authority, and trust are intertwined mechanisms. Empirical support is also given by a study by Haugland and Reve (1994). They argued that price, authority, and trust represent different governance mechanisms, which can be combined into a *governance vector*. Overall, the data supported that price, authority, and trust can be used in different combinations. Building (in part) on Ring and Van de Ven (1994), Ariño and de la Torre (1998) show in a longitudinal study that changes, learning, and assessments in alliances over time cause corrective actions. Corrective actions can be unilateral reactions and change in behavior and/or readjustments of contribution and distribution rules (feeding back to re-evaluations), or termination. However, attempts to restore balance in the relationship also included renegotiations of the terms of the contract. Finally, Zaheer and Venkatraman (1995) developed a model of relational governance based on transaction cost economics (Williamson 1975, 1985) and sociological exchange

literature (Granovetter 1985, Powell 1990, Ring and Van de Ven 1992), focusing on quasi-integration (structure) and joint-action (process). By building on sociological exchange literature and contributions on relational governance (Macneil 1980, Dwyer, Schurr and Oh 1987), trust as a governance mechanism complements the ones that are found in markets and hierarchies. Interestingly, they tested their governance model with and without the "sociological variable" (trust). They hypothesized that "a model of quasi-integration that includes variables from both the economic and sociological perspectives will have significantly increased explanatory power compared to a model that includes only the economic variables", and received significant support. Discussing their findings, they write the following: "Our contention is that conceptualizations of governance, especially pertaining to interfirm relationships, should extend beyond the traditional structural aspects to begin including processual elements ... Our results suggests that merely *adopting an appropriate governance structure may not lead to the required process outcomes of governance, for the governance structure explained only a small amount of variance in governance process*. A dynamic view or the role of trust in relational governance asserts that recurrent transactions may provide a context for the development of trust over time" (Zaheer and Venkatraman 1995 p.388).

I suggest that the discussed governance mechanisms will not consist of a fixed relative combination of elements; *the elements will act with varying importance and in different combinations as the relation evolves and unveil a chain of situations and circumstances with decision needs and potential discrepancy between the parties*. Thus, not only trust and norms will be developing over time; all the main governance mechanisms are likely to develop in a dynamic fashion in relation to each other. Stated differently: in different decision situations different mechanisms may be important; some may be relevant and primary and some may be irrelevant and secondary. Over time their sum will not be constant; in some situations we may see extensive use of all three, in others we may see a strong reliance on one of them, and yet in other situations we may observe very limited use of all. Any long-term involvement will experience different phases where different challenges must be met and solved. These situations are likely to require different aspects of governance: this means different vectors of price, authority and trust.

When contractual relations are long-term, complex, and uncertain about future development, traditional market contracts have outplayed their role. The result is a need to use authority and trust-based mechanisms in order to increase the necessary flexibility. The result is a combined solution that represents a more flexible governance mechanism than each of the elements alone or in pair-wise combinations. A consequence of this is a need to act in solidarity, and to avoid sustained exploitative action from one party. The parties must fulfill their respective roles in the relation, and develop a set of common norms and understanding of what is going on, and seek to develop effective conflict resolution procedures. However, the economic foundation is equally important, and cooperative relations are most likely to include some elements of hierarchy (as for instance meetings on managerial and operative levels, with some distribution of decisive authority between them, and with a set of procedures for efficient coordination – making it all more easy).

The governance mechanisms that are created in the initial agreement will most likely be reinforced and re-created through their use in the relation; we should think of them as contextually contingent, and even in a sense also "negotiated" themselves.

### **Summary**

In this section of the chapter, I have discussed the concept of structure (as it was treated in chapter 2) in relation to the concept of governance. It was argued that the concept of structure could be translated to *contracts* and *governance mechanisms*. Three basic kinds of governance structure were introduced: the market mode, the hierarchical mode, and the hybrid mode. It was argued that each governance mode was closely related to one of three distinct kinds of contract: classical and neo-classical contracts, internal contracts, and relational contracts. Each of these contractual archetypes relies on distinct mechanisms in order to be accomplished. It was shown that market contracts rely on price and economic incentives as main mechanisms. Internal contracts were shown to comprise (traditional) hierarchical and authoritative elements as the distinct mechanisms, while relational contracts depended on common and relational contract norms and trust.

Then I turned to discuss how different contractual aspects are combined in long-term contractual agreements. It was shown that in order to achieve their goals, cooperative long-term relationships use elements from all three kinds of contracts. Because initial contractual frameworks typically are characterized by a substantial planning gap, and because the different mechanisms of governance are designed to handle specific aspects of a relationship, a *combination of mechanisms* is necessary. Through the combination of mechanisms a framework that is sufficiently flexible might be created. Such a framework represents a management tool that makes the planning gap manageable as the relationship develops into the future.

### **ACTION AS NEGOTIATIONS AND DECISIONS**

The aim of this section of the chapter is to establish some conceptual ideas related to action in terms of negotiations and decisive events. The section starts with an argument for the relevance of negotiations, and I identify different kinds of negotiations that occur in IORs. Then I will turn to discussing what negotiations are, and how current paradigms in negotiation research have emerged. Negotiations, concerns, strategies, and tactics will be related to IORs, and I will discuss how structural conditions influence negotiations and the principle dynamics of single negotiating events. Finally, a process view of negotiations will be presented.

#### **The relevance of negotiations**

Again, this thesis aims to explore how long-term incomplete contracts are managed as a sequence of decisive events unfolds over time in interorganizational relationships. In addition to the evolution of governance mechanisms, the evolution of negotiations was argued to be particularly relevant. Sheppard and Tuchinsky (1996 p.338), discussing hybrid exchange structures, underline negotiation as a "paramount mechanism for decision making. Bargaining is the sine qua non of interfirm decision making". Thus, while governance mechanisms represent structural conditions for exchange, negotiations represent the (decisive) actions necessary to realize the intentions in the agreement.

Arndt (1979) suggested that negotiations in IOR's occur at three levels: on a transactional level, on a contractual level, and on a structural level. He explains them in the following way: "Transactional negotiations are of a tactical nature, and do not commit the parties involved beyond the particular order or transaction in question. Contract negotiations cover the terms or framework for transactions over a given time period, such as may be found in subcontracting

and franchising. Finally, structural negotiations are strategic as they apply to the form and intensity of long-term and deeply committing interorganizational relations" (p.70).

Recent (mainly conceptual) contributions have from different perspectives tried to combine insights from interorganizational and negotiation research, as the potential for cross-fertilization between these two research traditions seems promising (Larsson *et al.* 1998, Kumar and Nti 1998, Dabholkar *et.al.* 1994, Ring & Van de Ven 1994, Rognes 1994, Graham 1987). However, conceptual and empirical contributions have rarely adopted a *contract and negotiation view* on evolving IOR's. An exception is Ring and Van de Ven's (1994) model of relationship development that focuses on process through recurrent stages of negotiations, commitments, and executions. With regard to the negotiation stage, they write that (p.97) "the parties develop joint (not individual) expectations about their motivations, possible investments, and perceived uncertainties of a business deal that they are exploring to undertake jointly. In this stage the focus is on the formal bargaining processes and choice behavior of parties as they select, approach, or avoid alternative parties and as they persuade, argue, and haggle over possible terms and procedures of a potential relationship".

Thus, a framework for describing interfirm decision-making processes is particularly needed in order to study negotiations as they evolve in long-term relationships. Negotiation theory assumes that despite divergence of interests between two parties they attempt to do better through reaching joint decisions, and that *the critical dynamic in this process is a progression of strategies and tactical choices* (Pruitt and Carnevale 1993). As issues, contracts, and common and private goals change over time, it is reasonable to assume that the negotiation process and the strategies and tactical choices change with them. As a consequence, studying the changing use of strategies and tactics over time becomes particularly relevant for understanding the evolution of interorganizational relations.

The rest of this section of the chapter will define negotiations, and briefly present some key approaches to negotiations. Traditionally, negotiation theory has devoted little attention to negotiations in *evolving* relationships. As little empirical field research is conducted in this area, I will discuss some important shortcomings of previous research as related to the research question pursued here. Then I turn to presenting a negotiation strategy framework that can be used to describe negotiation events in IOR's, and the different sets of tactics that are used to operate the different strategies. The interdependence between structural conditions and negotiation interaction has been discussed previously, and I will describe a structural model of dyadic negotiations to make the complementarities of contract and negotiation theory more explicit. Based on the negotiation strategy framework and the structural model, I will use a process model of dyadic conflict to illustrate how they in principle relate in a negotiation event. As a primary interest in this thesis is to understand how IOR's develop and change *over time*, this section ends with introducing a processual view of negotiations.

## NEGOTIATIONS

### Definition of negotiation

*Negotiation* was by Lax and Sebenius (1986 p.11) defined as "*a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise*".



The definition seems appropriate for an interorganizational setting: collaborative IORs attempt to do better than they otherwise could, they might involve conflicts as each party has a set of private goals in addition to the mutual goals, and the parties can potentially act opportunistically (especially) because issues are typically left for future resolution. Lax and Sebenius use the expression *apparent conflict* that indicates that there are degrees, or levels, of conflict. This opens for serious conflict as well as "no conflict" based on the assumption that information exchange, for instance, reveals that a perceived conflict was based on a misunderstanding. The fact that parties might have conflicting private goals in addition to a set of shared goals, or different opinions with regard to how to reach mutual goals, represents a setting of *mixed motives*. Mixed motives involve elements that create tension between cooperation and competition (Lax & Sebenius 1986, Pruitt & Carnevale 1993). As discussed earlier, Ring and Van de Ven (1994 p.97) view "the development and evolution of a cooperative IOR as consisting of a repetitive sequence of negotiation, commitment, and execution stages, each of which is assessed in terms of efficiency and equity".

### **Perspectives on negotiations**

After Walton & McKersie's 1965 book *A behavioral theory of labor negotiations*, negotiation research developed into mainly two research streams: one distributive and one integrative, where the co-existence of the two often was not addressed. However, Putnam (1990) argued that most negotiations should be understood as involving both distributive and integrative dimensions. In addition, different perspectives have been used in the negotiation literature, but typically the research can be classified as descriptive or normative (Lewicki, Weiss, and Lewin 1992).

*Distributive bargaining* can be viewed as a win-or-lose situation, involving two parties and one issue (e.g. the price of a commodity). In a distributive bargaining situation each party attempts to maximize its share of a fixed-sum payoff. The situation is much like a simple game of utility maximization where economic profit is the only determinant. So if the price is under contention, the parties would typically have opposing interests, and the gain achieved on one side equals the loss on the other. Thus, it can be viewed as a competitive decisive situation, and is often referred to as *claiming value* (Lax & Sebenius 1986). In contrast to this fixed-sum situation is the *integrative bargaining* situation, where parties collaborate to increase their joint gain. The focus is more on *creating value* rather than distributing it (although they eventually will have to do it one way or another). If (to continue the above example of bargaining over the price of a commodity) the parties introduce contingency payments at different time periods (depending on the performance of the commodity) they might move away from a no-agreement zone to an agreement, or increase their individual and/or joint value achieved in the possible initial agreement. This way, in principle, they change the situation into a two-party, multiple issue problem. By introducing additional issues, they can increase the value of a contract through exploitation of different preferences and expectations for the future (Raiffa 1982). Integrative bargaining typically tends towards a joint problem-solving process, where sharing of information through open communication and trading of issues are key aspects. Thus, it can be viewed as a cooperative strategic situation, or at least not a strictly competitive one.

While distributive models dominated early behavioral negotiation research, integrative models have been increasingly focused over the last 15 years (Pruitt and Carnevale 1993, Lewicki *et al.* 1992). In addition, much research during the last decade has considered the co-existence of

distributive and integrative aspects in negotiations, as suggested by Putnam (1990). Empirical investigations even suggest that dominating orientations might enhance integrative outcomes (Shapiro and Rognes 1996).

During the last three decades, *descriptive behavioral* models of negotiations have become increasingly important. These approaches have been based in different theoretical traditions. Reviewing these, Neale and Northcraft (1991a, 1991b) suggest that previous research can be seen as two streams: one concerning *contextual characteristics* of the research setting, and one concerning the *negotiators* specifically (as individuals), and their cognition and interaction processes. Contextual research has been concerned with the structure of games, negotiator power, effects of time dependencies (deadlines), integrative potential of the situation, third parties and arbitration. Research focusing on the negotiator has been concerned with interaction processes (bidding strategies and communication), negotiator cognition, information processing and individual differences. While contextual approaches have been largely static, research on negotiators has been more dynamic. Summing up past research, Neale and Northcraft (1991a) suggest that negotiated outcomes follow from the interaction processes, and that these are influenced by the cognition of the negotiators and the interdependencies between cognition and context. Thus, in order to explain outcomes, attention should be given to both contextual and structural aspects, as well as to the negotiation (interaction) process itself and the individuals involved.

I mention in passing that the normative negotiation literature building on mathematical modeling and game theory (Pruitt & Carnevale 1993, Raiffa 1982) are not considered here. This literature largely "examines what ultrasmart, impeccably rational, super-people *should* do in competitive, interactive situations" (Raiffa 1982 p.21). Thus, it is not seen as particularly relevant. However, this body of literature is vast, and has been of great importance to negotiation research (Lewicki *et al.* 1992).

### **Shortcomings of previous research**

Underlying a significant amount of negotiation research is a set of assumptions. A brief and slightly exaggerated version (to make the point) goes like this: There are *two parties in a relationship that represent a divergence of interests*. The parties come together to try to resolve this divergence through negotiations. It is assumed that they try to *maximize their self-interest*, but they are not necessarily good at doing so. Traditionally they are not treated as units with a past history or coming future; the focus is usually *here-and-now* (Pruitt & Carnevale 1993, for a more extensive listing of assumptions confer Lewicki *et al.* 1992). Further, of the four possible combinations of descriptive/normative distributive/integrative models, there has been an early dominance of descriptive distributive models, shifting towards normative integrative models. Historically, descriptive integrative models have lacked advocacy and research support (Lewicki *et al.* 1992). Thus, there is a potential gain from conducting empirical research in this direction that in addition considers the mixed motives involved in established durable relationships.

#### *Critique of focus*

As suggested in Lax and Sebenius' (1986) definition of negotiations, a conflict of interests is apparent, but not necessarily so. Arndt (1979) suggested that negotiations were a key aspect of long-term relationships based on common interests. Thus, the basic assumption of conflicting interests as a key characteristic of negotiations might be questioned. Sheppard (1995 p.4)

observes that "most negotiation research is concerned with how to engage in transactional, one-time negotiations in a relatively pure market", and fears that negotiation research is "doomed to irrelevancy" unless models of negotiation that "incorporate alternative models of economic exchange" are developed. Thus, a change of focus in negotiation research towards the perspective taken here has been suggested.

A core interest of Sheppard (1995, see also Sheppard and Tuchinsky 1996) is how managers (and negotiators) behave in relational inter-firm settings such as customer-supplier relationships and strategic alliances. Further, he argues that this should transform our thinking about negotiations. In an early paper addressing this issue, Greenhalgh (1987) argued that the actual relationship and the interaction between parties are important phenomena in negotiations that have been overlooked in research favoring emphasis on short-term economic rationality. Greenhalgh (1987 p.235) observed that "researchers have *deliberately* tried to eliminate the effects of relationships", and argued that future research should be concerned with the relationship that evolves between negotiating parties, how they make sense of their interconnectedness, their specific roles, their time horizons. He also discusses the importance of visualizing the interdependence, the commitments, the notion of indebtedness, and the importance of trust as it "embodies a negotiator's summary judgments about the nature and strength of the relationship" (p.242). All these aspects are assumed to make a difference with regard to how the negotiation unfolds.

The idea that parties always try to maximize self-interest here-and-now has also been questioned: "It ignores the social context of negotiation, overlooking such important phenomena as social norms, relationships between negotiators, group decision processes, and the behavior of third parties. It lacks a time dimension ..." (Pruitt & Carnevale 1993 p.8). Other authors have also expressed similar views (Rognes 1995, Valley, Neale and Mannix 1995, Pruitt 1995, Halpern 1994, Sondak and Moore 1993, Greenhalgh and Gilkey 1993, Shapiro, Sheppard and Cheraskin 1992, see also Bies, Lewicki and Sheppard 1995).

#### *Critique of methods and research practice*

Empirical research has to a certain extent been concerned with *field* research. However, the typical empirical study involves experiments in a highly controlled laboratory setting. Northcraft and Neale (1991b) summarize the major findings on dyadic negotiations within six "classes" of research, most of them offering partial and highly stylized views of negotiations, and blame "the legacy of Game theory's influence on the early design of empirical negotiation research" (p.224). Greenhalgh (1987 p.235) argues that the failure to adopt a relational view of negotiations is in part a result of the *methods* used: "In most laboratory studies of negotiation, the researcher's ideal is to stage a negotiation between strangers, precisely because they begin the negotiation with no pre-existing relationship. Then, the researchers often take steps to prevent relationships between negotiators from evolving". Sheppard (1995) addresses similar issues, and basically makes the same points. Ironically, even empirical research on effects of relationship orientation and cooperation apply experimental methods in laboratories (see for instance the studies of Greenhalgh and Gilkey 1993, and Sondak and Moore 1993). Thus, in order to understand negotiations in long-term relationships, new methodological approaches are needed. One solution is to do longitudinal real-world case studies (Ariño and de la Torre 1998, Greenhalgh 1995, Anderson 1995, Ring and Van de Ven 1994).

In this thesis I will adopt Lax and Sebenius' (1986 p.11) definition of negotiations as "*a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise*". Based on descriptive models of negotiation that address the co-existence of integrative and distributive dimensions, I will develop a framework that focuses on structural (contextual) aspects, process in terms of negotiation behavior and interaction, and outcomes over time. The framework will assume that there is not necessarily a divergence of interest as some interests might be common. Further, the parties are not expected to maximize their outcomes here-and-now, but attempt to create additional value through long-term exchange for both parties involved. Finally, the thesis will present a longitudinal case study of evolving relationships.

## NEGOTIATION IN INTERORGANIZATIONAL RELATIONS

Below I will discuss the negotiation theory the study will draw on. Two static models will be presented: a dual concern model identifying relevant strategies in negotiations, and a structural model of negotiations. In addition, a principal process model of dyadic conflict focusing a single event will be presented. All models are descriptive models of negotiations, and the integrative and distributive dimensions are related to each other.

### **Interests, concerns, strategies, and tactics**

Distributive and integrative aspects of negotiations are related and result from mixed motives, as some goals of the negotiating parties might be shared and each party in addition have a set of private goals. A model of strategic behavior that addresses this, is the dual concern model (Thomas 1976, Pruitt and Rubin 1986). A key contribution of the model is to model the distributive and the integrative dimension in relation to each other, and to treat concerns for own and others' outcomes as separate dimensions rather than as a continuous single dimension (Ruble and Thomas 1976, Thomas 1976). This means that having high concerns for own outcomes does not mean that the concerns for the negotiating partners' outcomes are correspondingly low; they may both be high. Thus, the model is most useful in this study, as it is descriptive and shifts focus away from a strictly individualistic orientation.

#### *The dual concern model*

The dual concern model as presented by Thomas (1976) and Pruitt and Rubin (1986) builds on the conflict grid presented by Blake & Mouton (1964). A key contribution of the model is to include concern for the opposing party's outcomes, and central to the model is the treatment of *self-concern and other-concern as independent dimensions* rather than opposite ends of the same dimension (Thomas 1976, see figure below). These two dimensions are given a range between high and low. Based on four (or five) possible combinations of high/low self/other-concern, the dual concern model predicts a negotiator's *preferred* strategy among four (or five) general negotiation strategies. However, if this strategy for some reason seems infeasible to the negotiator, (s)he will most likely shift to the second best approach to achieve the goal (this is referred to as a "perceived feasibility" perspective) (Pruitt & Carnevale 1993).

The five strategies identified are 1) Contending, 2) Problem solving, 3) Yielding, 4) Compromise, and 5) Inaction. If an axis is drawn diagonally from inaction through problem solving, the line represents the *integrative* dimension. An axis drawn from yielding, or accommodation as it is also called, through contending, the line represents the *distributive*

dimension. Each of these negotiation strategies is operationalized through communicative behaviors, referred to as *tactics*. In the following I will discuss when each strategy is the preferred orientation, and the tactics used to operate each strategy.

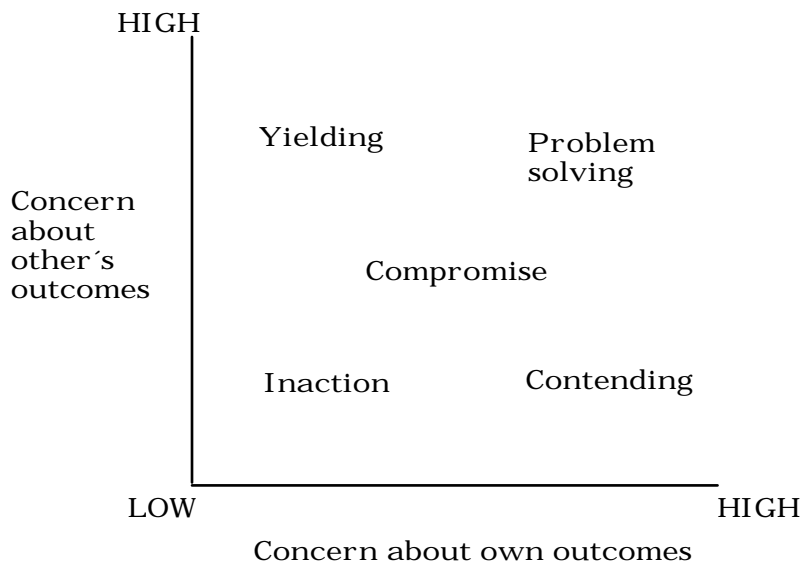


Figure 6.: The dual concern model

#### *Contending*

Contending is the preferred strategy when concerns for own outcomes are high, combined with low concern for the negotiating partner's outcomes. Contending is a competitive strategy, and if contending is used successfully (more for us!), the result is at the expense of the other (less left over for them!). It is an "us or them", not an "us and them", kind of strategic preference. Contending is often used when interests are conflicting and an agreement is to be reached under the influence of "competing" concerns. The classical example is two parties negotiating over one issue with opposing interests.

The tactics used to operate a contending strategy range from straightforward "bad" behavior to subtle manipulation, and involve *threats, harassment, positional commitments, persuasive arguments, and time pressures*. Threats are most effective if they are credible and have important impact. Credibility might come from reputation and former implementation of threats. Use of threats can make a "no agreement" situation seem less attractive relative to the negotiated agreement to the other party. Threats might be reversed, in the sense that they are expressed in terms of what you *would not like to see* the opponent do. Harassment means annoying the other party, with an understanding that if (s)he accommodates and an agreement is reached, the harassment will stop. Positional commitments means to communicate your intentions to hold firm a particular position or offer, and that (whatever happens) you will not move from it. Letting the opponent know that you have a better alternative to a negotiated agreement supports such a tactic. However, use of positional commitments might be problematic. If they are not carried out, they lose their credibility, and if they are rigidly stuck to, they might lock a potentially favorable agreement. Persuasive arguments are used in attempts to change the other party's perceptions and attitudes regarding the issue or position in question. This can be achieved by showing, or convincing, the other party that they actually

are (better) served by the proposal oneself have suggested, or by showing or getting accept for, that own interests are served and appeal to the others' concern for "your" interests. Finally, imposing time pressure might increase the other's uncertainties related to their alternatives to an agreement, and one might reach a better agreement compared to a situation allowing for extensive information search.

Contending tactics can be both useful and dysfunctional. For instance, if contending tactics are used by one party and matched by the other, this might lead to escalatory conflict spirals and failure to reach potentially favorable outcomes. On the other hand, contending tactics can serve to "sharpen" the parties' understanding of the situation, their concerns, and underlying interests. Such information might lead to development of integrative alternatives. Finally, they might prove effective in combination with problem solving tactics.

#### *Problem solving*

Problem solving is the preferred strategy when concerns for own outcomes are high, combined with high concern for the negotiating partner's outcomes. Problem solving aims at creating a solution where both parties' interests are worked into the final agreement. Problem solving reflects a cooperative orientation, and is often referred to as integrative bargaining and creating win-win agreements. Problem solving might be *joint* or *unilateral*.

A diverse range of tactics operates problem solving. According to Pruitt and Carnevale (1993), three ways lead to integrative agreements: "expand the pie", exchange concessions, and solving underlying concerns. Expanding the pie means *increase available resources* and *create additional value*. Exchange concessions means yielding on issues of *different* priority for each party. Such trading is often called *logrolling*. In relationships, logrolling can take place *over time*. A somewhat similar tactic is the use of *nonspecific compensation* (on issues not part of the original negotiation discovered in the broader relationship). *Unbundling* means breaking up an issue into several issues. This might increase the potential for reaching an agreement, as it adds potential for logrolling, or makes it possible to separate some issues from each other (or from the interaction completely). The other way around, *bundling* might also help in solving problems. The third way is through solving underlying concerns. By examining the interests underlying the positions taken, one might be able to satisfy these through developing alternative options. Tactics involve *cost cutting* and use of *specific compensation* (solving one party's underlying concern), or *bridging* (solving both parties' underlying concerns). Other tactics include *refocusing questions*, *enhancing bilateral information exchange*, *using promises*, *choosing an appropriate setting*, *approaching the issues to make problem solving tactics possible*, and *developing and maintaining interpersonal relations*.

#### *Yielding*

Yielding is the preferred strategy when concerns for own outcomes are low, combined with high concern for the negotiating partner's outcomes. Yielding, or concession making, involves a reduction on demands that makes a possible agreement less beneficial to oneself in favor of the other party. Yielding is also referred to as *concession making* or *accommodation*.

Several tactics are used to operate a yielding strategy. Making concessions means *reducing demands*, and thus changing a proposal in favor of the opponent. Reduction in demands might also involve a *reduction in the goals underlying* the demands. Accommodation might involve

*adaptation* in order to reconcile the situation. Accommodation might be *unilateral or bilateral*. Sometimes negotiations start with high initial demands *in order* to make concessions, and this way make the offer seem more attractive, or initiate concessions on the other side.

#### *Compromise*

Compromise is the preferred strategy when concerns for own outcomes are moderate, combined with a moderate concern for the negotiating partner's outcomes. Some versions of the dual concern model, e.g. Thomas (1976) and Ruble & Thomas (1976) explicitly include this combination of own- and other-concern, while others do not (Pruitt and Carnevale 1993).

Compromise as a strategic option is a "bastard", and might involve several of the tactics traditionally used to operate one of the aforementioned strategies. This includes *give-and-take*, *sharing concessions*, and suggesting *middle-ground solutions* based on the parties' respective positions. The idea is to reach a decision (agreement) that represents a settlement between the preferred outcomes for both parties (Thomas 1976).

#### *Inaction*

Inaction is the preferred strategy when concerns for own outcomes are low, combined with low concern for the negotiating partner's outcomes. Inaction is also referred to as *withdrawal*, and some (Pruitt and Carnevale 1993) regard withdrawal as a separate strategy. This strategy is fundamentally different from the other four, as it indicates "no action". Inaction is often used temporarily as it does not move the negotiation toward agreement (Pruitt and Carnevale 1993).

An inaction tactic would for instance be not to show up for negotiation or talk around the issues. Withdrawal means permanently or temporarily *breaking off* negotiations. If for instance an issue is evidently in need to be addressed, but is instead *avoided*, an inaction strategy is used. If one party brings up an issue and the other does *not respond* to it, or *talks around* the issue, this represents inaction. Further, the ultimate tactic is *not to show up* for negotiation. Inaction is often a temporary strategy, either because no solutions are perceived as present, or the issue might be unclear to the parties or linked to or dependent on other unresolved issues, or one party might gain from status quo, or the issue might be sensitive and difficult to address.

The dual concern model represents an appropriate framework for understanding strategic preferences in negotiations in joint decisive events in IOR's. It is important to note that the model is *static*, and does not explain processual or dynamic aspects of negotiations. However, it could be used to make predictions related to change. For instance, if one party's concern changes from low/low at time 1 to high/high at time 2, the preferred strategy most likely changes from inaction to problem solving. Thus, dynamic inferences can be drawn from a series of negotiation points through time (like a moving picture actually consists of a series of stills), but the model provides no further explanation for change.

Common tactics used to operate the different negotiation strategies are summarized below (the list is not intended to be complete):

Table 5.: Tactics used to operate negotiation strategies

INACTION	YIELDING	CONTENDING	PROBLEM SOLVING	COMPROMISE
Withdrawal	Reduce demands	Threats	Increase available resources	Give-and-take
Avoidance	Reduce goals	Harassment	Create additional value	Share
No response	Adaptations	Positional commitment	Logroll	concessions
Talk around issues	- unilateral - bilateral	Persuasive arguments Time pressures	Non-specific compensation Unbundling	Suggest middle- ground solutions
Not show up for negotiation			Cost cutting Specific compensation Bridging Information exchange Promises	

### Structural influences on dyadic negotiations

Thomas (1976) proposed two different models of "conflicts": a *structural* model focusing upon "the *conditions* which shape conflict behavior in a relationship" (p.927), and a *process* model of conflict focusing on the "sequence of events which transpire within a conflict episode" (p.926). I will in the following briefly present and discuss these two models. Thomas' structural model will help us to understand how governance mechanisms influence interaction in occurring events in the relationship. Thomas' process model will be useful in order to understand how structural aspects relate to the dynamic interaction and use of negotiation strategies in single negotiating events.

In previous research on interorganizational relationships it is implicitly or explicitly assumed that structural conditions have impact on how relationships are managed. Thomas' structural model of dyadic conflict is concerned with how underlying, or structural, conditions shape agents' behavior in joint decisive events. In Thomas' structural model, four conditions (or pressures and constraints as Thomas labels them) are identified: 1. Party's behavioral predispositions, 2. Social pressures on party, 3. Incentive structure, and 4. Rules and procedures. Each party's behavior in a conflict episode is assumed to be the result of these four conditions, and "behavioral change is seen as the consequence of changes in the configuration of these variables" (Thomas 1976 p.912).

According to Thomas (1976), the first variable that shapes the parties' behavior is their own individual set of behavioral *predispositions* (that in part stem from their motives and abilities). Second, behavior is shaped by social pressures outside the dyad (dyad in Thomas' language refers to the two negotiators; thus if a negotiator represents a group or organization, other organizational actors are considered outside the dyad). An important aspect of constituent pressure is group *norms*. In addition, "ambient social pressure" (e.g. the norms, values and interests of some "larger system") shapes behavior. Third, *incentive structure* refers to the interrelationship between the concerns of the two parties (or "the manner in which the satisfaction of Party's concerns is linked to the satisfaction of Other's concerns"). Two aspects of incentive structure are assumed to matter: the stakes involved, and the degree of conflict of interest between the concerns of the parties. Stakes are defined as the importance to Party of



those concerns of his that depend upon the behavior of other, and are related to dependence. With regard to degree of conflict, this can involve strictly opposing interests, common interests, or mixed. *On mixed issues, Thomas suggests that the selection of behavior is asserted and influenced by the relative importance and frequency of competitive issues versus common problems in the relationship as a whole.* Fourth, behavior is shaped by the "rules and procedures which are relevant to their joint decision making. These rules and procedures make up the established decision-making machinery which governs the negotiations of the two parties" (Thomas 1976 p.922, emphasis added). Thomas focuses on three such components: decision rules, negotiation procedures, and procedures for the involvement of third parties (mediation/arbitration). Decision rules mean "mutually accepted rules that specify which alternatives are to be selected or avoided when issues arise. These decision rules contrast with procedural rules, which specify how one negotiates rather than what one decides" (and might be formal as well as informal).

The conditions identified by Thomas are established through both contractual and structural negotiations in Arndt's language. While Thomas (1976) is concerned with how these structural aspects shape agents' behavior, Arndt (1979) suggests that it is important to understand how these structures are established. The basic difference between contractual and structural negotiations is not entirely clear, as the (typically formal) contractual conditions are an essential part of the structural conditions. My suggestion is that what Arndt labels structural negotiations is related to expectations for future interaction beyond the current formal contractual duration, and is basically reflected in "psychological contracts" and emerging relational norms, as well as in the economic and relational consequences of developing roles in the relationship.

The conditions Thomas identifies are related to the idea of building a contractual framework comprising a combination of different governance mechanisms as discussed previously. Social pressures in the structural model of dyadic conflict are related to the mechanisms of norms and trust in contract theory. Incentive structure in the model is related to the mechanisms of price and economic incentives, and rules and procedures are reflected in contract theory in both the mechanisms related to authority, the contingencies in the contractual framework, and the development of relational norms. Although the concepts to some degree have different meanings in their respective traditions, the basic ideas are complementary and partly overlapping.

Thomas' structural model of dyadic conflict is shown below. In addition, "structural conditions" (i.e. governance mechanisms) from contract theory are added to the model (in dialogue boxes) in order to highlight how their conceptual similarities are understood in this study.

The structural model offers a partial explanation for negotiation behavior. Further, it is static, as the model does not explain *how* change comes about. In this thesis I will be concerned with both how such structures become established, how different mechanisms are integrated into a common framework, how they are used and influence interaction, and how they change over time.

In the following I will be concerned with the "structural conditions" contract theory and governance mechanisms represent. However, the ideas put forward by Thomas are not taken

up in traditional IOR research. This explicit use of the model intends to add to the argument that a combination of these two theoretical traditions is most relevant (even though the initial ideas are decades old and little has been done since than to repeat the relevance).

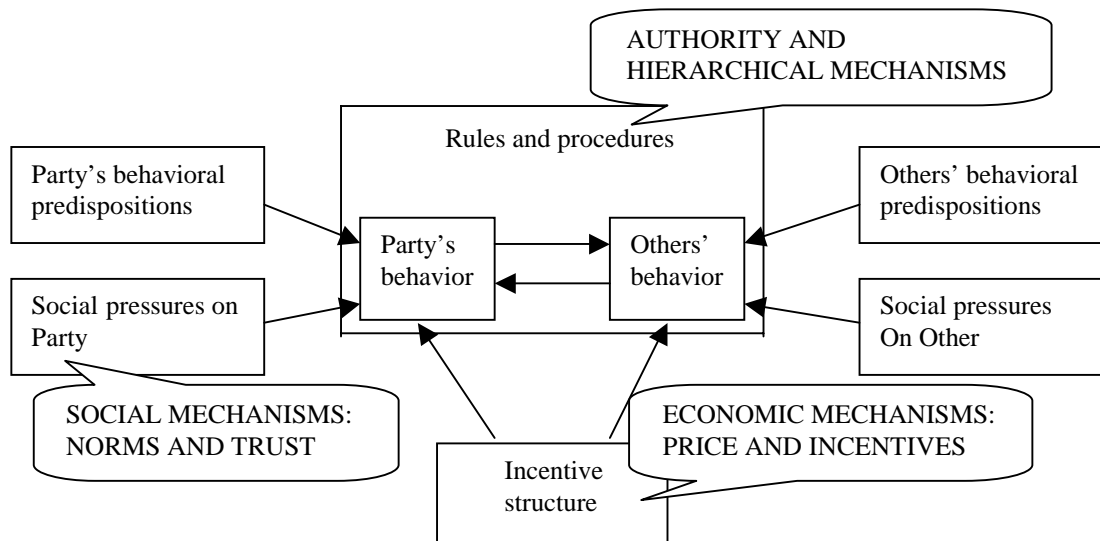


Figure 7: A structural model of dyadic interaction (adapted from Thomas 1976 p.912)

Thus, based on a combination of contract theory and the structural model of dyadic conflict, I assume that structural conditions *in part* shape, or have the *potential* to shape, interaction in decisive events in IORs. However, as discussed previously, Zaheer and Venkatraman (1995 p.388), found that "adopting an appropriate governance structure may not lead to the required process outcomes of governance, for the governance structure explained only a small amount of variance in governance process".

### The internal dynamics of conflict episodes

In addition to the structural model of "dyadic conflict", Thomas (1976) also discussed a process model of dyadic conflict. The process model depicts five main events *within a negotiation episode* (seen from the viewpoint of either one of two parties): 1) Frustration, 2) Conceptualization, 3) Behavior, 4) Other's reaction, and 5) Outcome. Although the focus is on what happens within a single negotiation episode, the model assumes that an event in part is shaped by the results of previous episodes, and in turn provides a foundation for future episodes.

In the model a negotiation episode is initiated as one (or both) party is experiencing *frustration* with regard to the realization of a goal. When this frustration is dealt with consciously, the party will *conceptualize* the situation and give meaning to it as an "issue". Based upon this, the organization (party) *engage in actions* vis-a-vis the other (organization). As a result of this interaction a (typically temporary) solution to the issue is at hand, typically reflected in a decision. This decision, and the consequences of this decision represent the outcome (see Figure 8 below). As discussed above, structural aspects also influence the interaction.

According to Thomas (1976 p.895), "conflicts appear to stem from one party's perception that another party frustrates the satisfaction on one of its concerns". Next, conceptualization "involve a definition of the conflict *issue in terms of the concerns of both parties* plus some notion of possible action alternatives and their outcomes" (Thomas 1976 p.896; emphasis added). Then, the parties enter a stage of conflict behavior where three components are considered: orientation (desire to satisfy own and others' concern), strategic objectives (possible and realistic strategic options in order to reach preferred outcomes), and tactics. Finally, the parties are assumed to reach some kind of decision, or outcome. Outcomes based on inaction, compromise, accommodation and contending are assumed to leave some residual frustration that in turn will come up again. Thus, the outcome is likely to involve more than a substantive agreement.

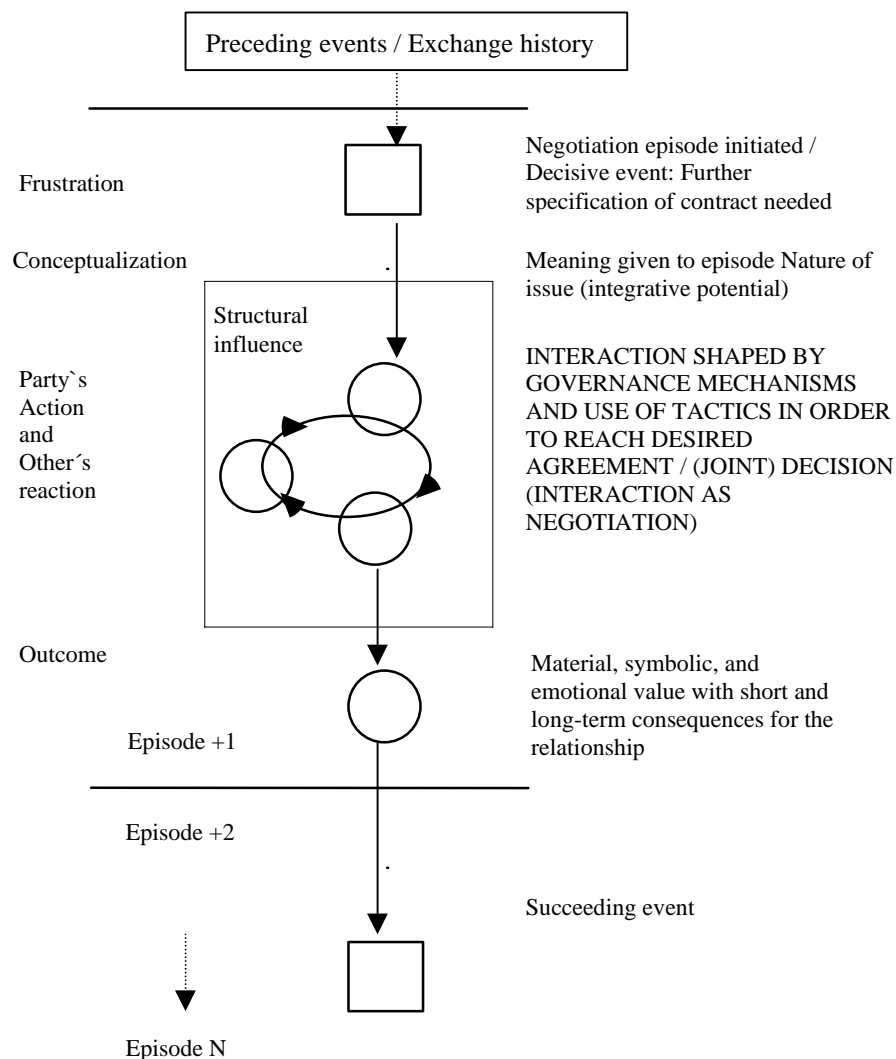


Figure 8: A process model of dyadic conflict episodes (based on Thomas 1976 p.895)

If we relate the basic ideas to our research problem, this means that an event (or incident understood as a negotiation episode) occurs due to insufficient specification of a contract. This "conflict", or issue, is given a certain meaning as it is conceptualized, and the organizations will interact in order to govern the relationship and handle the issue (i.e. reach a

decision and implement it). In doing so, structural conditions will influence the process as elements of price, authority and trust will be used actively, or implicitly, to shape the relation. In addition, due to the interest in satisfying own and/or the other organization's concerns, different negotiation strategies and tactics will be used in order to reach a desirable agreement (settlement). Thus, it is assumed that as well as negotiation tactics, aspects related to structural conditions will be communicated between the parties as the process develops toward a decision. This communication (involving use of, or reference to, governance mechanisms in combination with use of tactics) by one party will initiate responses by the other. The reaction from other affects the meaning given to the episode by the organization (Party), and their use of governance mechanisms and strategies, as the interaction evolves (or loops). Finally, when interaction has reached a certain state, some sort of outcome (decision) has occurred. This outcome involves several dimensions, as well as short and long-term consequences. In addition, interaction draws on experiences and outcomes from earlier interaction.

Outcomes of negotiated agreements might comprise several dimensions, such as material, symbolic and emotional values (which I will discuss later, in the final section of this chapter). Below, I will suggest how the discussed models, static and single-event focused as they are, might be used in this empirical study.

### **INTERDEPENDENCE: A PROCESS VIEW**

The previous presentation and discussion of relevant theories in order to understand their relevance for and possible application to a study of interorganizational developmental processes has highlighted some important points with regard to negotiation theory. First, negotiations in (long-term) relationships have been an (almost completely) overlooked area of research, and much of current negotiation theory is a-relational in nature. Second, a methodological conservatism has to some extent kept researchers from the field. These aspects are discussed previously. Further, much research has been either distributively or integratively oriented. While during the seventies and eighties much research was distributively oriented, the pendulum has swung towards integrative models of negotiation during the last decade. Since the early versions of the dual concern model (Thomas 1976, Ruble and Thomas 1976), and Lax and Sebenius (1986) focus on mixed motives and the twin processes of creating and claiming value, the interdependence between the two has been an implicit possibility. However, as theory and research have taken a transactional view, the interdependence between these was somewhat overlooked until Putnam (1990) discussed interdependence models in relation to other common perspectives.

Putnam (1990), adopting a process perspective, examines the relationship between integrative and distributive processes. An important point she makes is that "integrative and distributive processes subsume, but are not identical to, cooperation and competition. Maximizing joint gains can be achieved through mixing cooperative and competitive motives while maximizing individual gains can stem from working cooperatively as well as from efforts to win" (Putnam 1990 p.4). Putnam discusses the interdependence model in relation to two competing models of distributive and integrative bargaining: the separate model that views the two processes as distinct, orthogonal dimensions, but opens for the domination of one, and the stage model that views distributive and integrative sub-processes as distinct clusters of behavior that evolve as negotiation progresses.

Putnam argues that the growing evidence in negotiation theory supports the *interdependence* model. The model represents a mixed-motive setting, where "integrative and distributive processes are intertwined in a symbiotic bonding that pervades negotiations. Each behavior in the bargaining contributes to both the integrative and distributive nature of the process. This bonding creates an inescapable tension between the competitive moves for individual gain and the cooperative behaviors necessary for coordinating mutual agreements (Gulliver 1979, Lax & Sebenius 1986). Rubin (1983) calls this tension a "quintessential illustration of interdependence" that pulls negotiation in extreme directions" (Putnam 1990 p.5). Following from this, a negotiator enters the process with multiple orientations, and these emerge and change as a result of the process of mutual adaptations between the negotiators *over time*, and in relation to changing concerns, issue development and evolution, perceptions and expectations. Negotiation strategies are treated as information management "through tacit communication and guarded disclosure" (Putnam 1990 p.14). Putnam argues that a fully open and honest information exchange in bargaining may be a rare occurrence; I believe that this assumption is unnecessarily limiting. The aim is "staking out a favorable position through a problem solving approach" (p.14). This information management is operated through a combination of tactics related to different strategies. However, each tactic is not assumed to serve only one particular competitive or cooperative strategy, but to "represent a unique paradoxical role by contributing to both integrative and distributive functions simultaneously" (Putnam 1990 p.18). Thus, in the interdependence model, the idea of mixed bargaining where *several* tactics operate several strategies at the same time, is refuted. In the interdependence model single tactics operating multiple functions simultaneously are possible as "the wording of a tactic indicates how it can serve both integrative and distributive ends simultaneously through its complexity, ambiguity, and completeness" (Putnam 1990 p.18, Gulliver 1979).

However, the idea of multi-functional tactics becomes difficult to understand as Putnam in the following discussions keep referring to *several* tactics and *different* dimensions. For instance, she writes, "*sets of dissimilar tactics reveal how integrative and distributive patterns emerge*. In particular, the combination of *persuasive arguments, proposals, commitment statements, and concessions blends integrative and distributive processes* into a form of interaction known as *proposal generation*" (p.19), and further, "*balancing distributive tactics with integrative moves hedges against conflict spirals and aids in developing predictable responses*. Also, when an *integrative tactic* is offered, the opponent typically reciprocates with an integrative response for several contributions before returning to the role specialized offensive-defensive pattern. This *sequencing of actions establishes a norm of reciprocity similar to the tit for tat strategy evident in Axelrod's (1984) research*" (p.20) (emphasis added). As we know from earlier arguments, a single tactic serves both distributive and integrative functions. Thus, the above examples become unclear to me. Further, she relies on well-established terms of tactics traditionally viewed to operate separate strategies; persuasive arguments reflect contending and making concessions reflect yielding. However, I agree to the view that the wording of a tactic might be ambiguous, and thus serve to support different strategies. In addition, I think that using tactics traditionally thought to serve distributive functions can *initiate* integrative functions. However, I do not consider the *tactic itself* necessarily integrative.

Thus, the interdependence model seems to be particularly suited for investigating developmental processes in interorganizational relations, as it treats distributive and integrative dimensions as interdependent, and offers a view where a process is allowed to

evolve over time involving mutual adaptations, changing concerns, issue evolution, predictability, reciprocity, and norm development.

### **Empirical findings**

Although research on negotiations has for a long time been a separate tradition from the interorganizational research, some cross-discipline empirical research has been conducted. In the early eighties, a few studies related to bargaining behavior and outcomes in marketing channels emerged, focusing on tactical behavior and outcomes in bargaining in asymmetrical power structures (Dwyer and Walker 1981), firm factors influencing industrial buyers' negotiation behavior and outcomes (Clopton 1984), and influences of preconceptions of trustworthiness and bargaining toughness on the exchange process (Schurr and Ozanne 1985).

Dwyer, Schurr and Oh (1987) particularly discussed further research on negotiations related to developmental processes in buyer-seller relationships. As only a few studies had been conducted in this area, typically related to what Arndt (1979) called transactional (tactical) negotiations, they called for more research on contractual and structural negotiations. Since then, several contributions have been made. With regard to *transactional negotiations*, Perdue and Summers (1991) investigated purchasing agents negotiating rebuy purchases of component parts. They found that contextual variables (material cost sensitivity, uniqueness of specifications, cooperative orientation, and formal planning) demonstrated ability to predict the emphasis purchasing agents would place on problem solving, manipulating perceptions about competition, and tough tactics in any particular set of negotiations. They found that material costs sensitivity had positive effect on all three strategies. Thus, engaging in problem solving did not preclude use of aggressive strategies. However, when indirect effects of material costs sensitivity are added to direct effects, they provide a strong total effect on tough tactics. Uniqueness of specifications and cooperative orientation showed positive effects on use of problem solving. Also, buyers with a *high* cooperative orientation tended to avoid using tough tactics. Formal planning was found to have positive effects on both problem solving and tough tactics. Contrary to expectations, they found that supplier competition had negative effects on tough tactics and positive effect on problem solving. Discussing their findings, they point to the fact that "bargaining behavior may be more complex, at least in an industrial purchasing context, than a bipolar integrative/distributive perspective would suggest. Both integrative (problem solving) and distributive (aggressive bargaining) strategies can be used to a greater or lesser extent within any given set of negotiations" (Perdue and Summers 1991 p.186).

Rinehart and Page (1992) studied use of negotiation strategies (particularly concession behavior) between buyers and sellers of contract motor carrier services. Support was found for the view that buyers and sellers perceive their actions and behaviors to affect the actions and behavior of the other party, and that this mutual adaptation can lead to mutually beneficial outcomes through use of integrative strategies. Their findings implicate that each negotiator's assessments may affect influencing attempts during negotiations, and that in a cooperative environment, *open information exchange* between the parties is likely to be included in integrative strategies.

With regard to *contractual* negotiations, very little empirical research has been conducted. Rognes (1995), in a conceptual paper proposes a planning framework for negotiating cooperative buyer-supplier relationships. Rognes' major argument is that pre-negotiation planning is critical for the establishment of a successful partnership. Although this was not the

particular focus of Niederkofler (1991), his study of six evolving cooperative relationships provides empirical support for such a view. Niederkofler found that typical for the six cases, the contract negotiations served to establish a strategic fit between the cooperating organizations. Negotiations were typically cut off when strategic fit was achieved, resulting in an operational misfit causing the relationships to start out on a sour note.

Boyle *et al.* (1992) investigated the relationship between *structural* variables and use of influence strategies in marketing channels. They were interested in the association between use of influence strategies and the strength of buyer-seller relationships (relationalism), and how use of influence strategies differed across alternative governance structures. Influence strategies included promise, threats, legalistic pleas, requests, information exchange, and recommendations. Governance structures included market, administered, franchise, and corporate systems. Their data showed that relationalism was negatively associated with use of threats, legalistic pleas, and requests as influence strategies. Further, a global measure of relationalism was positively associated with the frequency of recommendations, promises and information exchange. Finally, they found that (almost all) supplier communication differed across the four governance structures: the frequency of use of influence strategies was highest in corporate systems, then followed franchised, aligned, and market systems (information exchange and promises were equivalent in market and aligned systems).

Ganesan (1993) examined the impact of situational factors (power, time orientation, and importance of the issues to be resolved) on the use of various negotiation strategies (problem solving, compromise, and aggressive; building on the dual concern model), as well as the impact of different strategies on channel member outcomes and satisfaction. The setting was vendor-retail relationships in US department store chains. The findings indicate that when retailers had a long-term orientation, conflicts on major issues were resolved through use of problem solving and passive aggressive strategies. Short-term orientations led retailers to increase use of aggressive strategies in major conflicts. Further, higher outcomes and greater satisfaction were achieved through use of problem solving strategies to resolve major conflicts than through use of compromise and aggressive strategies. Results also indicated that when the retailer had more power than vendors, retailers were more likely to use a problem solving strategy.

### **A modified view on interdependence**

The interdependence model seems to rejoin aspects of negotiation that for (too) long have been separate, in a useful way. However, some of the ideas related to strategies such as information management, and the idea of single tactics (always) operating multiple strategies and functions seem difficult to deal with both theoretically and empirically. As Putnam neither provides a convincing and thorough explanation of theoretical implications, nor specifically suggests the empirical implications of this view, I will adopt a more traditional view.

While the interdependence model assumes that use of a single tactic triggers, or indicates, both integrative and distributive strategies simultaneously, I only accept this view when the communication is ambiguous. Basically, *I will stick to the view that any tactic used basically serves to operate one particular strategy* (representing one or the other dimension). I also assume that several tactics can be used simultaneously to operate a single strategy. This does not mean that one cannot operate several strategies simultaneously, but it requires that this is done through use of more than one tactic.

*Thus, given one single negotiation at one specific point in time I assume that: 1) several strategies might be used simultaneously, 2) each strategy must be operated through at least one distinct tactic, 3) several tactics can operate one single strategy, and 4) one single tactic cannot operate several strategies.* However, as negotiations unfold over time, and the communication develops in idiosyncratic ways, similar arguments (at different points in time) can represent different values in relation to the others' communication in a specific context, and thus apparently similar tactics might be functioning differently. Another important point is that I assume that any single tactic has the potential to *initiate* any strategic response and shift in the process. For instance, use of contending tactics might lead to a problem-solving response, as well as to matching of behavior (contending response). Use of contending tactics can also lead to use of other tactics subsequently based on learning and experience (as it might prove ineffective). Anyway, the tactic itself is *not multi-functional* in a given context at a given point in time (unless it is ambiguous), but might be *multi-faceted* and have *multiple causes*.

Such a view is basically contextual and complex. Consequently, interaction over one issue might evolve through several strategic orientations, and several tactics might operate several strategies over one issue at any given point in time. This also holds when two or more issues are involved, but the interaction between issues increases the complexity substantially. Several issues might invoke several interests that are reflected in several strategies operated by a range of tactics - simultaneously. Without elaborating further on parallel and/or interdependent issue development, the point should be clear: there is an inescapable tension between the competitive moves for individual gain and the cooperative behaviors necessary for coordinating mutual agreements, and this interdependence pulls the negotiation process in different directions. Thus, although distributive bargaining basically assumes two parties and one issue under contention, elements of distributive bargaining can be found in any negotiation (Raiffa 1982). The other way around, elements of integrative bargaining can be found in "two parties - one issue" situations, at least when time is accounted for. The empirical evidence discussed above, basically represents support for such a view. However, current research is mainly cross-sectional or experimental and represents a static picture of reality. Thus, we have little knowledge and empirical evidence for how negotiations evolve over time in long-term relationships.

Thus, when relationships are long-term and interaction is not fully regulated through formal contractual frameworks, negotiations are a primary aspect of decision making in the relationship. As IORs involve independent, free and equal entities acting to reach their common and private goals, elements of different negotiation strategies might be used in negotiations, and especially over time as a sequence of events unfold.

### **Summary**

This section of the chapter started to argue for the relevance of negotiation theory for understanding developmental processes in IOR's. Although Arndt in the late seventies suggested that more research on IOR's should be concerned with negotiations, relatively few empirical studies have been published. In the late nineties researchers from the two research traditions (IOR and negotiation research) have argued for longitudinal cross-discipline research. In the IOR literature negotiations have received increased attention as a key to



understand decision-making in IOR's, and in the negotiation literature the importance of relationships in negotiations has been addressed.

Negotiation was defined as "*a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise*" (Lax and Sebenius 1986 p.11). This definition was argued to be particularly relevant for an IOR setting, as the existence of mixed motives underlies this definition. In order to describe negotiation behavior, the dual concern model was presented. This model relates the distributive and integrative dimensions to each other, and treats each party's concerns for own and other's interest as independent dimensions. Thus, the dual concern model fits well with the perspective developed here. Although the dual concern model is static, it is useful as it identifies the five basic strategies the negotiating organizations can use in the decision making process. The five strategies (contending, problem solving, yielding, compromise, and inaction) and the tactics used to operate them were discussed.

Then I presented two additional models of negotiations. In the first main section of this chapter, I discussed contract theory and how contractual mechanisms represent structural conditions. By introducing a structural model of negotiations, I showed how contractual mechanisms might influence negotiations. Further, the discussion revealed that the structural model of negotiation was highly complementary to a contract perspective. I then presented a dynamic process model of negotiation that in principle describes how a single negotiation episode unfolds. The structural model was "superimposed" on the process model in order to show how both governance mechanisms and negotiation strategies influence the negotiation process.

Finally, as the previous models are static and transactional in their approach to negotiations, an additional model, the interdependence model, was introduced in order to develop a processual view of negotiations over time that highlights the mixed motives that are a key characteristic of IOR's.

I will now turn to the final section of this chapter and discuss outcomes in IOR's.

## **OUTCOMES**

The final section of the chapter will be concerned with the subject of outcomes as it is studied in interorganizational and negotiation research. The third key issue derived from the research question concerns outcomes. While the other two key issues (governance mechanisms and negotiation strategies) were dealt with in the previous sections of the chapter, this final section will draw on both these research traditions as outcomes has been of central concern in both areas of research. In contract theory it is assumed that structural conditions in terms of governance mechanisms affect outcomes. Negotiation theory assumes that a key determinant of outcomes is the sequencing and interaction of tactics used to operate negotiation strategies. Although traditional outcome measures in both traditions have focused on financial measures and quantifiable value, recent contributions in IOR and negotiation research seem to be considering alternative and complementary outcome measures. In addition to monetary values such as financial gains, symbolic and emotional values are assumed to be of importance in (negotiating) relationships.

This section will first discuss common performance measures in interorganizational research. Then outcomes in negotiation theory will be discussed. Finally, based on recent conceptual development in both research traditions an alternative model of outcomes will be presented for this study.

### **Outcome measures in interorganizational research**

The most common outcome measures in interorganizational research can be divided into three main groups: financial measures, objective measures, and subjective measures (Ariño 1999).

*Financial measures* measure the degree of fulfillment of financial goals, and are relevant measures *if* financial performance is a prominent goal (Ariño 1999). Different measures of financial outcomes are used in the IOR literature, such as *sales*, *profits*, and *relative cost*. Heide and John (1988) used the ratio between field selling costs and the commission income generated for the agency by that line as a financial measure of performance in conventional channels where safeguarding of transaction-specific assets took place. Noordewier, John and Nevin (1990) used measures of possession and acquisition costs related to the purchasing of repetitively used items in industrial buyer-supplier relationships. Other possible measures include total dollar sales and net profits, but a problem is that these measures confound size and performance. However, they are being used, as they are easy to obtain. For instance Mohr and Spekman (1994) measured the success of partnerships by means of dyadic sales.

*Objective measures* are related to operational performance and stability, as for instance indicated by *longevity*, no ownership or contractual *changes*, and *survival* (Ariño 1999), and are different from "objective financial measures" discussed above). Discussing these measures and their use in the literature, Ariño (1999) concludes that neither longevity nor no ownership nor contractual changes present content validity as performance measures. An exception is the case of equity relationships, where her data show that longevity may be a good performance measure. With regard to survival, she acknowledges that the measure might be valid in cases where relationships are dissolved before their goals are reached, and thus be a measure of collaborative failure, a view supported by her study.

*Subjective measures* are used either as the single outcome variable or in combination with financial and/or objective measures. In contrast to financial and objective measures, subjective measures are basically based on respondent perceptions. A problem related to use of perceptual measures is that they represent only the view of the respondent, and if measures exist only for one side of the dyad the measure is biased as the other side of the dyad is not represented. *Satisfaction* is argued to be a good proxy for partnership success (Anderson and Narus 1990), and is extensively used in empirical research (Ariño 1999). For instance, Mohr and Spekman (1994), in addition to financial measures, also used satisfaction as an outcome measure of partnership success. Other subjective measures include the degree of *fulfillment of (strategic) goals* (Saxton 1997, Parkhe 1993b, Contractor and Lorange 1988), and *spillover effects* from the relationship on other activities in the firm (Parkhe 1993a). Ariño (1999) provides empirical support for the view that overall performance satisfaction, strategic goal fulfillment, and net spillover effects are good performance measures, and the measures behaved equally well in non-equity and equity relationships.

In addition to overall performance satisfaction and realization of goals, Saxton (1997) measured the perceived contribution of the alliance to core *competencies* and *competitive*

*advantage*. He found the three items to be valid and convergent measures. Further, he obtained quantitative financial measures, such as sales and pretax profit margins attributable to the alliance, and return on investments. Subjective and financial measures correlated positively and consistently, suggesting that the different measures of alliance outcomes are related.

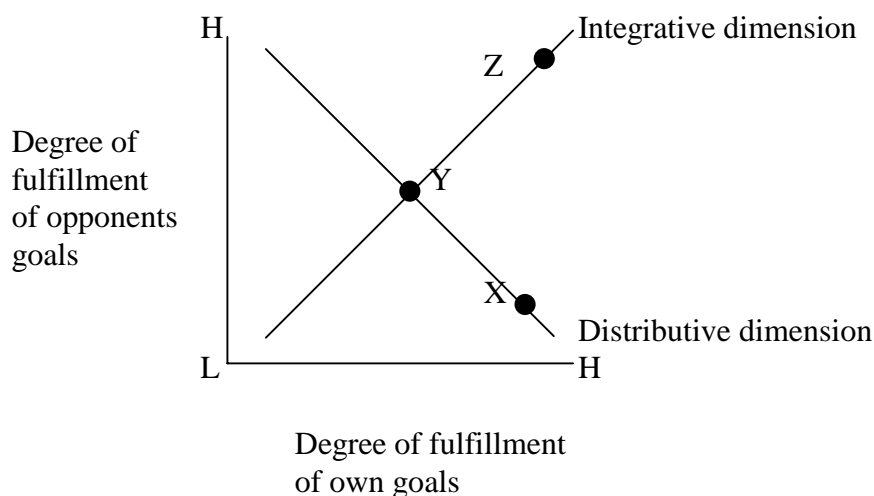
Thus, financial and subjective performance measures seem to be of particular relevance for this study. As the validity of objective measures are questioned, I will be cautious to include these measures.

### Outcome measures in negotiation research

Outcomes have been a major concern in research on negotiations. A key assumption, explicit or implicit, in most negotiation research is that the sequence and interplay of tactics used by the two parties to operate negotiation strategies is a major determinant of outcomes (see for instance Pruitt and Carnevale 1993 pp.28-30). As discussed above, also situational factors such as structural conditions are assumed to influence outcomes. In addition, the decisive situation itself (i.e. to what extent there is an integrative potential) is assumed to limit the potential range of outcomes. However, of primary interest in negotiation research has been the ability of negotiators, through their use of negotiation strategies and related (inter)actions, to reach their (joint) goals. Outcomes in negotiations may fall into two major categories: *failure to reach agreement, and a negotiated agreement*.

#### *The joint outcome space*

Based on the same reasoning as the dual concern model, two dimensions create an outcome space where the integrative and distributive dimensions relate to each other. While the dual concern model assigned concerns for each party's interests along the two axes, the joint outcome space is based on the degree of fulfillment of own and the opponents goals (see figure below). Degree of fulfillment is given a range between high (H) and low (L). The model is referred to as the joint outcome space (Thomas 1976 p. 903), or the joint utility space (Pruitt and Carnevale 1993 p.16). The model is closely related to the dual concern model, as we can assign strategies along the two dimensions.



*Figure 9: The joint outcome space*

*Negotiated agreements* can be localized within the joint outcome space and might be divided into three subcategories: victory, compromise, and win-win agreements (Pruitt and Carnevale 1993). Although failure to reach agreement might contribute to fulfill goals for the parties, they will not be of primary concern here.

*Victory* is related to distributive bargaining, where one party achieves a solution that basically maximizes self-interest at the expense of the opponent. This typically means getting an agreement as close as possible to the opponent's reservation point, thus maximizing self-interest (given a positive zone of agreement). Thus, the agreement represents high utility for oneself, and low utility for the opponent. This may be achieved by holding firm the initial proposition and, through use of tactics, obtain concessions from the opposing party. Such processes do not involve attempts to create any additional value, and are represented by the point X in the figure above.

A *compromise* represents an agreement between initial positions. Typically, both parties make concessions in order to reach an agreement. If the negotiation involves only one issue, the process can be referred to as distributive. The point Y in the figure below represents a compromise.

However, if an issue can be separated into two issues (unbundling), or the negotiating event involves two or more issues, a *win-win*, or integrative, agreement might be reached if the two parties preferences differ. If one issue is of primary importance to one party, and the other issue is of primary importance to the other party, they might reach an agreement through log-rolling on issues so that both parties' primary interests are satisfied. This way they might reach an agreement that represents higher joint (and possibly also individual) utility.

A classical example might illustrate the different outcome classes. Imagine two sisters having an argument over an orange that they both want. In the case of victory, one of the sisters might have power to take it in order to achieve her goal at the expense of her sister. A compromise outcome could be that they cut the orange into two halves. However, if they shared information and explained their underlying concern to each other, they might have found that they wanted the orange for different reasons. It turned out that Ingrid wanted the orange, because she wanted to press fresh juice, while Andrea needed the peel to decorate a cake. This way they used a problem solving strategy, which made it possible to reach an integrative agreement where both parties' goals were fulfilled in the final *integrative* agreement. This outcome represents a higher joint utility than both the compromise and victory solutions. As argued by Thomas (1976) only integrative agreements constitute a true resolution of the conflict, because no residual concerns (or frustration) remain with the parties (in relation to the particular issues).

Thomas (1976 p.902-903) argues that it is useful to understand the joint outcome space as composed of an integrative and a distributive dimension. This means that any point or outcome in the space has both an integrative and a distributive component. This idea is also central in Putnam's (1990) interdependent model. In the joint outcome space any decision point can be related to both the integrative and distributive dimension, and represents a

"value" relative to both dimensions. Thus, even if the agreement *in essence* might be understood as integrative or distributive, any agreement might be viewed as an interception point of the two dimensions. Following from the interdependence model, no outcome or agreement is purely joint gain or purely win-lose, but a composite of both.

### **Recent views on outcomes**

Outcome measures, or performance measures in interorganizational research has mainly relied on financial measures such as sales and profits, and subjective measures such as satisfaction. However, some recent conceptual developments with regard to outcomes in IOR's extend the view of outcomes of IOR's. In an introductory paper to the *Academy of Management Journal's* special research forum on alliances and networks, Osborn and Hagedoorn (1997) observe that "researchers are just beginning to see that the effectiveness of alliances is as multifaceted as organizational effectiveness". Human and Provan (1997) conducted an inductive field study on outcomes from network participation, and "asked network respondents to describe what their firms had achieved from network participation" (p.380). An interesting finding was that although some short-term outcomes were mentioned, most outcomes were related to long-term impacts. They identified four main categories of outcomes: interorganizational exchanges, organizational credibility, access to resources, and financial performance. Interorganizational exchanges were represented by: joint production, marketing, sales, and new business opportunities, sharing of and access to information not obtainable elsewhere, friendship, and access to and sharing of heterogeneous competencies. Organizational credibility came from new network opportunities as a result of their combined efforts, and legitimacy. Access to resources involved marketing possibilities at low costs, and through researching for each other. Finally, sales and profits typically had increased.

In negotiation research, positions, reservation points, and agreements are typically represented by numerical values. While distributive models of negotiations have been interested in each party's ability to maximize individual gain, integrative models have been concerned with the ability of the negotiators to reach agreements on the efficiency frontier (also referred to as Pareto optimal solutions), thus maximizing joint gains. This emphasis on efficiency (see for instance Raiffa 1982 for an avalanche of examples) is probably due to the early influence of game theory and formal models on negotiation research. Recently, the issue of non-traditional utility concerns has been addressed in negotiation theory (Blount, Bazerman & Neale 1995, Tripp, Sondak & Bies 1995, Valley, Neale & Mannix 1995, Halpern 1994, Corfman & Lehmann 1993). These papers argue that traditional and largely economic perspectives on outcomes are of limited value, as relationships are also evaluated with respect to other dimensions, especially social aspects as symbolic and emotional value, where fairness is important.

People and organizations engage in negotiations because they hope to do better than they otherwise could. In collaborative interorganizational relationships the economic advantages and resource access are often primary concerns. Thus, resource allocation (both in terms of access, as input to value creation, and in terms of distribution) is an important part of the negotiation process. In such settings the negotiation process is also a social and interpersonal process, where common and relational norms are developed. Fairness is one fundamental characteristic of social contexts. Thus, negotiating parties are likely to evaluate both the process and outcomes in terms of fairness (Tripp, Sondak and Bies 1995).

This suggests that outcomes in IORs are multifaceted, that direct financial outcomes are only one dimension that can benefit from cooperative efforts, and that subjective measures of performance in cooperative relationships are important, complementary, and valid.

*An alternative model of outcomes*

Based on a review of the role of fairness in negotiations, Tripp, Sondak and Bies (1995) draw three conclusions: 1. Powerful bargainers will be constrained from fully exploiting their power because of fairness concerns, 2. Of the three distribution norms equity, equality, and need, bargainers are assumed to use at least one, and 3. Judgement about fairness is affected by the kind of relationship that exists between the negotiators. Thus, fairness matters, but *how* is dependent on the relationship. Ring and Van de Ven (1994) assume that relationships and outcomes are evaluated in terms of efficiency and equity, and argue that "equality is not necessary for fair dealing" (p. 94). However, Tripp, Sondak and Bies (1995 p.51) found that "some evidence suggests that as bargainers become concerned with maintaining or building harmony in their relationships, the distributive justice norms of equality and need increase in importance relative to equity". Similar empirical evidence is discussed by Valley, Neale and Mannix (1995), who conclude: "a majority of studies concur that equality is the preferred allocation norm in negotiations between those with positive ties" (p.83).

Assuming that building relationships basically is rational behavior, principles of fairness become difficult to avoid. In addition, as the social and interpersonal aspects of long-term IORs are indisputable, other kinds of value in addition to the economic outcomes are appreciated (and possibly pursued) by the negotiators. Tripp, Sondak & Bies (1995) argue that relationships provide three types of desired outcomes to negotiating organizations: 1) material value, 2) symbolic value, and 3) emotional value.

*Material value* is the traditional economic outcomes of negotiation, often expressed in *monetary* terms. This may be due to cost efficiency, establishing norms for determining the terms of exchange, and predictability of supply.

*Symbolic value* is related to *status* in the social group, and thus can be related to the confirmation or preservation of personal and organizational *roles* in relationships. Social status, or roles in a relationship often secures the possibility to "voice" an opinion and discuss matters of interest instead of "exiting" the relation or obeying and showing "loyalty" to some appointed authority (see Hirschman 1970). Thus, (the importance of) both parties are acknowledged and shown *respect*.

*Emotional value* is related to the degree to which one cares for the relational partner. If harm is done, or if one experience one has been lied to, the emotional condition in a relationship is affected. This is shown to have consequences for subsequent interaction, as it may destroy trust and cooperative intentions. Greenhalgh and Chapman (1995) provide empirical evidence for the hypothesis that *negative emotions* (affect) are attributable to use of coercive tactics, and that negative emotions had negative impact on relationship continuity. On the other hand *positive emotional* values are assumed to enhance further cooperation. "Given that relationships have value, sometimes the value of preserving a relationship will outweigh the value of obtaining extra gains from a single transaction. Thus "rational" negotiators will sometimes "sacrifice" potential material gains in order to preserve or build (or perhaps even enjoy) a relationship" (Tripp, Sondak & Bies 1995 p.54-55). In other words, (short-term)

material value is sacrificed for other important (and even instrumental) values (as negotiators might *increase* utility by following fairness norms).

As much of previous research has assumed that negotiators are primarily concerned with maximizing their own gain, and that any interest bargainers have in their opponents payoffs is purely strategic, Corfman and Lehmann (1993) proposed that negotiators consider each others payoffs beyond the level necessary to maintain the bargaining relationship. They found empirical support for the view that negotiators who like their opponents were relatively less satisfied when they were getting more than their opponents, and less dissatisfied when they were getting less, compared to negotiators who did not like their opponents. Further, they found that negotiators who expected future negotiations with the same party were relatively less satisfied with differences in payoffs when they were getting more than their opponents, and less dissatisfied with the differences when they were getting less, as opposed to negotiators who viewed the transaction as the final or only one. However, overall they found that individuals systematically considered the *opponents' payoffs* in the evaluation of their own *satisfaction*, and that subjects (in the experiment) were primarily concerned with their own payoffs. This suggests that the *welfare* of the opponent is important to negotiators as they evaluate their own outcomes. As they conclude, Corfman and Lehmann (1993 p.134) point to an important implication of their study: "It is clear from these results that in some cases opponents` payoffs do have an impact on bargainers` satisfaction with settlements and that even bargaining situations with constant-sum payoffs may be variable sum in terms of utilities".

While the financial measures from interorganizational research relate to material value, subjective measures relate to both symbolic and emotional values. Based on the foregoing discussion, a summary table of outcomes and some possible indicators are presented below:

*Table 6: Outcomes and possible indicators in IOR's*

MATERIAL VALUE	SYMBOLIC VALUE	EMOTIONAL VALUE
Dyadic sales	Status	Positive emotions
Net profits	Roles	Negative emotions
Relative costs	Respect	Intention to preserve relation
Field selling costs	Non-financial goal fulfillment	Enjoying the relationship
Possession costs	Spillover effects	Satisfaction with own and
Acquisition costs	Competitive advantage	opponents outcomes
	Learning	Welfare of opponent

In this study, I will attempt to identify outcomes in terms of material, symbolic and emotional values. Thus, outcome measures will attempt to build on recent conceptual developments both from interorganizational and negotiation research. As previous research has established a set of empirical indicators, I will use these. Concerning methodological issues, Tripp, Sondak and Bies (1995), Valley, Neale and Mannix (1995), and Greenhalgh and Chapman (1995) discuss the importance of conducting more inductive and longitudinal "real-life" field studies of negotiations as they evolve over time, as the empirical evidence for the most part is based on

laboratory experiments. Thus, this study might provide an empirical exploration of this conceptual view of outcomes.

### SUMMARY

This chapter has argued that in order to understand developmental processes in IOR, there is a need to combine structural and processual variables. The choice in this thesis is to study governance mechanisms and negotiation strategies, as they reflect these two aspects of relationships. Traditionally, negotiation and interorganizational research alike have been concerned with partial explanations of outcomes. Further, IOR research has been primarily concerned about structural aspects at the expense of processes, while negotiation research to a certain extent has been concerned with process, neglecting structure. Finally, both traditions have been lacking empirical field research on developmental processes in established and durable exchange relationships. However, this does not necessarily follow from the theories themselves. A key aim of this chapter was to show how established (and recent) theoretical models might be combined in order to enhance our understanding of developmental processes in IOR's, and to provide a sufficient set of theoretical tools to conduct an empirical study of this phenomenon. This was achieved through three sections.

In the first section of the chapter, I discussed the concept of structure, and argued that the concept of structure could be translated to contracts and *governance mechanisms*. To do this, three basic kinds of governance structure were introduced: the market mode, the hierarchical mode, and the hybrid mode. Each mode represents one of three distinct kinds of contract: classical and neo-classical contracts, internal contracts, and relational contracts, respectively. Each of these contractual archetypes relies on distinct mechanisms in order to be accomplished. It was shown that market contracts rely on price and economic incentives as main mechanisms. Internal contracts were shown to comprise (traditional) hierarchical and authoritative elements as distinct mechanisms, while relational contracts depended on common and relational contract norms and trust. A key point was that in order to achieve their goals, cooperative long-term relationships need to integrate mechanisms of governance from all three kinds of contracts in a common framework for exchange. Because initial contractual frameworks are typically characterized by a substantial planning gap, and because the different mechanisms of governance are designed to handle specific aspects of a relationship, a *combination of mechanisms* is necessary. Such a framework represents a management tool that makes the planning gap manageable as the relationship develops into the future.

The second section of the chapter presented and discussed relevant negotiation theory. Negotiations were considered a key mechanism for decision-making in IOR's, and negotiation was argued to take place at several levels (transactional, contractual, and structural). As negotiation research is a vast and diverse body of literature, a particularly appropriate definition of negotiations for my purpose was discussed, and the present study was positioned by presenting a brief account of the main streams of negotiation research. A primary interest in negotiation research is use of negotiation strategies, and the ability of negotiators to achieve their goals. Thus, the dual concern model was presented as it identifies five different negotiation strategies that might be used to describe and explain behavior in decisive events in IOR's. Five strategies, and the tactics used to operate them, were identified: contending, problem solving, yielding, compromise, and inaction. Then a structural model of negotiations was used to link contract theory closer to negotiation theory, before a principal model of the



negotiation process in a single negotiating event was presented. Using this, I was able to show how governance mechanisms and negotiation strategies relate in negotiations. However, as these models basically do not offer explanations for how negotiations develop over time, the interdependence model was presented. A key point was that any negotiation incident involves a tension between the distributive and the integrative dimension, that different strategies might be operated simultaneously, and that these might change over time in relationships.

Outcomes, an important interest in both traditional IOR research and in negotiation research, were discussed in the final section. From interorganizational research, financial measures and subjective measures were identified as relevant and valid performance measures. In negotiation research gains has also been an important performance measure, either related to maximizing own or joint gains. Drawing on the joint outcome space model, it was shown that any negotiated agreement is comprised of distributive and integrative elements. However, in both interorganizational and negotiation research new conceptual views of outcomes based on a relational perspective (as opposed to a transactional perspective) has been suggested, and these views might be combined. Thus, three kinds of outcomes of exchange relationships were identified: material value, symbolic value, and emotional value. Based on the foregoing discussion, a set of outcome indicators was suggested.

This chapter has presented the theoretical bricks for this study. I will now turn to developing a model of developmental processes in IOR's that will be further explored in the empirical study.



## 4: CONTINUOUS NEGOTIATED AGREEMENTS

*The purpose of this chapter is to develop a conceptual framework. Based on the previous chapters, a dynamic model of interorganizational developmental processes will be proposed. The model will serve as input to and guide through the data collection for the empirical study.*

### A MODEL OF DEVELOPMENTAL PROCESSES IN INTERORGANIZATIONAL RELATIONSHIPS

Long term contracts are incomplete due to a planning gap. The planning gap results from the inability to plan ahead for every circumstance and event that might come up in the future. To handle such uncertainty the parties rely on their mutual (long-term) goals, the developing relationship, and trust to achieve joint solutions and decisions as events occur over time. These decisions are enabled and restrained by the contractual relationship and the governance mechanisms available. However, governance mechanisms alone are not sufficient "tools" for reaching joint decisions. As an incident or a decision point related to the relationship occurs, the parties must reach a decision to handle the planning gap. In traditional market-based contracts, the formal contract specifies the decision or solution, and inside the firm the issue might be resolved through fiat. In long-term cooperative relations the parties must deal with issues as the relationship develops through joint interaction.

Although long-term relationships are based on a set of common goals, the two organizations also have private goals, whether initial or emergent. This creates the foundation for a mixed motive setting where opportunistic behavior *may* be observed as well as trustworthy behavior. Thus, the existence of both common and private goals creates a tension between two options: to pursue own or mutual interest. These divergences of interest must be solved within the relation, without doing considerable harm, in order to develop the relationship further. Typically, the parties will not only satisfy either own or others' concern, but try to integrate these concerns. The desired solution of each party can be seen as one alternative among many possible solutions. In order to achieve the desired solution, each party will approach the situation with a negotiation strategy, reflected through tactical behavior. The ability of the two parties to make the cooperation beneficial and viable for both depends on their ability to balance these concerns through appropriate tactics. Thus, we view such a decisive situation as a negotiation incident.

As the relationship evolves it becomes possible to track a chain of decision episodes. Hence, *long-term contractual relations are viewed as continually negotiated agreements* (see Figure 10. on next page). With a continuous negotiated agreement I mean that a series of negotiations within a contractual framework will take place. The primary aim of these "negotiations" is to "zip up" the planning gap. These negotiations can be thought of as a chain of agreements through time. Within the original agreement, the initial contract, new agreements or specifications must repeatedly be established to handle the planning gap as new situations are unveiled. This is handled administratively through formal and/or informal negotiations that create *additional guidance for the (continuing) relationship*.

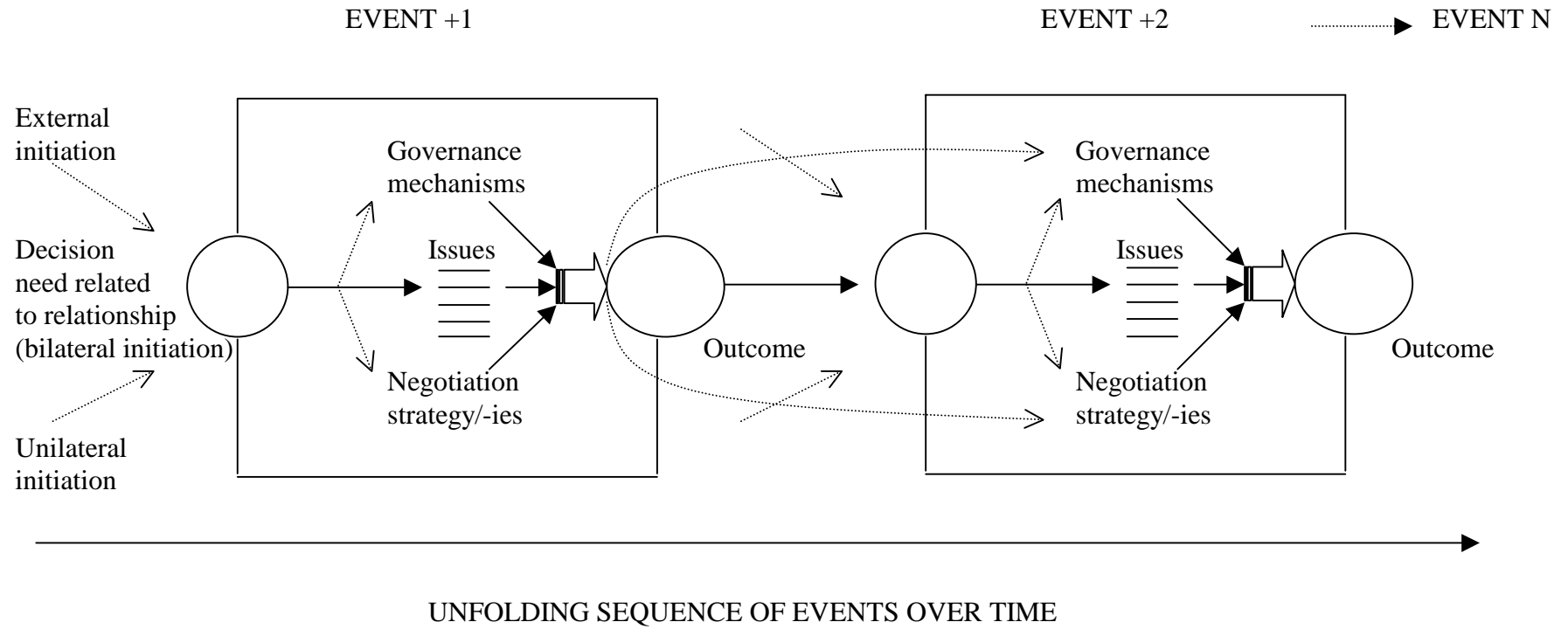


Figure 10.: Interorganizational development processes as continuous negotiated agreements

Arguing that the execution of long-term contracts is dependent on structural conditions as well as negotiations to reach joint decisions, we focus on the interplay between contractual governance mechanisms and negotiation strategies, their evolution over time, and outcomes. By combining contract theory and negotiation theory I will present a conceptual framework that explains interfirm development from a perspective neither of these two building blocks could do alone.

I assume that in long-term relationships there will be elements of the three major governance mechanisms, as each mechanism handles specific aspects of the relationship and governance issues. Due to the richness and possible variation in decision needs in long-term relationships, these mechanisms are typically combined in long term contracts to create necessary flexibility. While contractual governance mechanisms represent one set of mechanisms creating guidance for developing relationships, negotiation strategies represent another and complimentary behavioral aspect inherent in each episode. As argued, both governance mechanisms and negotiation strategies are important aspects of relationship development, and *both contractual mechanisms and negotiation strategies' relative importance and use may change as the relationship develops*. Because past research has shown little interest in these phenomena, I argue that the proposed model represents an incremental step towards a more balanced theoretical perspective.

### **Explaining the model**

I have defined process as the unfolding sequence of events and (inter-)actions in and between organizational parties to shape and modify their (contractual) relationship over time. Further, an event means any incident where parties engage in, or take, actions of relevance to the relationship. As these concepts are so central, it should come as no surprise that the model focuses on an unfolding sequence of events (this might seem to be a naïve point to make, but if one goes to the IOR literature it is rarely seen).

After a relationship has been established, and is intended to be long term, the initial contractual framework will (sooner or later) need further specification. Basically, such need for specification means that something has occurred and the initial agreement does not prescribe what to do. As a consequence, a decision must be reached. This "something" can in principle occur from three sources: it can be initiated from external circumstances (e.g. new legislation), it can come from previous interaction in the dyad (e.g. unintended consequences of earlier decisions), or it can stem from internal events in one of the collaborating organizations (e.g. introduction of new work processes). Further, this situation can be dealt with in two ways: through joint decisions, or by unilateral action in one organization. I will primarily be concerned with the former, as I assume that joint decisive interaction will be typical. Whatever the source, the far-left circle in the model represents the offset of an event as a decision need related to the relationship occurs. As the parties conceptualize it, it becomes an issue. Typically, issues are not isolated but seen in relation to other issues as different aspects of the relation are interconnected. When the parties define the issue, they also relate it to the contractual framework (are analogue problems described?, are there procedures to be followed?, do any specific rules apply?, can we trust them on this?, etc). As the parties develop an understanding of it, they are also expected to approach the issue in terms of outcomes, and how to achieve the desired outcomes. Thus, they bring with them a set of tactics to the interaction in order to operate their negotiation strategies. From this, the model focuses on issues, the elements of governance mechanisms they evoke, and the negotiation

strategies the agents operate in the joint decisive interaction (indicated by the "fat arrow" inside the "event box"). Resulting from this interaction is a joint decision that creates additional guidance for the future relationship. As discussed in Chapter 3., the outcome (or agreement) is multi-dimensional and has short- and long-term consequences (outcome is depicted in the model as the ellipse going out of the event box on the right-hand side). The achieved agreement in turn may affect the timing and content of later decision needs, due to the range of consequences of the decision.

However, an issue can also be dealt with unilaterally through adaptation (for instance through increasing quality control of supplied goods or services). In this case interaction will be low, but it is assumed that the acting party will consider the collaborating organizations' interests as a decision is reached internally. Further, it is assumed that the decision will be influenced by the governance structure that is established. Thus, I assume that the deciding party performs a "thought-process" that builds on former interaction (a kind of "reflective shadow negotiation").

In principle, the process within Event +2 is similar to the process within Event +1 (+ just indicates a transacting or exchange history); but with a couple of very important additions. As the relationship develops through a series of events, the parties learn how to interact in the dyad, and they learn to manage the relationship. From past experience they are likely to know what kind of approaches work, and what kinds of actions are likely to cause difficulties. In principle, norms and an understanding of efficient and appropriate conduct develop. Thus, former use of governance mechanisms and negotiation strategies are assumed to influence subsequent use.

I discussed (Chapter 2) how structural aspects enable and restrain action, while the same structural conditions are at the same time created and re-created by agents action as they serve to reinforce or change the structural characteristics (referred to as the duality of structure). In principle, this occurs within events, but as I assume that structures tend to change slowly, it becomes important to understand this phenomenon *across* events. To illustrate this, an example might be useful. For instance, a peculiarity has occurred with regard to a specific, important, transaction. One party wants to discuss a possible change in the incentive structure to handle the situation through compensation, whereas the other one primarily wants to deal with it by applying the current incentive structure offering no compensation. As a compromise they agree to *compensate for the situation close to what a change in the incentive structure would have given*, but they keep the incentive structure unchanged. Implicit in such an agreement might be that they intend to *discuss* the matter if it occurs again. Thus, by sticking to the existing structural framework, they confirm the validity of it and reinforce it. In subsequent events not quite like the first but not far from it either, they might continue to use the same structure. If they see it as inappropriate, or resulting in dysfunctional consequences, they are likely to change the incentive systems in order to solve the problem. Through such actions both structural elements (the governance mechanisms) and behavior (negotiation strategy and tactics) change. To continue this line of reasoning, if a few deviating transactions occur, and it seems to be in the supplier's favor every time, the buyer might trust a statement promising that the supplier will balance the situation in later incidents (unspecified compensation). If such a solution seems to work well they might continue to do so, and the procedure might be used to deal with other issues as well. As a result such practice becomes recurrent. Theoretically, this is understood in the model as recursiveness of social practice.

Implicit in the above discussion is that the structure itself can become an issue, resulting in an agreement to change it or not. Also, the behavior of the parties may become an issue, for instance in the case where one party perceives the other as acting contentiously in repeated situations. Thus, an outcome might be an attempt to change the way they behave and communicate. These effects are represented in the model by the thin curved lines going from the interception point of interaction and outcome (between the fat arrow and the ellipse) and up to governance mechanisms and down to negotiation strategy (-ies) in the following event.

### *Process*

The model assumes two kinds of interdependency and one kind of dependency.

First, it is assumed that issues are not handled in isolation, but rather in relation to other issues. This has several implications. One is that we do not view "one-issue two-parties" situations involving conflicting interests and mostly contending tactics as typical. The model does not exclude the possibility, but assumes that such situations infrequently occur. The existence of several issues in most situations contributes to create mixed-motive situations, where the tension between distributive and integrative dimensions is a key characteristic of the negotiation, as suggested in the interdependence model (Putnam 1990). Further, several issues might initiate the use of several governance mechanisms as they might relate to different elements of the contractual framework, and different negotiation strategies as they might involve different degrees of conflict of interest. Finally, this adds to the multi-dimensional nature of outcomes, as some issues might be agreed upon, some not, and others might be settled in part. In addition, the outcomes in terms of material, symbolic, and emotional value must be related to the issues' relative importance.

Second, the model assumes interdependence between the governance mechanisms and the different negotiation strategies and tactical behavior as the parties deal with the issues. For instance, if trust is low in the relationship (a structural aspect), some tactics used to operate problem-solving strategies become difficult to use, such as open information sharing. If too strict rules and procedures are applied, this might impede the development of new and creative solutions. And if the incentive structure represents a strong motive to pursue own interests, contending tactics might be easy to use as the structural framework almost "asks for it". The other way round, use of different tactics might relate to the contractual framework in different ways. An issue might be approached from different positions, with use of different tactics, and thus relate to the contractual framework in different ways.

Finally, the model assumes that there is a dependency between events. Thus, how governance mechanisms are used or related to issues, how negotiation strategies and tactics are used, how issues are dealt with, connected, and resolved in joint decisions, as well as the interaction between these, has consequences for the interaction, development, and outcomes achieved in subsequent episodes.

With regard to the suggestions for processual research discussed in Chapter 2., the model meets these in a satisfactory way. Five principles were discussed: 1) Embeddedness, 2) Temporal interconnectedness, 3) The duality of structure and the recursiveness of social practice, 4) Holistic explanations, and 5) A place for/focus on outcomes. All these principles are met in the model as they are explicitly built into it.

The model should also be useful for conducting processual analysis. It was discussed (Chapter 2) that processual analysis involves three tasks: 1. Look for/identify patterns in the process, 2. Reveal the mechanisms that shape the patterns, and 3. Combine deduction with induction. The proposed model makes it possible to identify patterns, and through building on previous research a set of mechanisms are suggested and represent a deductive component. However, as the model is not developed to be tested, or proposed in a testable form (as in traditional deductive research), but is intended to guide data collection (in order to avoid information overload and unfocused data) and analysis, the model requires in part an inductive approach.

#### *Governance mechanisms*

Basically, different modes of governance (market, firm, or hybrid) are based on different kinds of contracts. Three archetypes of contracts were identified: classical (and neo-classical) contracts, internal contracts, and relational contracts. Each of these was discussed, and it was shown that they depend on different governance mechanisms. Respectively, these contracts rely on price, authority and trust (norms) as governance mechanisms. It was argued that in interorganizational long-term contractual relations, elements from all three basic forms of mechanisms are combined in order to create a framework flexible enough to meet future challenges. This combination might be viewed as a vector. However, we know little about how contractual aspects develop over time. In the proposed model it is assumed that their relative importance varies over time, and that the contractual framework and the mechanisms relevant evolve in a dynamic way as a series of events unfold over time.

Governance mechanisms can be specified to the elements of "price, authority and trust". I want to stress that when I use the terms price, authority, and trust, I use them as synonyms for economic elements, hierarchical elements, and norms. These concepts were specified through a list of indicators. In the following study, any of these specific indicators will be assumed to reflect use of or reference to the relevant governance mechanism.

#### *Negotiation strategies*

The dual concern model identifies five different strategies a negotiator can use in order to achieve the desired outcomes: inaction, yielding, compromise, contending and problem solving. As each of these strategies is assumed to be operated through different tactical behaviors, tactics were discussed. For each strategy, a list of relevant tactics was identified. However, the model is static, and in order to deal with process, the interdependence model was discussed. Some problems were pointed at, and a modified view was taken. A central premise in the interdependence model was that any behavior in a negotiation might be understood as comprising both an integrative and distributive component, due to the existence of mixed motives. Thus, the model I propose builds on such a view. However, as with governance mechanisms, we know little about how negotiating relationships develop over time, and how different negotiation strategies might be used through a sequence of events. In the proposed model it is assumed that the relative importance of negotiation strategies varies over time, and that the strategic orientations and the operational tactics relevant evolve in a dynamic way as a series of events unfold over time.

As a list of tactics was developed for each strategy, any observed use of these specific indicators in the following study will be assumed to reflect use of the corresponding strategy.



### *Outcomes*

Outcomes and how outcomes are treated in interorganizational research as well as in negotiation research was discussed. Recent development in both traditions seems to emphasize multi-dimensional measures of outcomes, and these perspectives seem to overlap. Specifically, both traditions seem to be concerned with financial or material values, development of relational roles or symbolic aspects, and satisfaction or other more emotional measures of outcomes. Following from the discussed perspectives, it was assumed that any negotiated agreement to varying degrees reflects fulfillment of both parties' goals. Thus, outcomes in the model relate to material, symbolic, and emotional value.

Also for the three kinds of outcomes a list of indicators was presented, and will be used in the following study. Although little is known with regard to how parties perceive outcomes in cooperative relationships as they evolve over time, it is assumed in the model that dynamic patterns can be observed.

### *Transactional, contractual and structural negotiations*

As discussed previously, it might be difficult do separate contractual negotiations from structural negotiations, as contractual aspects are part of the structure. In addition, the model proposes that what Arndt (1979) called transactional negotiations basically represent an extension, or a specification, of the contract. Although the three levels might be useful to separate for pedagogical or analytical reasons, they are most likely closely interrelated in an empirical context. As discussed, "transactional" negotiations take place inside negotiated structures and contracts. Across events, transactional negotiations might accumulate outcomes that initiate change in the contracts, and thus in the structure as well. This might not be perceived as a re-negotiation of the contract as the formal contractual document (if it exists) might be left unchanged. What can be changed though is the perceived appropriateness of different contractual and structural elements, the parties' interpretation of them, or simply their relevance as lodestar for the relationship. Similarly, structural and contractual negotiations are assumed to have important impacts for how transactional negotiations develop.

### *Action and behavior*

The model focuses on actions and actual behavior (not mental states). Further, these actions are understood as involving elements of the governance mechanisms and tactical behavior related to different negotiation strategies. In turn interactions are related to outcomes, and the consequences of interaction and outcomes over time. It is assumed that the outcome of a negotiation is represented by a decision, and that this decision reflects degrees of each party's goal fulfillment. If it is not possible to identify the parties' specific goals for the "isolated" event, the expressed long-term or strategic goals may be used as proximate goals.

Because the negotiating parties are often unclear about their own, and do not fully understand their opponents, interests, the negotiating parties might not be able to develop alternatives which fulfill their individual and joint goals the best possible way. This is further complicated as the future development of a relationship represents additional uncertainty. However, Putnam (1990 p.26) suggests that "patterns or recurring sequences of integrative and distributive tactics become *routinized and predictable to participants over time*, thus prompting the opponent and providing clues for possible settlements" (emphasis added). Putnam (1990) offers a suggestion for how to deal empirically with these issues: "By tracking

agenda items over time, researchers can detect how packaged settlements develop and how issues splinter and eventually merge with other items (Lax and Sebenius 1986). Researchers could employ case analysis, flow charts, and techniques for mapping proposal development. ... After tracking the development of particular outcomes, researchers could rate the degree of integrativeness embedded in each alternative" (p. 24). Finally, the model provides an opportunity to study the long-term as well as the short-term consequences of outcomes in relationships, and how the parties actually evaluate their performance over time.

## SUMMARY

Recent contributions in IOR and negotiation research literature have called for empirical studies with focus on processes in relationships. In interorganizational research, focus has been on structural variables while neglecting the strategies and behaviors of agents. In negotiation research, emphasis has been on processes within negotiation episodes. Although some attention has been given to structural aspects, most research has been concerned with aspects within single negotiation episodes, often in experimental settings and in games. Any which way, only a few studies have been concerned with developmental processes in established exchange relationships.

As both research traditions have been concerned with partial explanations, recently new directions in research have been called for. In the IOR literature more longitudinal research focusing on developmental processes and the relationship between structure and action has been called for. In the negotiation literature longitudinal research focusing on negotiations in developing business relationships has been called for. At the present time, little empirical research has been published as a response to these calls. This chapter has proposed a conceptual framework to meet these suggestions. I have proposed that it is appropriate to focus on structural aspects through contracts and governance mechanisms. It was also discussed how contract theory relates to structural perspectives in negotiation research. Further, I have argued that it is important to take agents' actions into account through studying their strategic behavior in specific (negotiation/decisive) events. Structure and action are viewed as interdependent (existing in a duality), and both are assumed to shape the process and outcomes of events (agreements achieved). Finally, the model proposes how these aspects relate over time through an unfolding sequence of events.

The proposed framework adopts the view that long-term cooperative relationships can be conceptualized as continuous negotiated agreements, as the parties in a business relationship must repeatedly reach joint decisions in order to manage the planning gap inherent in the initial (cooperative) agreement. They do this in order to reach sufficient specification of joint activities in the continuing relationship.

The proposed model presents a different point of view compared to other (recent) process models of IORs, and from new relational perspectives in negotiation theory, as theory on structuration, contract theory, and negotiation theory are combined

In the next part of this thesis I will use the model as input to the empirical study, in an attempt to build theory.

## 5: METHODOLOGY

*The aim of this chapter is to discuss and report on the different methodological choices involved in conducting the study. Four main sections cover the central issues related to research design, data collection, data analysis, and validity and reliability. Each of the three first sections discusses the main options relevant for the study, and argues for the actual choices that were made. The fourth section discusses the problems of validity and reliability in empirical research, and describes how these challenges were met.*

### RESEARCH DESIGN

This dissertation reports a longitudinal (comparative) multiple-case study. Thus, I meet Van de Ven's (1992) challenge to design research to observe processes. In this section of the chapter I will discuss and explain why this approach was chosen.

The research question asked is the most important input to the choice of an appropriate research design. In this dissertation, the research questions asked are *explorative* and focus on developmental *processes* as they unfold over time. In Chapter 2, several guiding assumptions for conducting processual research were made, including *embeddedness*, *temporal interconnectedness*, *holistic* explanations, and inclusion of outcomes. Thus, the design must be able to provide an in-depth investigation of the issues at hand, to take history into account in order to understand present time (during investigation), and be sensitive to inner and outer contextual aspects. Further, the conceptual framework developed in earlier chapters implies sensitivity to different aspects and levels of interfirm relationships, as interdependence between theoretical domains (duality of structure) in events and dependence between events (recursiveness of social practices). Below I will discuss these matters.

#### Requirements to be met by the research design

The chosen approach to study the phenomena of interest in this thesis has several implications for the research design. These are:

- 1 The design must be able to answer *how* questions
- 2 The design must make it possible to investigate contemporary events and processes over time
- 3 The design must allow a prior conceptual framework
- 4 The design must be sensitive to the historical and contextual dependency

#### *The questions asked*

In order to select an appropriate research design, the most important condition is the research question being asked (Nachmias & Nachmias 1992). In my research problem, the question "how" is central. Although some knowledge of interorganizational developmental processes exists, there is a need to better understand how these evolve. Thus, the aim of the study is to contribute to such an understanding; the study is *explorative*. However, several research strategies might be used for such a study, such as archival, grounded theory, case study, field

study, or ethnographies (Yin 1994, Marshall & Rossman 1989, Eisenhardt 1989). However, several of these designs are inappropriate.

*The ability to catch a process over time*

I am concerned about processes and change over time, where I focus on an unfolding chain of events. This rules out a very popular design: the traditional cross-sectional survey. Static "snap-shot" data collected at one point in time will most likely suffer from major limitations to capture evolving processes. A more suitable way to investigate such a research question would be to adopt a strategy that allows for interaction with an empirical context *over time*. This implies a longitudinal design.

The focus on *contemporary events* leaves, in principle, archival strategies as inappropriate. The main argument is that archives reflect past events. However, archival data might be used in order to extend the time frames in processual research, for instance in case studies: "The case study relies on many of the same techniques as a history, but it adds two sources of evidence... : direct observation and systematic interviewing" (Yin 1994 p.8). Systematic interviewing can be conducted as a process evolves over time (for instance over a few weeks or months), and thus catch "reality in flight" and reveal information archives are unlikely to reveal. If possible, direct observation is a "powerful" data source, as the researcher actually gets *into* the events under study.

*The allowance of prior conceptual categories and the allowance of prior theory*

Although I am not doing a deductive hypothesis testing study, I still have *prior conceptual categories*. Some qualitative research strategies assume that the researcher has no prior concepts and categories. This is the case of the *grounded theory* approach (Glaser & Strauss 1967, although Strauss & Corbin 1990 modify this view, there is a heated discussion between Glaser and Strauss and Corbin, where Glaser (1992) contends that what they do is *not* grounded theory). In this approach, building on a very systematic coding procedure and analysis of the data, one starts "without" theory (but brings it in at a late stage in the research process). Although aimed at developing theory, our prior categories and concepts make the grounded theory approach unsuitable for my study. Nor is an ethnographic strategy particularly suitable for studies that build on conceptual frameworks prior to data collection. On the other hand, *case study research allows for prior categories and concepts* (Yin 1994, Miles & Huberman 1994, Bonoma 1985). Case study research also allows for *prior theories* (how these concepts and categories relate to each other; Yin 1994). However, my conceptual framework does not represent a theory ready to be tested; it is more a sensitizing and guiding device for data collection. This implies that I am in a theory construction phase. In such a research phase, in the context of discovery, the case may be an appropriate research strategy (Yin 1994, Eisenhardt 1989, Bonoma 1985).

*The historical and contextual dependency (in depth, naturalistic and detailed)*

In order to understand developmental processes, it is important to understand the history and the background, as well as the context. Thus, in order to answer my research questions the study should include both historical (archival) data, as well as information about the context. As mentioned earlier in this discussion, the case strategy opens for many of the same techniques as historical, or archival, strategies (see for instance Hill 1993). Further, the case allows for rich information on the contextual states relevant for the question at hand (Hamel, Dufour and Fortin 1993).

Taken together, a case strategy seems particularly suitable for this study.

### **Choice of research design**

In line with recommendations from the methodological literature (see for instance Fox-Wolfgramm 1997, Yin 1994, Miles and Huberman 1994, Leonard-Barton 1990, Pettigrew 1990, Eisenhardt 1989, Marshall and Rossman 1989) a *longitudinal comparative case design* was chosen for the purpose of the study as the above requirements were met. Further, recent contributions (Ariño and de la Torre 1998, Sydow and Windeler 1998, Sheppard and Tuchinsky 1996, Anderson 1995, Greenhalgh 1995, Ring and Van de Ven 1994, Greenhalgh and Gilkey 1993) have called for case based longitudinal research as it allows for measurement at different times in real world settings, and provides rich and detailed information on the topic at hand (Yin 1994, Hamel, Dufour and Fortin 1993).

This thesis is a response to these calls. Adopting a longitudinal multiple case strategy, then, may bring some new insights on topics that are generally considered to be under-researched. We try to contribute in such a way, testing the fruitfulness both of our theoretical contribution, and the methodological strategy.

### **The case study design**

Case studies have several case design options, and below I will discuss these, and justify my choice of case design. But first, I will discuss briefly what characterizes a case study.

#### *Characteristics of case studies*

According to Yin (1994, p.9), the case study has a distinct advantage when "a "how" or "why" question is being asked about a contemporary set of events over which the investigator has little or no control". A central feature of case studies is that they investigate particular cases in-depth (Hamel, Dufour, and Fortin 1993), "by giving special attention to totalizing in the observation, reconstruction and analysis of the cases under study" (Zonabend 1992 p.52). Typically, it uses different methods for data collection. Thus, it might be based on "a great wealth of empirical materials, notably because of their variety" (Hamel, Dofour and Fortin 1993 p. 45). However, case studies are not necessarily qualitative, but can rely on any combination of qualitative and quantitative evidence (Stake 1994, Yin 1994). Case studies might arise from two basic interests: *intrinsic* and *instrumental* (Stake 1994). Intrinsic case studies are carried out to better understand a *particular* case. Instrumental case studies on the other hand are not primarily concerned with the case as such but use it to provide insight into an issue or to develop and refine a theory where the case itself is of secondary interest, and plays a supportive role (in addition, Stake refers to several instrumental cases as collective case studies, where the investigator is even less interested in the case as such).

Yin (1994 p.13) offers a more comprehensive (two-step) technical *definition* of a case study: "1. A *case study* is an *empirical inquiry* that - investigates a contemporary phenomenon within its real-life context, especially when; - the boundaries between phenomenon and context are not clearly evident. ... Second, because phenomenon and context are not always distinguishable in real-life situations, a whole set of other technical characteristics, including data collection and data analysis strategies, now become the second part of our technical definition: 2. *The case study inquiry* - copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result; - relies on

multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result; - benefits from the prior development of theoretical propositions to guide data collection and analysis".

#### *Case study design options*

Following Yin (1994), a case study as a research strategy leaves several design possibilities. The two most central considerations to take into account are the *number of cases* and *number of unit(s) of analysis*.

	SINGLE-CASE	MULTIPLE-CASE
HOLISTIC (single unit of analysis)	TYPE 1	TYPE 3
EMBEDDED (multiple units of analysis)	TYPE 2	TYPE 4

*Figure 11.: Basic types of designs for case studies (Yin 1994 p.39)*

The above figure defines four possible types of case designs. *The longitudinal study reported here is an embedded multiple case (Type 4) design.* I will in the following defend my choice.

#### *Why multiple cases (and not one single case)?*

There might be several reasons for using a single case in research. The basic arguments for such a choice are that the case represents a critical case in testing a well formulated theory, is a case that is extreme or unique, or represents a revelatory case (Yin 1994), or simply because it is of principal interest (Stake 1994). On the contrary, it often involves observation of a single group at a single point in time, usually subsequent to some phenomenon that is presumed to cause change (this design is often referred to as "the one-shot case study", see Frankfort-Nachmias and Nachmias 1992).

Concerning *comparison*, the design is not very strong. According to Campbell & Stanley (1966 p.6) "such studies have such a total absence of control as to be of almost no scientific value", and view the design as "a minimum reference point". Consider the following quote (Campbell & Stanley 1966 p.7): "Such studies often involve tedious collection of specific detail, careful observation, testing, and the like, and in such instances involve the error of *misplaced precision*. How much more valuable the study would be if the one set of observations were reduced by half and the saved effort directed to the study in equal detail of an appropriate comparison instance". It should be noted, however, that Campbell moderated his view, stating that "the intensive ... case study has a discipline and a capacity to reject theories which are neglected in my *caricature* of the method" (1975 p.184, emphasis added). It should be obvious from the discussions in this chapter that more rigor has come into case study research since 1966. Having said that, their point with regard to *comparing* is still valid,

as I am not doing an intrinsic case study. Thus, I do not believe that I have such strong pro arguments for doing single cases that I am able to argue against this weakness. The solution is to *include more than one case* in the study. By opting for a multiple-case study, one expects the overall study to be a *more robust comparative* study (Yin 1994). The rationale for selecting more than one case in a study, is one of *replication* logic, and not of sampling logic. One does not include one more case as a parallel to one more respondent in e.g. a survey or experiment; one includes one more case as an analogy to conducting one more experiment. Thus, the underlying logic is that another case equals another experiment (Yin 1994).

In using multiple cases, each case must be selected either to predict similar results, or produce contrasting results (but for predictable reasons). Similar results across cases indicate a more robust theory, probably with certain general aspects. Contradictory findings must be accounted for by revision of initial propositions, and tested with another set of cases (Yin 1994). This line of reasoning is also present in Bonoma's (1985) and Eisenhardt's (1989) contributions on case study research. According to Bonoma, one could use cases in different phases of the research project, starting with one case in a "drift" phase, using more cases in the following "design" phase where theory starts to emerge. Further, new cases would enter in the "prediction" phase of theory building, and finally cases could be added in the final "disconfirmation" phase to identify the limits of the theory. An analogous line of reasoning can be found in Eisenhardt's (1989) contribution, where cross-case analysis is seen as important to look beyond initial impressions, and see evidence through "multiple lenses". Multiple cases are tools for shaping hypotheses, sharpening constructs, confirm, extend and delimit theory, as well as improve measures and internal validity. Eisenhardt (1989) argues for the use of case strategies when there is a need for a new perspective, and especially for studying change processes over time (see also Van de Ven & Poole 1990).

This study attempts to develop theory, rather than to develop a deep understanding of specific cases. Thus, I have an *instrumental* interest in cases. As it is instrumental, the possibility to *compare* seems to be a key issue. In addition, as the study is conducted under financial and time constraints, I regard the "trap of misplaced precision" as an important watch-point. In addition to avoid this trap, inclusion of several cases might add *robustness* to the study through the replication logic. Following from these considerations, I believe that a *multiple* case design will be well suited for my research questions. I will return to discussing the selection of cases for this study in the next section of this chapter.

#### *Why an embedded (and not a holistic) design?*

As Yin's two-by-two matrix stated, a holistic design involves one single unit of analysis. If the study involves multiple units of analysis, the design is referred to as embedded. The two approaches are equally applicable in multiple-case designs as well as in single-case designs (Yin 1994, Eisenhardt 1989).

If we go back to the research questions that were posed in this study, the underlying theory of process, the assumptions made for processual research, and the conceptual framework that was developed, the choice is easy. Basically we are interested in the development of the relation between two transacting parties. In doing so we concentrate on the unfolding sequence of events, and how structural aspects and agents (inter-) actions in these events co-evolve. In addition, we are concerned with the outcomes of the relationships, and how actors make assessments. In doing so we must consider change at least at two levels: the dyadic level

and the individual level. This fact makes the holistic approach inappropriate, and leaves us with an *embedded* design.

## DATA COLLECTION

### Selection of cases

#### *Selection of cases in qualitative studies*

The selection of cases is an important aspect of a case study. Similar to theory-testing research (hypothesis testing), the definition of the *population* from which the cases should be drawn, is crucial (Nachmias & Nachmias 1992, Eisenhardt 1989, Marshall & Rossman 1989). "Selection of an appropriate population controls extraneous variation and helps to define the limits for generalizing the findings" (Eisenhardt 1989 p.537). In this study, as a case refers to a dyad, the *population is defined as intended long-term business-to-business relationships in the Norwegian retail sector.*

It is very important to note though, that the cases selected from the population are not drawn for statistical reasons, but *purely for theoretical reasons*. This is often referred to as *theoretical* (Strauss and Corbin 1990), *purposive* (Patton 1990), or *criterion-based* (LeCompte and Preissle 1993) selection (see for instance Maxwell 1996, Miles and Huberman 1994). It is perfectly possible to draw a random selection, but it is neither necessary nor preferable. Rather, it is preferable to choose cases one expects to replicate, extend, or delimit the emerging theory (Miles and Huberman 1994, Eisenhardt 1989, Pettigrew 1990, Bonoma, 1985). These considerations are most central to the generalizability of the study (Maxwell 1992). Note, however, that the generalizing is done "from one case to the next on the basis of a *match to the underlying theory*, not to a larger universe" (Miles and Huberman 1994 p.29, emphasis added).

As the selection size in case studies is often small, each case has a critical role. In order to approach the empirical context in a credible way the importance of a selection frame has been discussed by several writers (see for instance Miles and Huberman 1994, Maxwell 1996). The selection frame is guided by the research question and the conceptual framework, and is helpful in order to inform on two basic issues: how many cases, and choice of actual cases. Both of these issues have to be dealt with *conceptually*. A primary aim of the selection frame is to provide a guide to the actual selection that "distinguish between cases on dimensions that are conceptually meaningful" (Miles and Huberman 1994); it serves to provide a source of *variability* along the central dimensions in the study. Thus, an explicit selection frame is necessary in order to be able to do cross-case comparisons.

In the methodological literature, several authors offer good advice, or decision rules, for selection of cases (see Maxwell 1996, Miles and Huberman 1994, Yin 1993, Pettigrew 1990). The most basic selection criteria are possibly given by Marshall and Rossman (1989 p.54), where they state that "the ideal site is where (1) entry is possible (2) there is a high probability that a rich mix of many of the processes ... interactions, and/or structures that may be part of the research question is present (3) the researcher can devise an appropriate role to maintain continuity ... (4) data quality and credibility ... are reasonably assured". In addition, Miles and Huberman (1994 p.34) note that three kinds of "instances have great payoff": the apparently typical or representative instance, the negative or disconfirming instance, and the exceptional or discrepant instance. Basically, these recommendations are in line with Maxwell (1996), Yin



(1993), and Pettigrew's suggestions (1990 p.275-276) to go for: (a) extreme situations, critical incidents and social dramas, (b) polar types, (c) high experience levels of the phenomena under study, and (d) more informed choice of sites and increase the probability of negotiating access.

Based on these considerations, a selection frame for my study was developed. Subsequently, the actual selection process attempted to meet the above suggestions (which I will turn to).

#### *The selection frame*

The selection frame I developed (see Figure 12. below) is a two-by-two matrix. The horizontal and vertical axes reflect central dimensions relevant for the study: the primary contractual form, and the basic intention, or nature, of the relationship. I will discuss these in turn. Although the framework imposes an either/or view, these should rather be thought of as continuums, as these aspects are typically to some degree mixed, and could change over time. However, one aspect is typically dominant, and applying such a "dichotomous" view contributes to a clearer decision rule.

The most basic considerations in choosing these dimensions are their observability prior to data collection. Central dimensions in the study not explicitly included in the selection frame are use of decision, or negotiation strategies, and outcome dimensions. However, these are hard to observe before the actual study has started, and including these dimensions explicitly in the selection frame could possibly become the ultimate and merciless wildcard. As a consequence these dimensions had to be *assumed* from related observable dimensions, and informed on by the developed theoretical framework. Thus, contractual form and collaborative intentions were chosen.

		COOPERATION TO	
		Maintain	Develop
CONTRACT	Formal	I	III
	Informal	II	IV

*Figure 12.: Selection frame*

The contractual, or structural dimension, is placed along the vertical axis. Two possible characteristics of the contractual relationship are made explicit, referring to the degree of formality: whether the contract is formal, i.e. in the form of a written document, or if it is informal and initially based on an oral or intentional mutual agreement. It was assumed that the contractual form chosen for the cooperation had implications for the combinations of

governance mechanisms available for the decision-makers, and equally important, what kind of planning gap the contract represented. This had important consequences for how occurring events may be handled by the parties, because these two forms of agreement constrain and enable the use of different (appropriate) mechanisms to solve occurring events. In addition, it had consequences for the issues that were likely to occur, and created (joint) decision points.

The horizontal axis reflected whether the cooperative intentions were aiming at maintaining an existing business relationship, or if they were aiming at developing the business relationship in new ways (as for instance new business processes, new technologies or products in the relationship, or even develop new distribution channels). This dimension was also assumed to create variation with regard to planning gap, what kinds of issues that were likely to occur, and also affect the basic decision orientation, or negotiation strategies, used by decision makers in the collaboration, as well as their assessments of outcomes.

These dimensions taken together were assumed to reflect variation in the implicit dimensions discussed above. This way the selection frame has accounted for the most central aspects of both the research question and conceptual framework. Ideally, the study should have (at least) one case in each quadrant.

#### *Selection process*

The selection frame was used actively during the actual selection process, which was an ever-changing puzzle. Possible case firms were approached first by telephone, where I briefly explained the nature of the project, and asked about their possible interest in participating. If initial reactions were positive, a letter was sent in order to give more details with regard to the upside for the firm, an estimate for the work this would demand on their side, and establish commitment. Depending on the reactions after the letter was sent, new firms would be approached in order to fill the selection frame. As the "yes and no" answers came in, I kept the dialogue warm with potential firms that fitted the current selection situation.

The selection process lasted for about four or five months, and about a dozen companies were engaged in the dialogue. After the first couple of months, three firms had stated their willingness to participate, and the search for collaborating organizations started. "Partners" were "chosen" after initial discussions, and then approached by me and/or representatives from the committed firms. This time it proved easier, as one part of the dyad already had agreed to participate. Finally, three dyads were identified.

#### *Short description of selected cases*

The following cases, or dyads, are included in the study: 1) Scandinavia Online (SOL) and Europay Norge, 2) The Norwegian Co-operative Union and Wholesale Society (NKL) and Lilleborg, and 3) Esthetique and Norelor (L'Oréal).

The first case is Scandinavia Online (SOL) and Europay Norge. SOL had in 1996 established a shopping site on the Internet, and were dependent on cooperative relationships with several partners to "make and break" this new electronic distribution channel for consumer goods. A crucial challenge was the issue of secure trade, and in cooperation with Europay, one of the world's first SET (Secure Electronic Transaction) applications were commercially introduced. This case filled the third quadrant in the sampling frame.

NKL, one of Norway's four leading grocery store chain owners, and their cooperation with Lilleborg, a major producer/distributor of detergents and personal products, fitted into quadrant two and four. Their partnering agreement was informal (no written partnering contract) and aimed at developing new solutions in logistics and supply chain management based on use of POS (scanner) data through the whole supply chain from producer and out to the consumer. This was done as a developmental project within, and to maintain, their general distribution agreement.

Esthetique, a perfume retail chain in the more exclusive end of the spectrum owned by Narvesen, and their relationship to one of their key suppliers, Norelor (L'Oréal) fitted mainly into quadrant one of the sampling frame. This relationship concerned (primarily) selective distribution of perfumes, make-up, skin care products, and related personal products. The basic aim of their collaboration was to strengthen their competitive positions through maintaining a durable and mutually rewarding business relationship.

Ideally, it would have been desirable to have one case clear within each quadrant, but time, financial, and access constraints made this impossible.

#### **Within-case selection: business areas, sites, time, and informants**

In addition to the above selection considerations, each case also calls for within-case selection (Miles and Huberman 1994). Below I will describe the sampling of business areas, sites, time, and informants in the different cases.

##### *Selection in the SOL - Europay dyad*

SOL and Europay's primary area of interaction was related to the development of Secure Electronic Transaction technology, and this was chosen as the main business area for the study. As the technology was developed as part of a "virtual space", no particular geographical sites were chosen. The data collection took place in the organizations' respective head offices. The cooperative project had a clear starting point, and a clear point of dissolution, spread across about 18 months, so the entire time span of the cooperation was covered. As informants, I chose one key participant holding a managerial role in each organization, who had followed the entire cooperation, and participated actively both in decision forums between the organizations, and within their own organization.

##### *Selection in the NKL - Lilleborg dyad*

NKL and Lilleborg had a couple of possible business areas relevant for the study. They had a traditional durable buyer-supplier relationship going, they interacted to some extent in relation to terminalization (cross-docking), but central to their relationship was a supply chain management project using POS-data in order to implement a quick-response project. This cooperative activity stood out from the other projects as most suitable for my study, as it fitted well to the selection frame and involved frequent interactions over time. The sites involved in the study followed from the project, and involved mainly two geographical areas: Oslo and Stavanger (however, data collection took place in Oslo, where most of the decisions in the project were made). Also this dyadic collaboration had clear start and end points, so the entire duration of the project was selected. As informants, I chose to talk to the two basic initiators of the project, one from each organization, who also followed the project through in central positions both in the collaborative project and in their respective organizations. Either both or one of them were represented in all relevant decision forums in the cooperation, and both had

extensive knowledge of the entire project. In addition to these two primary respondents, an interview was also conducted with a key employee in NKL who became a primary decision-maker (very) late in the project.

#### *Selection in the Esthetique - Norelor dyad*

As above, the choice of business area in the third dyad was straightforward. Esthetique and Norelor had one primary area of cooperation, namely selectively distributed products. They also transacted/collaborated with regard to broadly distributed products, but this accounted for a relatively small part of their joint business. However, this collaboration was also taken into account, as it was a natural part of (their view of) the collaboration. Esthetique as a chain is spread over most parts of the country, but is (relatively) strongly governed from the head office in Oslo, where I conducted the study. Also Norelor has one main office where the decisions are taken, just outside Oslo, where data collection took place. The business relationship between Esthetique and Norelor went back for years, and started even before Esthetique was formally established. As data from this period to some extent were available, the late pre-Esthetique phase became the starting point of the study. The end point was set to the end of data collection, as the relationship continued "unchanged". Finally, the informants that were chosen were all key actors in the collaboration on different levels. In Esthetique I kept a dialogue with the Chain Director, who was participating in the relevant decisions forums. In Norelor, different individuals played key roles in the collaboration on different levels. Thus, my respondents were the General Manager, the Director of Division Perfums et Beauté, and one key Marketing Manager. These respondents provided first hand information from the relevant decision forums.

#### **Data sources**

Case studies can be characterized by their combined use of different data collection methods and data sources. Typically, data sources include interviews, direct observation, surveys, archival records/documents, and other secondary data sources such as press clippings and use of census data (Yin 1994, Miles and Huberman 1994, Hamel, Dufour and Fortin 1993). Making use of different data collection methods are by some authors seen as a strength of the case study, as it offers the opportunity for *triangulation* (Maxwell 1996, Yin 1994). "Stripped to its basics", writes Miles and Huberman (1994 p.266), "triangulation is supposed to support a finding by showing that independent measures of it agree with it or, at least, do not contradict it". Yin (1994 p.92) makes a similar point by stating that "the most important advantage presented by using multiple sources of evidence is the development of *converging lines of inquiry*". Data triangulation is by some argued to allow for a better assessment of validity and generalizability issues (Maxwell 1996, Yin 1994), and "reduces the risk that your conclusions will reflect only the systematic biases or limitations of a specific method" (Maxwell 1996 p.75).

"It's not as simple as that", continues Miles and Huberman (1994 p.266): "For one thing, if they do contradict it, and if you have only two measures, you are stuck with a deeper question: Which do you believe?". Similar cautions are made by Hamel, Dufour, and Fortin (1993), and by Coffey and Atkinson (1996 p.14), who state that they "do not believe that the alternative perspectives that are generated by different methods and techniques can be summed. They do not aggregate toward a complete and rounded picture".

In this study, I made use of three primary data sources: interviews, archival documentation, and press clippings. Initially, I also planned to negotiate access to the settings in order to conduct direct observation of events and decision points, but this eventually became a financial problem, and the intention never became a reality.

### *Interviews*

Interviews are "one of the most powerful methods in the qualitative armory" (McCracken 1988 p.9), and were my primary source of information in this study. As described above, every case used multiple informants, so information was checked in order to establish an account of the phenomena under study that was as "correct" as possible (Glick, Huber, Miller, Doty and Sutcliffe 1990). As I did not observe the process directly, the interviewing of key informants implies that I used the participants as observers (Van de Ven and Huber 1990). However, I conducted all interviews myself, and this way secured closeness to both the informants (McCracken 1988), and to the detailed account of the relationships they provided (Leonard-Barton 1990).

The conceptual framework and the basic research questions were actively used to develop a pre-designed semi-structured interview guide, which initially was used across all cases (see Appendix). As there always are arguments for and against prior instrumentation (Miles and Huberman 1994), I chose this approach mainly because I to a certain extent knew prior to data collection what kind of information I was seeking. As I prepared the interview guide, I draw on existing literature through the means of the conceptual framework, as well as my own knowledge and experience related to the topic (and thus followed McCracken's (1988) advice to review analytic and cultural categories).

Before the interviews were conducted, I either sent a letter or talked with the informants on the phone in order to give them a short briefing on the topics and issues I wanted to talk about. Although the semi-structured "conversation" guide was used in order to structure the conversation around my topics of interest, the initial guide was sufficiently flexible to follow leads and be able to opportunistically exploit emerging themes during data collection, as suggested by McCracken (1988). During interviews I tried to listen as carefully as possible, in order to discover new leads, emerging themes, or other details like key terms, topic avoidance, and misunderstandings. Further, prompts were used actively during interviews (McCracken 1988). Floating prompts, such as body language (raising eyebrows, face expressions indicating I was waiting for the informant to continue), or repeating key terms or phrases the informant had used, were used in order to reveal additional information. Also planned prompts were used, such as contrasting questions, introducing category questions (to account for the formal aspects of the topic under discussion), and asking respondents to recall specific incidents.

Basically, interviews were used to reveal two kinds of information: reporting of ongoing events (contemporary), and reporting and reflection on past events (history).

Reporting of ongoing events was of crucial importance in this study. I asked the informants questions like what is going on currently, what has been the immediate past issues, interactions, and decisions, and what is coming up in the immediate future. This included: recent and coming meetings, who will be/was there, what agenda was/is set, positions (if any), planned/past (inter) actions, decisions made and their connection to earlier decisions and

upcoming events, and (I always asked this) if the respondents could think of information (themes, events, actions, perspectives, contextual circumstances) that they judged as important and that were not touched upon during the conversation. These questions revealed specific information regarding concerns, goals, interests, key mechanisms, tactics, actions, and outcomes, as well as how the interaction related to past events and future expectations.

Interviews were also used to collect data on historical events. To the extent possible (depending on memories of respondents) respondents were asked to inform me of prior interaction. Great detail was not expected, but a fairly accurate (as checked with other informants and archival data) and detailed account of the past chain of events was possible to trace this way on some incidents (often the more critical, or primary, ones); on other incidents information was less specific. In this process, archival information was used actively, in order to sensitize the respondents (as well as to double-check their stories). Interviews were done with both parties regarding the same events. This was done to have both sides of the story (in addition to checking for accuracy between the two parties and against archival documentation).

Interviews were conducted between March 1997 and August 1998. A list of interviews, including when, who, and how long, is found in the Appendix.

#### *Archival documentation*

Archival records and other documentation were used as complementary data sources in the study, and contributed to a more thorough understanding of the developing relationships. A very important outcome from using archival and other written documentation was the ability to increase the time span of the study with several years into the past. Archival documentation made it possible to, with certainty, identify more or less exact dates and time periods for incidents, and most importantly establish an actual chronology of past incidents. In addition, it to some extent controlled for biases due to hindsight.

There are several strengths of documentation and archival records (Yin 1994 p.80). They are stable and can be reviewed repeatedly, unobtrusively, (relatively) exactly, covering long time spans, many events and issues, precise, and to some extent quantitative. However, such information is likely to suffer from reporting bias (reflect unknown bias of author) and selectivity (collection is incomplete). The latter is due to sedimentation processes (Hill 1993), where in the first place someone somehow decides what to save/collect, if this in turn is actually archived (formally, systematically, in one place, etc.), and finally whether additional changes occur to the body of material after it has been archived.

Basically, I initially went for any possible documentation and archival record I could get my hands on. With regard to SOL-Europay, I spent the time I needed at SOL's office in Oslo and read the documentation of the cooperation. I was provided with a separate meeting room, and I brought a Mac Powerbook, in order to take extensive notes. In the NKL-Lilleborg case, I was sent four disks packed with different, but systematically archived, documents that had been collected throughout the cooperation period. As the cooperation had established formal rules for the documentation of the project, (most of) the relevant information was made available. Some gaps, but few, were identified in both cases (for instance I knew a meeting had been held based on other documents, but there were no minutes found), most likely due to unintended sedimentation. In the Esthetique-Norelor case, I received everything that seemed

to be available of documentation and archival records. The parties in the dyad provided most of the contracts that were signed in their business relationship, with some exceptions (not the key ones). In addition, I received various kinds of business statistics and related documents, as well as general and contextual information (such as folders, supplier lists, product list, etc.).

In the Appendix a list (for each case) of the archival records and other documentation used in the study can be found.

### *Press clippings*

I collected press clippings and related material about the case firms throughout and after the data collection process. In addition, I searched actively in the web archive of Dagens Næringsliv (newspaper) for information related to the case firms and their respective industrial contexts. This information was also to some extent used as input to interview sessions, and used as input to establish the event chronologies, and (where possible) cross-check information that had surfaced from other data sources. The strength of this information is that it provided a wider perspective on the dyads, as it often accounted for trends in the different trades, and informed on the case firms in light of their business context and competitive arena. In addition, it often involved an informed third party view of the case firms, and sometimes provided information from sources I otherwise would not be able to collect myself. The obvious weaknesses, though, are the same as for archival records: they are prone to reporting bias (view/perspective/intentions of the reporter) and sedimentation (what information was known/existed but not included).

The above description implies triangulation of data collection techniques, and as implied above this is assumed to strengthen the study. My experience was that using multiple sources of information provided depth, sensitivity, and an increased understanding of the process as it unfolded (in past and present time). Multiple sources also made it possible to establish accurate chronologies, and crosscheck information received. A hypothetical question might capture the essence in brief: what would be the consequence if I had to exclude one data collection technique? It would result in case descriptions of a (much) inferior quality, with uncertain information on evolving structural aspects, governance mechanisms, relevant issues, actions taken in joint decision episodes, actual outcomes, and false chronologies, and a vaguer understanding of the contextual aspects, the embeddedness, the temporal interconnectedness, the co-evolution of structure and action, and the recursiveness of social practices.

Thus, in line with Pettigrew (1990), Yin (1994), and Maxwell's (1996) view, I believe that relying on several sources of information might add to a better understanding and account of the phenomena under study, and that the potential weaknesses of one data source can be balanced with other data sources that have complementary strengths.

## **DATA ANALYSIS**

The body of scientific literature related to qualitative methods and techniques in the social sciences has during the last decade boosted, and a set of relatively stringent "standard operating procedures" seems to be emerging (see/compare for instance Van de Ven and Poole 1990, Miles and Huberman 1994, Pettigrew 1997, Fox-Wolfgramm 1997, Hinings 1997). Another characteristic developing through the nineties is the development of software tools in

order to enhance and bring rigor into the process of qualitative data analysis (see for instance Kelle 1995, Weitzman and Miles 1994).

The aim of this section of the chapter is to describe how the collected data was analyzed in this study. The description will focus on the different "stages" of data analysis, which include preliminary analysis during data collection, within-case analysis, and cross-case analysis, and describe some key choices made in the different stages, and give an account of how software was used during data analysis.

### **Preliminary analysis during data collection**

Conducting qualitative data analysis is a process involving "three concurrent flows of activity: data reduction, data display, and conclusion drawing/verification" (Miles and Huberman 1994 p. 10). These flows are closely related to data collection, and often occur during the data collection itself.

The first choice I ran into was whether to delay data analysis until the data collection was finished, or start immediately after the data collection had started; I chose the latter, as suggested by Maxwell (1996) and Miles and Huberman (1994). The early data collection involved mainly interviews, in order to establish a relationship with my respondents, and to develop an understanding of the businesses, the contexts, the nature of the cooperative relationships, and how they had developed. All interviews were tape-recorded and transcribed *verbatim* the first day at work after the interview.

During transcription I would more or less consciously speculate around the data. Sometimes conceptual or analytical ideas would occur in my thinking about the data. Typically I would stop the transcription, and work on the ideas that formed in my head. If I was not able to disconfirm them right away by inspecting the transcribed data and my field notes, the ideas, issues, themes, thoughts - whatever it was - would be written down in a book primarily kept for *memoing*. Memos is a simple and useful tool during data analysis: "memos not only capture your analytic thinking about your data, they *facilitate* such thinking, stimulating analytic insights" (Maxwell 1996 p. 78). Memoing was not limited to within case analysis, but also involved cross case speculation. The memos were used and reviewed during data collection as input to further data collection, and for within case and cross case analysis after data collection was finished. Memoing was done throughout the whole process of analysis.

After the first interviews, the transcribed interview files were prepared for use in HyperResearch, and entered into a database designed for the software. HyperResearch was chosen as an appropriate tool for several reasons, most importantly because it is argued to be a proper tool for theory development (Weitzman and Miles 1994, Hesse-Biber and Dupuis 1995, Prein, Kelle, and Bird 1995).

After the interview files were stored in the database for HyperResearch, preliminary *coding* took place. Coding implies data reduction (Miles and Huberman 1994). As a transcribed interview is difficult to use in analysis as a whole, it becomes necessary to break the information down into manageable (still informing and meaningful) segments. For instance, a couple of sentences given from a respondent regarding "how important the personal relations were in order to make the cooperation possible and manageable" might be labeled "Importance of personal relations", and thus given a code. In other words, codes are "tags or



labels for assigning units of meaning to the descriptive or inferential information compiled during a study. Codes usually are attached to "chunks" of varying size - words, phrases, sentences, or whole paragraphs, connected or unconnected to a specific setting" (Miles and Huberman 1994 p.56).

Codes might be derived from theoretical constructs, from the data itself as a mirror, or in the form of a metaphor. Some coding drew on existing theory (contract theory and negotiation theory) and the conceptual framework developed in the study. Some codes emerged from the data (emic codes), and were given names that were close to the information that was given in the referenced "chunks" of text. The codes were related to context, as well as structure and action. This way I tried to avoid the pitfalls of (purely) *context stripping* and *contextualizing* strategies, and I was able to combine aspects of these two approaches. The problem of context stripping occurs if you lose the original context from which the codes developed. On the other hand, contextualizing strategies are limited to understanding *particular* phenomena and cannot develop more general theories (Maxwell 1996). Thus, elements from both strategies must be used to provide a balanced account of the phenomena under study (Maxwell 1996, Maxwell and Miller 1996).

Codes were generally not as "fine grained" as to enhance content analysis, where single statements could be coded for instance as "positional statements", reflecting a single contending tactic. As content analysis schemes are designed to examine verbal utterances, or sentences in a minute from a meeting, *independently* of another (Harris 1996), such a procedure was not found appropriate. Rather, codes were kept "wide" enough to allow for *interaction* analysis. In other words, codes were designed to investigate the interrelationships between utterances, because taken together their meaning might reflect something different than each in isolation. Thus, uncritical use of codes might lead to misinterpretation, and false and invalid conclusions (Weingart 1997). Codes were used to organize and retrieve the data, and to conduct early inspections of the data material. Coding is both an important task in data analysis, but also serves as an input to further analysis and data collection. The list of codes developed for each case is found in the Appendix.

After the first rounds of interviews, I approached the respondents to get access to archival records and other documentation of the relationships. These data were also prepared, entered into the HyperResearch database, and coded. The archival and interview data together made it possible to develop early event histories, and this was done. Miles and Huberman (1994) suggest that (short) vignettes might be written, with a certain narrative style, focusing on a series of events taken to be representative of the case. The events histories I developed were not vignettes in a "written out form", but rather event chronologies centered round dates, contractual aspects, issues, main interactions, and (if known) outcomes. This was done in order to develop an understanding of what was going on, to serve as input to further data collection, and to enhance further memoing and speculation about the data. These chronologies also served as pilots for data reduction and display.

While the early interviews were related to contractual aspects, typical issues, basic decision processes, and brief overviews of the relationships and their histories in order to develop an understanding of what was going on, the archival documentation was to a large extent centered on specific incidents. These incidents were relatively easy to organize into exact chronologies, as dates, participants, issues, often an account of the interaction, and often one

or several decisions were specified. By using the dates as part of the code name, I was able to code the data in order to create exact chronologies, but also give the incidents content. From this procedure, two basic kinds of codes were developed: time dependent codes, and time independent codes. As HyperResearch allows for multiple codes for each chunk of data, or several "tags" assigned to the same text segment, both time dependent and time independent codes were applied to some of the text. For instance, if a statement contained information about how an issue in the relationship related to other (similar) issues or trends in the trade, this could be coded both with a time dependent code to indicate an incident, and it could be coded with a time independent code to capture the information related to context.

As data collection continued and new information was added, some of the codes were re-coded as my understanding of what was going on developed. During data collection, I would occasionally export reports from HyperResearch containing the entire data material. These were inspected in order to make status, enhance memoing, evaluate the coding strategy, and guide further collection of data. Typically, interviews were transcribed and reviewed before the next round of data collection.

### **Within-case analysis**

Below I will describe the steps in the within-case analysis that took place (mainly) after the data collection was completed.

First, I coded the remaining interview transcripts and archival material. I also re-coded substantial amounts of the already coded data, for two important reasons: 1) by the end of data collection, my understanding of the relationships and their development had matured, 2) the initial coding process had also been an important learning process with regard to analysis procedures, appropriate coding, and a better understanding of what HyperResearch could do for me in this study. As coding was completed, I produced reports on each case containing all codes. In addition, I produced one report containing all time dependent codes, and one report containing all the time independent codes. These reports were exported to text files and printed. Then I went through the reports and "edited" the data in order to reduce redundancy and irrelevant information (as sometimes respondents "drifted off").

When the HyperResearch database was completely coded and the printed reports prepared, the writing process started. As coding of the data was done on-screen, the data retrieval functions of HyperResearch became handy, as new reports on specific codes could be produced relatively fast. However, as the cases involved a substantial number of events, I had problems handling the sequence of these in a meaningful way on-screen. A solution to this problem was to combine off- and on-screen work during analysis.

In addition to on-screen analysis, I exported reports from HyperResearch related to the different stages in the writing process to text files. For instance, when I wrote out the descriptions of the contracts and governance mechanisms and the decision processes, I produced reports containing all possible relevant codes for the analysis. I also kept the entire data set available at any time, so I was able to make accounts of the whole picture, as well as cross-checking the entire underlying data material during the whole process, including the original interview transcripts, archival records, and other documentation. Printed versions of my on-screen reports were also used for complementary off-line analysis to capture "process" (a similar procedure was suggested by Catterall and Maclaran (1997) for the analysis of focus

group data). Although the data analysis was driven by the research questions and the conceptual framework, having the entire data material at hand to some extent allowed for themes and issues to emerge from the data.

#### *Within-case description and explanation*

Case study analysis involves both description and explanation. While description means "making complicated things understandable by reducing them to their component parts", explanation means "making complicated things understandable by showing how their component parts fit together according to some rules" (Miles and Huberman 1994 p.90, Bernard 1988). Another useful view of explanation, as argued by Miles and Huberman (1994), is found in Kaplan (1964): "Explanations ... are always open; they depend on certain conditions and are partial, approximate, indeterminate in application to specific cases, inconclusive, uncertain, and typically limited to specific contexts" (Miles and Huberman 1994 p.144, Kaplan 1964 pp.351-355). In practice, the boundary between description and explanation is blurred, and might be understood as different levels of abstraction (Miles and Huberman 1994, Carney 1990), where the underlying data are coded, aggregated, interpreted, analyzed for trends, and ultimately integrated into one explanatory framework. The cases in the following chapters are basically divided into two parts: one descriptive, and one analytical.

The case *descriptions* reflect the coding procedures in that they describe context, time independent aspects, and event histories. Event chronologies were developed for each case in order to present the data in reduced form. Based on these, and the original data material, time ordered displays divided into phases were chosen as an appropriate form (Miles and Huberman 1994). Particularly, *time ordered matrixes* were developed for each case.

With regard to *explanations*, Hanson (1958 p.64) wrote that "Causes are certainly connected with events, but this is because our theories connect them, not because the world is held together by cosmic glue". In order to summarize the case analyses, *case dynamics matrixes* was developed (Miles and Huberman 1994). These were based on the time ordered matrixes, the case analysis, and the conceptual framework developed for the study.

From the above procedures, I met most of Van de Ven and Poole's (1990) suggestions for measurement and sequence analysis. They included: 1. Define a qualitative datum, and enter raw data into incidents, 2. Evaluate the reliability and validity of incidents (the resulting lists of incidents were reviewed by key respondents), 3. Code incidents into qualitative event constructs, 4. Evaluate the reliability and validity of coded events (I checked with respondents as well as used theoretically anchored and emic codes), 5. Transform qualitative codes into quantitative categories (not done), 6. Analyze temporal relationships in event sequence data, and 6. Analyze temporal patterns or phases in event sequence data. Additionally, I met the basic criteria for processual analysis as discussed in Chapter 2.

#### **Cross-case analysis**

"One aim of studying multiple cases is to increase generalizability, reassuring yourself that the events and processes in one well-described setting are not wholly idiosyncratic" (Miles and Huberman 1994 p.172), as well as to "deepen *understanding and explanation*" (p.173).

The cross-case analysis following from the research question and the conceptual framework was built on the case descriptions, the within-case analysis, as well as on the memoing done

throughout the process. Also during the cross-case analysis, the underlying data material was at hand for sorting out details.

Some conceptual issues related to cross-case analysis have been discussed in the methodological literature, and I will briefly reflect three of them relevant for this study. These are: 1) the varieties of output from longitudinal comparative case studies, 2) problems related to comparing cases and conducting cross-case analysis, and 3) the basic approaches to analysis across cases. This brief discussion will situate the current study among several possible alternatives. Then follows a description of the analytical steps taken.

Pettigrew (1990 p.280-281) identifies *four varieties of research output* from longitudinal comparative case study work: 1) the case as analytical chronology, 2) the diagnostic case, 3) the interpretative/theoretical case(s), and 4) meta level analysis across cases. Of these, *only number four involves cross-case analysis*. At this level, often a considerably more abstract level than lower levels, there might not even be attempts to preserve case integrity and the theoretical and empirical findings are linked to a wider body of literature (Pettigrew 1997). "Displaying the evidence", writes Pettigrew (1997 p.346), "now becomes even more important because all social science writing is vulnerable to the gaps which appear between more elaborated conceptual ideas and the data needed to substantiate those ideas". This study will include a meta level analysis across cases, which attempts to reflect the empirical evidence in sufficient detail.

McPhee (1990 p.393) addressed the problem of "mixing apples and oranges". Referring to Hammel (1980), McPhee states that reliable comparisons cannot be made between data sets (e.g. cases) if they are not governed by *the same theoretical intent, techniques of data collection, and types of classification*. McPhee (1990 p.394) suggest that there are *three approaches* to integrating longitudinal case studies. In studies where the *dependent variables or the core concepts* and the *independent variables or explanatory concepts* are the *same*, the approach is referred to as *different data-points*. Studies where both are different are referred to as *different images*, and where dependent variables are the same but the independent different McPhee refers to them as *different explanations*. This study might be referred to as *different data points* as it involved three cases that adhered to the same theoretical model, where "differences among cases are explained as the results of the same kinds of determining conditions and events which differ in degree" (McPhee 1990). According to McPhee (1990 p.396), the key challenge in using a single model to integrate several cases is to make sure that "cases with different values for the model's general variables or categories *really* do belong on the same dimension in the order they appear to have" (emphasis added). Thus, as the cases in my study are assumed to do so, methods for comparing the three cases in this study were relatively straightforward (Van de Ven and Huber 1990).

Two basic approaches to inquiry can be distinguished (Miles and Huberman 1994, Ragin 1987): a *variable oriented* analysis, and a *case oriented* analysis. In the variable oriented analysis, the researcher is focusing on a variable across cases, while in the case oriented (s)he is focusing on all variables in one case. However, these approaches can be combined. As I have carried out three cases, I am interested in the individual cases but also in variables across cases (as for instance themes that cut across cases). These are referred to as *mixed strategies*, and are "usually desirable" (Miles and Huberman 1994 p.176).

*Cross-case description and explanation*

In order to *explore and describe* what was "going on" in the cases, several steps of analysis were taken.

First, I chose to simply compare the similarities and differences between the cases, a tactic Eisenhardt (1989) suggest might lead to a more sophisticated understanding. The comparison reflects both deductive and inductive aspects of the research.

Second, I discussed interdependence between governance mechanisms and negotiation strategies in joint decision episodes, relationships between issues (interdependence, dependence, and independence), dependence between events, interdependence between levels of cooperation, and evaluation and assessments of outcomes in relation to the assumptions made in the conceptual model. This analysis was basically deductive, but to some extent exploited the inductive potential in such a study.

Then I turned to discuss governance mechanisms and negotiation strategies and their development over time in the relationships. In order to do this a *time ordered display* was chosen to be particularly appropriate as I am interested in development over time. The particular display chosen is called *scatterplots over time* and was useful as they display similar variables in the cases over three phases. The scatterplots focus on use of governance mechanisms and negotiation strategies. Based on these plots, summary tables were produced to increase simplicity and make the main developmental trends in each case easier to observe. Thus, the scatterplots was reflecting a mixed strategy. This section of the analysis mainly reflects the deductive component of the study, as it basically relates to the suggested conceptual model.

Finally, as a result of the three procedures described, a *composite sequence analysis* was conducted to (more fully) explore and exploit the data set. A composite sequence analysis is also a time-ordered display and a mixed process-oriented strategy that shows "how different cases take diverse pathways through a generally-framed flow of events and states" (Miles and Huberman 1994 p.177). A strength of this approach is that it offers a more comprehensive account of the cases than the scatterplots that are more variable oriented. The composite sequence analysis was conducted to identify developmental paths in the cases. Although each case can be identified in the analysis, the aim was to identify the paths taken. This procedure reflects the inductive aspects of the study fairly well.

The "second part" of the cross case analysis related to *ordering and explaining* was placed in a separate chapter from the exploration and description. In order to provide explanations for the observations of the developmental processes, the empirical observations were confronted with other empirical and conceptual contributions in the field. Based on this several *causal models* were developed, each related to particular aspects of the conceptual framework. A causal model might be understood as a "network of variables with causal connections among them, drawn from multiple case analyses" where the principle is one of theory building (Miles and Huberman 1994 p.222). Doing so, I ordered the models *temporally*, focused on variables that are expected to have *impact*, checked with the case *informants' explanations* where possible, and considered available *research and theory*, as suggested by Miles and Huberman (1994 p.224) as useful rules of thumb.

## VALIDITY AND RELIABILITY

Validity and reliability are key "twin" concepts in scientific empirical research. While *reliability* refers to the stability of a measure (whether or not you are able to get the same answer if you replicate it), *validity* refers to whether your measurement gives the right answer (if you actually have "measured" what you intended to measure). *Objectivity*, in turn, is "the simultaneous realization of as much reliability and validity as possible" (Kirk and Miller 1986 p.20).

### Objectivity

Objectivity is difficult to achieve. Thus, it is useful to think of it in terms of *relative neutrality and freedom from unacknowledged research biases* (Miles and Huberman 1994). Through developing a conceptual framework, I have adopted a particular view. However, as I have discussed the developed model in detail, I have also *communicated my view and the basis for it*, so the reader might take this into account. During data collection I aimed, however, to be open for opportunities in terms of broadening or changing the suggested model through being open and receptive to issues emerging from the data. Also contradictory evidence was searched for, and informants were informed if there were central aspects not discussed in interviews, I would like them to add them. I was also sensitive to issues I seemed to spend time on, which the respondents meant were misleading. In addition a database for the study was developed. Miles and Huberman (1994) suggest that the objectivity issue can be dealt with in several ways (preferably in combination): the methods and procedures can be described in detail, the reader should be able to follow the steps in the analysis, and that conclusions should be explicitly linked to the presented data. These suggestions have been followed.

### Validity

There is a debate going related to relevant criteria for assessing validity in qualitative research. For instance, Guba and Lincoln (1989) claims that validity should be substituted by the concept of "authenticity", while Wolcott (1990) argues that validity may *not* be the most fundamental concept for qualitative research, but that "understanding" is.

Yin (1994) suggests that three kinds of validity should be assessed: construct validity (have there been established correct operational measures for the concepts under study), internal validity (establishing causal relationships, explanatory and causal studies only), and external validity (to what domains can the findings be generalized). *Construct validity* is assumed to be good, as the operational measures used to a large extent are based on previous empirical research. *Internal validity* is also secured through longitudinal data and thorough analysis, checking for competing explanations. With regard to *external validity* (generalizability) I will be cautious and suggest that the findings first and foremost should be generalized to a theoretical domain, refined by drawing on other conceptual and empirical work, and tested on a large sample. However, the finding *might* be generalized to similar dyadic relationships within the respective retail trades, acting in comparable contexts.

Maxwell (1992, 1996) suggests, in addition to generalizability, that descriptive, interpretive, and theoretical validity should be assessed, as they are central to qualitative research. *Descriptive validity* refers to the factual accuracy of the observations, and that the observations are not "made up" or distorted. This is a primary aspect of validity on which the

other validity categories depend. Descriptive validity was secured through several procedures. All interviews were tape-recorded and transcribed by myself in verbatim. Also, additional data sources were used. When the case descriptions had been produced, they were sent to the respondents for accuracy checks, and to get feedback on whether the description contained (too) sensitive information or represented a biased or unbalanced account. The responses indicate very high descriptive validity (a couple of minor factual errors were reported and corrected, one sensitive issue was addressed by one party and masked, and no substantial corrections were needed). *Interpretive validity* refers to how a description of a studied phenomenon also corresponds to a "participants` perspective" ("emic" perspective, as opposed to an "etic" perspective – researcher point of view; Maxwell 1992 p.288). As far as possible, this was reflected in using the language and terms that were used in the settings. By asking for feedback on the descriptions, I also explicitly asked if they felt the description was "wrong" or misconceived from their point of view (it was not). *Theoretical validity* "refers to an account's validity as a theory of some phenomenon" (Maxwell 1996, 1992 p.291). Theoretical validity refers to two aspects of theories: the validity of the concepts themselves as they are applied to the phenomena, and the validity of the postulated relationships among the concepts. As discussed above, as well as previously in the chapter, there are reasons to believe that the theoretical validity is good.

In qualitative research "validity is not an inherent property of a particular method, but pertains to the data" (Maxwell 1992 p.284), and the relationship to those things that they are intended to be an account of (Maxwell 1992, House 1991). Thus, in order to be able to gather such data the use of multiple techniques will surely help, not harm. Although validity is not "a commodity that can be purchased with techniques" (Brinberg & McGrath 1985 p.13), a rich set of data (from different sources) will probably help to strengthen validity.

### **Reliability**

Miles and Huberman (1994 p. 278) pose the following question in order to capture the essence of assessing reliability: "Have things been done with reasonable care?". Thus, "reliability depends essentially on explicitly described observational procedures" (Kirk and Miller 1986 p.41). The underlying issue of reliability is whether the process of the study is consistent, reasonably stable over time and methods, as well as across researchers. According to Yin (1994) the basic objective of reliability is to have a situation where (if) another researcher conducted the same study following the exact same procedures, (s)he would arrive at the same findings and conclusions.

Several authors suggest that during data collection, a case study protocol should be used, that a data base should be developed, field notes should be taken, and so forth (Yin 1994, Strauss & Corbin 1990, Eisenhardt 1989, Jorgensen 1989). The use of *multiple data sources* and the development of a *formal database* (separate from the report) also contribute to the study's reliability. Discussing these matters, Yin (1994 p.95) states: " ... every case study project should strive to develop a formal, presentable data-base, so that, in principle, other investigators can review the evidence directly and not be limited to the written reports. In this manner, a case study database markedly increases the *reliability* of the entire case study". Reliability also depends on the researchers ability to maintain a chain of evidence, so that the reader can "follow the derivation of any evidence from initial research questions to ultimate case study conclusions" (Yin 1994 p.98).

In previous parts of this chapter, I have attempted to give a reasonably detailed description of the procedures and steps taken. A data-base was developed (based on printed reports, online files, and written memos) as the study progressed, implicitly or explicitly showing the underlying process and outcomes of each step. As described, multiple data sources were used. In addition, detailed descriptions have been given, with illustrating excerpts from the "raw" data, and suitable displays are included throughout description and analysis. In addition, having clear research questions, clearly specified basic paradigms and analytic constructs, consistent data across sources, and convergence of multiple informants' accounts, adds to the study's reliability (Miles and Huberman 1994).

### **Pilot studies**

Two pilot case studies were conducted to assess "face" validity of the overall approach and conceptual model. Two dyads in the defined population were purposely sampled. In one dyad, one side only was interviewed. In the other case, both sides were interviewed. Findings indicated an appropriate overall approach and conceptual framework for the study. In particular, the pilot convinced me that the conceptual framework could be related to interfirm settings, that the concepts represented empirical and relevant phenomena, that they were related, and had short- and long-term implications for outcomes in relationships.

### **SUMMARY**

This chapter has in relative detail gone into the process of the study itself. The main reason for providing such a detailed account is that criticism against case research has been related to insufficient reporting of choices, procedures, and difficulty in following the transformation of facts into interpretation, modeling, and conclusions. Consider the following quote: "Unfortunately, data analysis methods are rarely reported in detail in published case studies or ethnographic reports", write Van de Ven and Huber (1990 p.217); "One cannot ordinarily follow how a researcher got from 5.000 pages of field observations to the final conclusion, even though they may be sprinkled with vivid – yet idiosyncratic – quotes from organizational participants. Given the sheer volume of data amassed in a typical longitudinal study of an organizational change process, most research reports violate a basic canon of scientific reporting which demands presentation of the data as distinct from analyses and inferences drawn from those data". This chapter has attempted to respond to first part of this criticism, while the cross-case analysis and discussion chapters' respond to the second part of the quote.

This chapter has covered the main methodological issues relevant for the study. First, the research design was discussed. Several requirements were identified and discussed, which in turn led us to adopt a longitudinal design based on a multiple embedded case study. Then "sampling" logic in case studies was discussed, as was a formal selection frame. The selection frame was used to select three cases. Then within-case selection was described for each case, focusing on business areas, sites, time, and respondents. Each case study was based on several data sources: interviews, archival material and documentation, as well as press clippings. Then I turned to data analysis. Procedures for data analysis during and after data collection were described in detail, including interview procedures, transcription, use of software, coding and retrieval, memoing, a combination of on- and off-screen analysis, and development of data displays for description and explanation. Finally, the core issues of validity and reliability were discussed, and attempts in the study to secure good validity (descriptive, interpretive, theoretical, and external) and reliability were described.



Facts are simple and facts are straight  
Facts are lazy and facts are late  
Facts all come with points of view  
Facts don't do what I want them to  
Facts just twist the truth around  
Facts are living turned inside out  
Facts are getting the best of them  
Facts are nothing on the face of things  
Facts don't stain the furniture  
Facts go out and slam the door  
Facts are written all over your face  
Facts continue to change their shape

David Byrne/Brian Eno, Crosseyed and Painless  
(Quote taken from the 1980 Talking Heads album Remain in Light, Sire Records Company SIR 56 867)



## **6: SCANDINAVIA ONLINE - EUROPAY**

**ATTEMPTS TO BREAK A NEW DISTRIBUTION CHANNEL:  
A COLLABORATION TO DEVELOP AND INTRODUCE SECURE ELECTRONIC  
TRANSACTION APPLICATIONS TO GUARANTEE SAFE TRADE ON THE INTERNET**

*THIS CHAPTER IS ABOUT THE COOPERATION BETWEEN SCANDINAVIA ONLINE AND EUROPAY NORGE AND THEIR COMMERCIAL INTRODUCTION OF SECURE ELECTRONIC TRANSACTION (SET) SOFTWARE, MAKING SECURE ELECTRONIC COMMERCE POSSIBLE. THIS WAS, AT THE TIME, PERCEIVED AS IMPORTANT IN ORDER TO MAKE "THE AVERAGE INTERNET USER" MAKE PURCHASES OVER THE INTERNET. THE CHAPTER STARTS WITH A DESCRIPTION OF THIS "NEW" BUSINESS, GIVES RELEVANT BACKGROUND INFORMATION ON THE PARTIES, AND THEN EXPLAINS THE NOVELTIES OF THE SET SOFTWARE AND THE MUTUAL NEED FOR COOPERATION. THE FIRST SET TRANSACTIONS EVER WERE RUN IN 1996 BY DANISH PAYMENT SYSTEMS (PBS), AND THE SOL-EUROPAY COOPERATION PRODUCED THE WORLDS FIRST CROSS-BORDER SET TRANSACTIONS IN CONJUNCTION WITH PBS.*

*I THEN TURN TO DESCRIBE THE COOPERATIVE AGREEMENT BETWEEN THE PARTIES WITH EMPHASIS ON THE GOVERNANCE MECHANISMS IN THE COLLABORATION. IN LINE WITH THE THEORETICAL FRAMEWORK, INCENTIVES, HIERARCHICAL, AND SOCIALLY BASED ELEMENTS ARE DESCRIBED. FURTHER, CHARACTERISTICS OF THE DECISION PROCESS ARE DESCRIBED IN ORDER TO UNDERSTAND HOW DIFFERING CONCERNS AND STRATEGIES FOR INTERACTION HAVE BEEN RELATED.*

*THEN FOLLOWS A DESCRIPTION OF THE EVENT HISTORY IN THE COOPERATION, FROM THE TIME THE INITIAL AGREEMENTS WERE MADE AND UNTIL THE COOPERATION SLOWLY DIED OUT (A LOT EARLIER THAN WAS EXPECTED). THE EVENT HISTORY DESCRIBES, THROUGH A CHAIN OF EVENTS, HOW GOVERNANCE MECHANISMS AND NEGOTIATION STRATEGIES WERE USED IN ORDER TO MANAGE THE COOPERATION, HOW THESE CHANGED OVER TIME, AND WHAT THE OUTCOMES WERE.*

*IN THE FINAL SECTION OF THE CHAPTER, AN ANALYSIS OF THE PARTNERSHIP IS PRESENTED, BUILDING ON THE THEORETICAL FRAMEWORK PRESENTED EARLIER, AS WELL AS THE CASE DESCRIPTION.*

*A SUMMARY AND SOME CONCLUDING COMMENTS ARE GIVEN.*

*PLEASE NOTE THAT THE DESCRIPTION AND NUMBERS IN THE INTRODUCTION REFER TO THE TIME PERIOD RELEVANT FOR THE CASE HISTORY, AND NOT FOR PRESENT TIME.*

*THE CASE FITS THE THIRD QUADRANT IN THE SELECTION FRAME, TENDING TOWARDS THE FOURTH (COOPERATION TO DEVELOP/FORMAL CONTRACTS TENDING TOWARDS INFORMAL).*

## INTRODUCTION

Five years ago the ideas of online shopping malls, net trade, and e-commerce were obscure. The today taken-for-granted possibility of buying books, CDs or stocks, using your computer in your own home around the clock, from another continent maybe, would a few years ago seem distant. However, as the Internet has been commercialized and become part of our daily life and language, these things seem to be commonplace. In Norway, Scandinavia Online is (still) one of the dominant actors among the Internet access and content providers.

A survey by Norsk Gallup Institutt ([www.gallup.no/menu/internett](http://www.gallup.no/menu/internett)) in may 1998 showed that every fifth internet user in Norway, or about 234.000 people, have ordered or bought goods or services over the Internet at least once. Of these, about 80.000 (6%) were expected to trade on a regular basis. Mainly, these people were young, well-off men, buying software, books, and Cd's. 30% of Norwegian Internet users reported that they considered to trade insecurely over the Internet, and 54% reported that they would trade in case of secure payment transfer. Trade on the Internet has grown fast in Norway the last four years. In august 1996, 64.000 people were estimated to have traded (made purchases) over the Internet. By February 1997 the number was 93.000. In august 1997 159.000, increasing to 234.000 in May 1998. Those who chose not to trade on the net reported that they had no need for it, or because of insecure solutions.

The issue of secure transactions on the Internet has been an important concern to consumers, vendors, banks and card companies. The insecurity of net trade was at the time by tabloid newspapers described by means of emptied personal bank accounts, vendors not receiving payment for products sent and services provided, along with warnings from card companies. On the other hand the business press focused on future possibilities as well as the economic realities (mostly losses) of the "New economy" in Norway.

Imagine you are about to make a purchase over the Internet, and you are asked to give your card information. That was when consumers usually hesitated (and to some extent do). The problem seen from the consumer side is that you leave your card information "in cyberspace", a place you do not necessarily know or trust, and where this information might be available and misused. Many people are not comfortable with *sending* this information, even if the risk of interception is extremely low. In Norway, this seemed to be the primary obstacle for mass use (in addition to the issues of culture and habit).

### The parties

#### *Scandinavia Online*

16 researchers connected to the University of Oslo founded the pioneering Oslonett in 1991, an Internet access provider serving the private market. Oslonett was in September 1995 bought by Schibsted, a Norwegian media corporation. The acquisition was Schibsted's first visible move into the multimedia segment. Two months later, Oslonett changed name to Schibsted Nett ([www.sol.no/sol](http://www.sol.no/sol)).

Also in 1991, Posten (the state owned Postal system) and Telenor (the state owned telephone/telecommunication company) founded Telepost Communication AS. Telepost served the professional business market with Internet products. The name was later changed to Telenor Online (part of the Telenor Corporation).

Schibsted early saw the potential for the Internet as an entertainment channel (and not just a military and academic mail-system) with possibilities for net trade and payment transfer. In August 1996 Schibsted Nett introduced a commercial web site with Internet shops, called SN Nærhandel ("cornershop"). The basic idea was to provide value added for customers (both buyers and sellers) through "serious and secure" actors, and thus create revenues through increased traffic.

Telenor Online, competitor to Schibsted Nett, showed increasing interest in the fast growing private market, but they also seemed promising as an access partner. During fall 1996 Schibsted Nett and Telenor Online started to cooperate, and the 1st of January 1997 the two merged into Scandinavia Online AS (SOL). SOL had, as the name indicates, international ambitions, and perceived Scandinavia as their home market. SOL soon became established in Sweden and Denmark as well. Telenor was to be responsible for the access part, and SOL was to provide content. SOL's main revenues were to come from commercials, provisions, "space rentals", and from membership fees, as part of their services were open for members only. Some services were open to the public, as for instance the search engine Kvasir. SOL developed a wide range of open and restricted services, ranging from food and health to stock exchange information. SOL can be divided into three main business areas: *media channel* (start-up page and access), *technical services* (providing the technological platform for e-commerce - outsourced to SOL daughter SOL System from 1st of January 1998), and as *web designer* (organized in Neo Interactive, a SOL daughter from 1st of June 1997).

Schibsted Nett never earned any money, and the losses in SOL the first year (1997) were approximately 150 millions. This situation continued in 1998, despite the fact that SOL's traffic had increased dramatically. In February 1997 SOL had less than 2.000.000 visited pages per week. In early March 1998 SOL had 339.000 visitors each week visiting 4.693.000 pages, and SOL's search engine, Kvasir, passed 1.6 millions visits per week. However, the loss situation continued in 1998.

#### *Europay Norge*

Europay Norge AS has since 1972 been responsible for issuing international payment cards ([www.europay.no](http://www.europay.no)). The two best known products are EuroCard (Gold) and MasterCard. Europay also offers extended services related to global payment- and information systems in Norway. Europay Norge (hereafter referred to as Europay only) is owned by six Norwegian Banks: Christiania Bank og Kredittkasse, Den norske Bank, Fokus Bank, Nordlandsbanken, Landsbanken, and Romsdals Fellesbank.

Europay (85 employees) is divided into four business areas: Network, Bank services, Card issuing, and Risk management. The two most important business areas for this case are Network and Card issuing. Network is responsible for the network of points-of-interaction, which in Norway counts more than 35.000. Network is responsible for two main areas: 1) Acquiring, which includes total responsibility for the gathering, authorization and settlement of transactions, and 2) Points-of-interaction that is responsible for sales, service and follow-up. Europay Norge Kortleveranser (Card issuing) is responsible for Europay's issuing of cards and related products to the Norwegian market. Their main product is EuroCard Gold. In addition, they also offer EuroCard Travel Administration, an extension of their core product offering.

Europay's brands increased their market share to 42.5% in 1997. About 755.000 cards (debit, included e.g. bank propriety cards) were issued in Norway (1997), and approximately 396.000 of these were EuroCard or MasterCard, yielding a turnover of 9,6 billions for Europay (mostly money in transfer). Europay's profit after tax is about 31,2 millions (1997).

### **The product: Secure Electronic Transactions**

Being aware of the huge potential of e-commerce, and the problem of hesitating consumers, International Business Machines (IBM) developed in the mid-nineties a software standard called Secure Electronic Transaction (SET). SET was intended to be the answer to the security and fraud problem on the Internet by providing secure solutions for net trade. Major card companies such as MasterCard, EuroCard, and Visa supported SET.

SET worked like this: If you entered SOL Nærhandel in order to, for instance, buy a book and a CD, this was no problem as you could visit several shops with the same shopping basket. When you had done shopping, you "clicked" to get to the cash register. This was the point where SET became important. To use SET, you had to have installed an electronic "wallet" onto your computer, and a certificate that works like an electronic "card" with a secret personal four digit number (just like your "physical card" in "the real world"). In a similar manner, the shops carried certified electronic card terminals, or points-of-interaction. When you chose to pay by use of SET, and entered your card information and your personal code, the shop software received your information, and forwarded it to the "real" card system. SET basically kept your card information secret for the shops, but at the same time confirmed for the shop that you had a certified electronic wallet and card. In a similar manner, the software confirmed that the shop was certified by the card authority (Europay). As the SET software in the shop forwarded the information to the real card system, it within few seconds received information from the card system (and your bank) whether you had the money or not. If you had the money, the transaction was accepted. Your card information was only visible for your bank. SET also kept your purchases secret for the bank, as the bank never received information about your purchases (except the specified amount of money, and what account the money should be transferred to). (See [www.mastercard.com/shoponline/set](http://www.mastercard.com/shoponline/set) for a demonstration of a SET purchase)

This way you can make purchases (or sell) over the Internet, without the risk of fraud. Your card information is not revealed to others than your bank, and information regarding your purchases is kept between you and the shopping site. This way security and privacy are taken care of. However, the technical details on the flow of information during the few seconds the transaction takes place is much more complex.

### **The mutual need for cooperation**

SOL, having established Nærhandel (reintroduced in June 1997) on their web pages in August 1996, were interested in developing this particular business area both as a host site for firms that wanted to trade on the Internet, as a internet shop designer, and as supplier of the technical solutions involved. In February 1997 SOL started to prepare for offering SET based solutions to shops hosted by SOL Nærhandel and online consumers. As Sonja Fiskum, Head of Department for Electronic Trade in SOL, puts it:

"... and we started to think "we have to do something regarding SET. We have to be prepared for the fall -97 to be able to accept SET-transactions in our shops". That was a clear strategic intention on our side" (1; please refer to Appendix for quote in Norwegian)

Parallel to SOL's developing interests in net trade, Europay and the Norwegian airline Braathens were secretly developing a SET based technical solution for electronic trade of airline services. In April 1997 Europay and Braathens ran the first SET transactions successfully, and received good press as they went public. By now Europay had proved their ability to produce SET transactions, but the solution developed was not designed for huge volumes. Europay was concerned with how to bring this technology to the market, but was too small and did not possess sufficient competencies to do so on their own. They needed a partner, preferably a web host who could implement the technical solutions and offer these to firms interested in trading on the Internet.

This resulted in search for potential partners on both sides. Contact was made, which resulted in an intentional agreement in March 1997 to do a joint SET project.

### **THE CONTRACTS AND GOVERNANCE MECHANISMS**

Although they defined their possibilities for cooperation on electronic commerce more broadly, the most specific issue was to introduce SET technology to the market to generate gains from e-commerce. Initial discussions were conducted through spring 1997, and resulted in one general cooperative contract dated June 9<sup>th</sup>, and one specific SET contract dated June 17<sup>th</sup>. Both contracts were relatively brief, intentional, did not contain many specific regulations of interaction, and might be considered relatively open frameworks for interaction.

The entire SET project (and the cooperation as such) was building on technical solutions and software from IBM. In addition to cooperative contracts between SOL and Europay, there were also bilateral agreements between SOL and IBM, and Europay and IBM. In the following, I will focus on the relationship between SOL and Europay (as IBM was subcontractor to both).

As the formal contractual framework *per se* was insufficient to govern the relationship (in terms of how to manage the relationship, how to act in occurring events, and guide the parties to arrive at specific decisions), a project steering committee was established soon after the contracts were signed. As the project started, the steering committee established additional governance mechanisms through informal agreements and emerging practice in the early phase. Below, the main governance mechanisms are described without specific focus given to formal or informal aspects. Based on the conceptual framework, the description will focus on economic aspects, the organization of interaction, and social aspects such as trust and personal relations, as well as more general aspects. The description will show how these elements were combined, and how they were given content and meaning.

#### **General aspects**

The general cooperative contract stated the business of each company in such a way that the complementarity became obvious. It concluded that cooperation could strengthen the parties' mutual commercial interests. In a similar manner the business areas also established a frame for the parties' roles in the cooperation, where:

"Europay Norway will issue and maintain certificates and offer secure payment transfer in line with international standards.

SOL will offer a market place; a value-increasing platform/infrastructure for buying and selling where Shop provides goods and services and buyer can order, pay, and choose form of distribution. ... Prepare for competing method of payment by choice of Shop" (2)

(Quote from general contract)

The strategic goal of the agreement was to provide a framework for a long term cooperation where complementary roles, commercial interests, resources, solutions and offerings regarding electronic commerce on the Internet were developed, exploited, and maintained in order to create joint profits. In addition, a very specific goal was expressed: to establish an early cooperation on testing and use of SET transactions including issuing and use of electronic certificates as soon as possible. As mentioned, the cooperation was not restricted to these areas, and several areas of cooperation were identified as possible extensions of their specific project, such as: extended use of electronic certificates, other possible technologies for payment transfer, support systems for distribution over borders (between countries), and the sharing of competencies. However, it was explicitly stated that cooperation in specific pilots was to be regulated in separate agreements, as was the case for the SET cooperation.

The contract did not specify in detail how these goals should be met, but explicitly included that their cooperative roles should find:

"a form that is reasonable and stimulating for both parties" (3)

(Quote from general contract)

Marketing issues were addressed shortly in general terms where joint action was a cornerstone in attempts to address potential shops and consumers.

The SET pilot contract explicitly built on the general cooperative contract, and some of the more general issues were repeated. In addition, a brief schedule was sketched for the first phase of the cooperation. In addition to the general technical orientation of the agreement, marketing issues were addressed in brief:

"Jointly develop a marketing plan to achieve mutual gains" (4)

(Quote from SET contract)

Both contract documents were relatively short (four pages), and approached the cooperation in general terms. In this sense, the contracts (in terms of written documents) did not provide a set of specific actions assigned to a set of specified eventualities for the parties. As Sonja Fiskum (SOL) comments in general:

"Initially to frame the thinking, but we have not used it, checked with it, since. In a way we took the initial discussions on "what is our business, what is their business. ... When these things have set our mind, so to speak, it has not been an operative agreement we have consulted and used later. It is a framework. There are common interests here, and the only specific thing, or the most specific thing is that we gave ourselves a deadline for having come up with a cooperative project on SET. So as long as the aim is that loose, there is less need to regulate potential areas of conflict. What would be the consequences of doing nothing out of such an agreement? The consequence would be very little. Especially as long as there is no money involved, so ..." (5)



The two contract's' durability varies. The general agreement had an infinite horizon, but could be terminated on 3 months' notice. The SET contract lasted through the testing of the SET platform, and a new agreement was to be added as the cooperation entered pilot production. However, such an agreement was never formalized into a written document, as the persons involved in the project did not see the need for such an additional agreement.

### **Economic elements**

#### *Costs*

The most important aspects with regard to economic elements was not found as part of the written contractual documents. However, the following paragraph was included:

"The parties cover their respective costs. In case of unreasonable eschewed distribution another solution will be discussed" (6)

(Quote from general contract)

A consequence of their clear definition of roles and their otherwise distinct areas of business made it easy to split the costs between the parties. As above, the issue was barely touched in the formal documents:

"Economy. The parties cover their own areas of responsibility. Borderline cases will be reported to find an amicable settlement" (7)

(Quote from SET contract)

Relatively early in the cooperation a budget for the project was set up. This mainly regulated the expense side of the project. As the project developed, the budget was upheld, and did not become an issue as their relationship evolved. It was just a framework for spending that was submitted to. However, the expense side and the split of costs were not entirely clear to the parties. To avoid problems some heuristics were mutually understood, and these were in line with their complementary roles. Part of the reason for this was that when they started their cooperation, they did not entirely comprehend what they were about to do. This made it difficult to specify in detail in advance how specific situations should be dealt with.

"We have had some minor discussion on costs, and who pays for what. Trond and I have said that when IBM wants to invoice us for something ... then we have said that this is not really our responsibility, that invoice should be sent to Europay. There has not been any conflict, but there have been some situations in the gray area. Who should really pay for what... and we have been clear on it orally, that gateway-costs is Europay, cardholder costs is Europay, Shop related costs are ours. Obviously a more ... If we had given ourselves a month extra time, and planned things better, then we probably also could have done a few things more orderly and better, but that was not the way it was done. It has to do with the fact that you have to enter an area to understand what you actually will have to do. And I am uncertain as to what extent we had managed to figure out before we had taken in it" (8)

(Quote, Sonja Fiskum, SOL)

This blurred situation did not serve as a source of conflicts. In some instances there were internal discussions concerning who should bear specific costs, and if invoices were forwarded these were taken care of with no further discussion. Sometimes expenses were just covered even if the "gut feeling" was to pass it on. Thus, there was flexibility concerning accepting costs between the parties.

### *Revenues*

Revenues would occur as the SET solution was introduced to the market, and again the parties' defined roles in the project regulated this matter. A single transaction with use of SET would in fact create two separate streams of revenues. Incomes for Europay was generated through fees on cardholders' use of their credit card, just like conventional use of cards, as well as from licensing the necessary SET software to card holders (the SET software would not be included as a standard part of the deal). SOL would receive payment, or provisions, based on the actual sales on SOL Nærhandel, as well as from licensing the necessary SET software to shops. Thus, the parties' clearly defined commercial roles also regulated the split of revenues from the project.

"Well, much of the background for things being described as they are, is, I suppose, an acknowledgement that we ... it was a relatively clear definition of roles and what we should do. In turn this defined what costs we should cover and what revenues we would get" (9)

(Quote, Jørgen Myhrer, Europay)

"You might say that an expression for the thinking has been partnership and joint gains is the business model we have used, where we have priced the access to the possibility and technology on the shopping site low, but where there in addition has been a "rent", or provision, based on sales. The bigger the turnover in the shops, the bigger the share to SOL. And the reasoning goes, the more traffic we contribute to, the bigger the turnover in the stores will be, and because we generate traffic we want more when the turnover increases in the stores. If we generate little traffic and the revenues are small, then we earn less. So both will be punished in a way if the revenues ... or we ... it is really we that are punished in case of low turnover" (10)

(Quote, Sonja Fiskum, SOL)

No estimated measures for expectations in terms of number of SET shops, SET cardholders, or SET transactions were established.

### **Hierarchical and authoritative elements**

#### *Organization of interaction*

Interaction started immediately after the SET agreement, and the first project plan was discussed on the 18<sup>th</sup> of June (the day after the agreement was signed). A steering committee for the SET project was agreed upon, and included representatives from all involved parties: SOL, Europay, and IBM. It was agreed to have one person "responsible", and Trond Beckmann (SOL) took the role as a "project manager". Because of the technical nature of the SET project, it was decided to include representatives from IBM in the project steering committee. However, IBM's role was purely technically related. In addition to the steering committee, separate working groups in each organization to follow up, implement, and report back to the steering group were also established.

In mid august, the project organization was formally established, and Trond Beckmann led the meetings. As the project came "into being", meetings were frequently held. The steering committee in practice became a project work group as the issues discussed and decided upon in the committee became very hands-on.

Hence, the steering committee was in charge of both the more general management of the project, as well as deeply involved in the practical aspects on the operational level of the cooperation. Informal agreements and matter-of-fact working style secured that all project relevant decisions were to be made in the steering group, but smaller technical details could

be decided by whoever was in charge of the specific area. However, these decisions were always consistent with the "higher-level" decisions made in the steering committee.

*Rules and decision rights*

"We have tried to work by consensus. All have agreed that this is reasonable to do. And when consensus has not worked, we have let the minority vote decide. If one party disagrees, we have chosen not to do it. All have to agree if we are to do something" (11)

(Quote, Sonja Fiskum, SOL)

The quote illustrates an important feature of their governance mechanisms: the idea of decisions based on consensus. As the project in many ways was a technical one, all parties were represented with highly technically capable people, so no organizations were given exclusive decision rights for specific areas of the collaboration (in fact IBM was basically an advisor). So in order to arrive at decisions, a sense of consensus was to be established. A very important implication of this mechanism was that in situations where one of the parties disagreed with the suggested decision, the consensus rule represented a possibility for a veto vote. The consequence of a veto vote was that the suggested decision would not be taken (at least not at the actual point in time), and other alternatives had to be worked out. A main reasoning behind this logic was that if one of the parties did not feel comfortable or ready for a given decision, it would be delayed or other alternatives worked out, in order to secure commitment and speed behind the decisions effectuated. An exception would be the details concerning implementation of solutions in own organization. Implementation issues related to, for instance, internal testing in the respective organizations was under organizational control, but still under influence from the committee.

"That is right. I believe that is right, that there was a consensus rule applied. All should accept it, right, and no one ... I cannot recall that we in one way or another have been pushed on any significant decisions. Well, you get pushed on minor issues here and there, that is natural, right, but that is more related to ... that is not related to the major issues. But these are matters ... you talk about the steering group ... such mechanisms were never described anyplace, or agreed on up front, right, it was more related to what we chose all the time" (12)

(Quote, Jørgen Myhrer, Europay)

*Informal formalization*

A certain structure of the steering committee's agenda soon became established, and reflected the different parts of the project (technical platform, card holders certificate, certificates for shops, marketing activities), as well as the work process itself (for instance action points, technical project status, marketing issues, further process, miscellaneous).

In a similar informal manner, a practice developed with regard to keeping minutes of meetings and follow-ups as issues were raised, which helped to structure their work. As this body of documents grew, they added to the earlier contractual documents, and to the evolving understanding between the parties.

### **Trust and personal relations**

Trust and personal relations between individuals employed at SOL and Europay was a significant governance mechanism in the collaboration. During spring and summer the parties got to know each other. Trust developed as the personal relations and personal chemistry was good. Based on "true" common interests a calculative-based interpersonal trust developed early, and after some time of interaction, a more confidence based, or relational based, trust emerged. These aspects proved to be important elements in overcoming conflicts and keeping the collaboration stable and predictable. The following responses were given when the informants were asked to reflect in more "philosophical terms" on what basic elements made the collaboration possible given the formal contractual aspects and the nature of the project:

"I believe there must be a basic trust in each other, so that one is ... open about the way one works, and that the decisions taken one is able to understand why they were taken, that one does not feel that someone has gone behind your back, if you see. SOL has been through a period with many strategic changes, and that is all right as long as one is open and communicates this in a thorough manner. As long as one does not attempt to play each other out against others. I believe that is the most important. That one is able to relate to a serious partner, that you can trust. And that ... the second point is that there are some basic activities involved. I think that is important. The third is persons. That individuals "find" each other, and can keep in touch. Obviously, there must also be some true common interests. That there are areas where you find a common ground where both parties have an interest in doing something together. But to identify that there must be trust, honesty, and knowledge that one can be open" (13)

(Quote, Sonja Fiskum, SOL)

"It mattered that we established relations to people in SOL, that is individuals here and individuals in SOL, that worked well. At least on our side we had great respect for those persons in SOL, because they had ... well, first they had professional knowledge, and they had this straightforward way and openness in the dialogue that ... well, you developed trust in them, these persons in SOL. And it became evident that what they knew of relevance, they told us" (14)

(Quote, Jørgen Myhrer, Europay)

As discussed above, a certain structuring took place with regard to how steering committee meetings proceeded. An important consequence of this, in terms of socially based governance mechanisms, is that a certain norm for appropriate conduct evolved in the working group regarding how to reach decisions. This meant that over time, decisions were reached according to some pattern of interaction.

Another expression of evolving trust between the parties was the intention to establish formal contracts for the SET production phase, which was never realized, partly because the involved individuals were comfortable and confident in their interaction, and partly because they saw less need for such a regulation as they came to understand that their respective roles reduced the need for such an agreement.

As expressed above, the formal contractual documents' main function was to frame the cooperation, and how the parties came to view it. However, these formal aspects to a limited degree provided mechanisms for governance. As discussed, though, their early interaction brought about and established a set of governance mechanisms. Even though these were more informal in character, they proved to be very important during the cooperation. One might say that the formal aspects defined what kind of game one was playing, while the informal aspects specified "the rules of the game". The most important elements identified included an

economic frame for the project, an external incentive structure, a joint decision forum and consensus as a decision rule, as well as personal relations and (evolving) trust.

## CHARACTERISTICS OF THE DECISION PROCESS

As the establishment of a set of governance mechanisms defines (many of) the structural aspects of the collaboration, they also to a certain extent enable or restrain certain actions. However, action (and interaction) in decisive events implies strategies used by the parties, and these strategies (and how they are used) may in turn reinforce or change these same structures (and the way these structures are manifest in terms of mechanisms of governance). In the following section emphasis will be given to such aspects of action. Importantly, the typical decision process will be presented, but a description of concerns and actual strategies put to use will elaborate on this in further detail. Aspects of both distributive and integrative strategies are present.

### The decision entity

As discussed earlier, the steering committee was the main decision entity. The meetings were headed by Trond Beckmann (SOL), who presented to the group the challenges and main issues in a very specific fashion with alternatives for action, and described the consequences for the involved parties. An important aspect was to identify the decision needs, as he was responsible for the project as a whole.

### *A typical decision process*

Quote:

A typical issue ... has been ... that "this activity is delayed, or this has been taking longer, here must IBM, for instance, here we need this solution from IBM with such and such deadline, what can we do to achieve that". And there have been discussions, views, related to how we are going to achieve it and what the real obstacles are. Or Europay might have drawn on experiences from parallel projects they have going, they did not work exclusively with us on this, they work with others as well. With Braathen and Interpost. They could draw on experience "this reminds me of something we have experienced in that cooperation", and IBM could have come up with explanations or suggestions for how things should be done. So it has in part been problem solving, different views, yes ... We have seldom had conflicts as such. The meetings have been focused on solutions, where one ... To the extent there has been any conflict, it has been related to the speed of getting things done. It has not been purely idyllic, that is not what I am trying to say. (15)

Unquote.

(Sonja Fiskum, SOL)

### *Concerns and decision strategies*

A core characteristic of the decision process was information sharing and joint problem solving based on complementary roles and common interests in the market. The focus has been on solutions. Who the suggested solutions came from was not of importance, or given much thought, as the parties typically did not perceive solutions to give priority to one party's concerns at the expense of the other. Typically, both parties would play an active role in the process, in order to enhance the potential of the situation.

"These were approaches to problems we ourselves became aware of in the steering committee, where it was really this group that really worked on the alternatives, right, and there we changed often I think.

Sometimes we presented alternatives, sometimes SOL did, and that was really a very fertile process. It was very focused on solutions, I think" (16)

(Quote, Jørgen Myhrer, Europay)

However, in ongoing relationships many decisions are likely to reflect some degree of compromise, and so also between SOL and Europay. As long as there are two parties in a decision, there is potential for differing concerns. In this cooperation, this difference has often been related to the speed, or progression, of the project. Compromises might be seen as second best solutions for both parties, but arriving at good compromises in the cooperation was important. Compromises were viewed as good decisions, because the parties reasoned that commitment was likely to be stronger than for decisions one to a certain degree was "forced" into. These decisions might not reflect the primary interest for both parties, but implementations were perceived to be more effective.

"Well, if people agree to a decision, then commitment is much stronger. So obviously, when you have to make compromises it gets watered out, but it is a much better guarantee for implementation that people agree. We spent much time on ... in such situations to uncover why the different persons meant what they meant. But that was that ... as I recall, there was low prestige, it was not ... a problem to say that "your suggestion is much better". Even if you are from SOL" (17)

(Quote, Jørgen Myhrer, Europay)

When talking to Jørgen Myhrer in more general terms about their collaboration, decision making and information sharing, the following interaction occurred, and an interesting point:

HN: So by sharing information beyond the issue at hand, one is able to better understand the background for different views?

JM: Yes.

HN: And then it is easier to agree?

JM: Yes. Yes, if you understand the motives of others, it is ... and what their view resides in, then it is much easier to accept. And again, if you do not it could easily become a ... starting suspicion like "ok, here someone pushes just to push". A pure power-game, right. And then much of the cooperative goodwill disappears" (18)

Thus, the parties engaged in an extended kind of information sharing to better be able to understand why their partner acted and argued as they did. As the quote clearly indicates, this kind of extended discussion reduced the level of conflict, and enhanced the reinforcement of trust.

Both parties also described that more *contending elements* were found as part of the process:

"And there were ... there were a few sparks. Regarding SOL wanting a fair amount of, and especially Trond, wanted considerably more structure on some things than we were able to deliver, and were able to make IBM deliver. ... and many of the processes were insufficiently described. Operational processes. How things should be done. And it related to coordination of what was to be done. Routines and things, and yes ... Trond pushed on a few things he wanted to see through" (19)

(Quote, Jørgen Myhrer, Europay)

"When we have tried to have it our way ... you might say that SOL has been the motor in the cooperation. In practice, we have run the project. And we have pushed on both Europay and IBM. So we have used time as a factor, deadlines. We have pushed on strategic goals for all parties. We have tried to view the result related to what all parties really need, and have done earlier. ... That is the strategy we have tried to use, and relate it to former commitments. If IBM means that payment

technology and e-commerce is a strategic focus, then they must prove it practically by making this work. And that SOL ... We have also used, as a strategy, that SOL is a potentially big actor in this, and not only in Norway, but in Scandinavia. So we have used our power as well" (20)

(Quote, Sonja Fiskum)

### *Consensus*

As discussed in the previous section in relation to hierarchical governance mechanisms, an important aspect of the decision process was the use of consensus as a decision rule. This was a very important feature, because it implies the possibility of a veto right regarding any decision. In cases of disagreement, it was chosen to let the "minority" rule, to avoid the situation where a party was "forced" into a decision. As this was discussed earlier, it will not be elaborated on further here.

### *Time consuming*

A special aspect of the cooperation was long decision time frames. Due to the technical nature of the project, it often took a bit of time to establish the facts, and thus get a clear view of the situation. It was important to spend this time in order to avoid "wrong" or "bad" technically related decisions. With regard to the cooperative interests of the parties, this was not a problem. Establishing a clear understanding of each other's interests was not a time consuming process. However, when the parties had established a sufficiently clear understanding of the situation and the technical challenges, possibilities, and possible solutions, decisions were usually made very quickly.

"... the phase of uncovering, getting a picture drawn, "what are the realities here". That has been a much heavier process here than what I have experienced elsewhere. And it has not been because of SOL, I think. It has more to do with the technology and the facts around that. ... In terms of business with SOL, they were very easy to relate to ... to make them come forward with their views, what they want and do not want, and so forth. So it was more technically related. Making the right decisions. What choice do we really have. In general, getting the facts on the table is a fast process, and then it is also relatively easy to see the alternatives, and then the decision process might take some time, typically because of conflict of interests, right. In the project with SOL, I experienced it more like ... it took a long time to get the facts on the table, and then we tried to identify the alternatives as fast as we could, and then we made quick decisions. It was easy to make the decisions when we had the facts" (21)

(Quote, Jørgen Myhrer, Europay)

### *3rd party involvement*

Finally, the inclusion of IBM in the decision entity proved to be valuable in several ways. Most important, IBM representatives could respond to occurring technical issues, clear up ambiguities or uncertainties, inform of relevant technical aspects, and otherwise contribute to the discussions in such a way that the meetings could proceed effectively if difficult technical issues should occur. An important consequence of this was that disagreement and conflict related to technical issues could be cleared out "immediately". This made it easier to keep interaction focused on problem solving.

A possible danger of including IBM could be that they interfered with the business side of the cooperation. However, even though IBM in many ways was a part of the project, their role was basically as a technical advisor and subcontractor.

"... many decisions were so dependent on the technology that I think that many of the decisions would have been strange if we had not had representatives from the technological side. ... What might be the danger of such a constellation is that IBM could have started to have views on issues they were not entitled to have any views on ... business related things. I cannot remember that was any problem. There

was software in beta versions, alpha versions, burdened with bugs, so including IBM was only positive" (22)

(Quote, Jørgen Myhrer, Europay)

Briefly summed up, the most important aspects of the decision process were the collective ones: the steering committee as the decisive entity (with members from SOL, Europay and IBM), the consensus decision rule and implicit veto-vote possibility, and the typical struggle and search for integrative decisions and concern for both parties' interests. Extensive sharing of information and experiences was in this respect a key feature. Contending elements, or tactics, were also sometimes used in order to pursue certain (own) goals at the expense of others, but also to reach integrative outcomes that would otherwise have been delayed. Finally, some decisive situations consummated a lot of time, not due to conflicting interests, but because of the fact that sometimes the facts of situations were not entirely clear to the parties. However, the inclusion of IBM in the steering committee seemed to help this situation, as well as avoiding developing conflict from these circumstances.

### DESCRIPTION OF EVENT HISTORY

This section will describe how the cooperation developed over time. The description will focus on important issues and events, but also indicate the importance of "dull and small" incidents. In addition to the challenge of telling the story of a collaborative relationship, care is also taken to reflect the theoretical framework laid out in earlier chapters.

The cooperative relationship between SOL and Europay went through several phases. An overview of the phases and the most significant events is shown in Figure 13. below. The description divides the cooperation into three phases that reflect the transition stages of the SET software developed in the relationship. Briefly, the first phase refers to the time period from the intentional agreement to carry out a joint SET project and until the first, preliminary or 0.0, version of the software is introduced commercially. This phase covers the period between late winter 1997 until mid November 1997. The second phase refers to the period after the preliminary version of SET is introduced, until the first "real" version, SET 1.0, is introduced commercially to the market in early March 1998. The third phase refers to the period after the SET 1.0 software was available (and secure trade on the internet a reality), and until early July 1998 when SOL finally sold out the technology and related business to Bankenes Betalingsentral (BBS) due to a strategic shift.

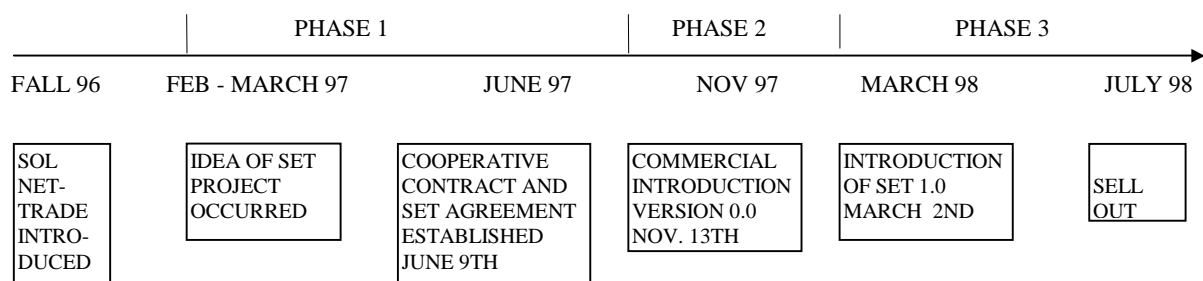


Figure 13.: Phases and events (SOL - Europay)



Over the three phases a total of 48 incidents were identified. Information, on when these occurred, what kind of data source(s) these are derived from, and what general issues these incidents covered, is listed in the Appendix (as is a detailed version of Table 7 below).

The main interaction points in phase 1, 2, and 3 are listed in Table 7. below. Along the vertical axis events are ordered chronologically after dates. Along the horizontal axis the different kinds of issues are listed. The most important events are marked with date in bold types. Other events are secondary, either leading up to or following from these.

### **Phase 1**

This phase covers the early interaction in spring -97, the formal establishment of a contractual framework for cooperation, the specific SET pilot agreement, and subsequent development of technology, related marketing issues, and other activities relevant to their cooperation. Important issues and events in phase one cover the possibilities of a co-branded card between SOL and Europay, the decision to handle marketing jointly, and a change in the technical platform for the project leading to several other changes in the project. In addition, many "unimportant" events are identified, but their significance in establishing an understanding of appropriate conduct and a working practice will be discussed later. Finally, the description of phase one leads up to an interesting handling of a conflict situation.

#### *Event 1 and 2 (970528/970805)*

The parties started to discuss possibilities for joint marketing and profilation during spring. The idea of a joint branded card intended for the private consumer market occurred as a possibility. The idea was to link the card to electronic trade, and this was clearly related to their discussions concerning cooperation on electronic commerce. A co-branded card from SOL and Europay would serve both parties' interest: Europay would become associated with the dominant webhost in Norway and their site, and SOL on the other hand would gain from being associated with the "number two" card actor (after Visa) and effectively be profiled as a "serious and secure" webhost. Contemporary press covering of electronic trade was to a large extent centered on fraud, and building trust in a new distribution channel was important. During summer 1997 the SET project started to take form in terms of what to do, how to do it, and who. At the same time the parties were working to establish an agreement to exploit the possibilities of a co-branded card. SOL engaged in discussions with three possible partners. Unfortunately (for Europay) GE Capital Finans was finally chosen, and (for SOL) the deal was announced somewhat "clumsily".

"... that made difficulties in the cooperation with Europay. During my vacation, they went public and announced that GE Capital was chosen, without informing the other parties they had had talks with. So the way Europay found out, was that it was on print in our member magazine. Which was an unpleasant situation when I came back from holiday. Then we had not acted as a proper partner" (23)

(Quote, Sonja Fiskum)

" ... I remember I was on vacation and got hold of a copy of SOL-iD (SOL magazine), and I read: Secure payment transfer over the Internet for SOL members. And I thought that the guys had done it, right, and when I open the magazine all it says is GE. What the fuck is going on? ... We experienced having a dialogue going with SOL. We talked to SOL, not with individuals in SOL but with the firm SOL we meant we were dealing with. ...But what I know is that is was people like Sonja and Trond that saved much of the cooperation" (24)

(Quote, Jørgen Myhrer)

*Event 3 (970815)*

As the project found its form during summer, the formal establishment of a project organization was decided on in mid August. Collaborative roles and "decision rules" (consensus) started developing in this early phase. An important outcome of the meeting was the agreement to coordinate their marketing activities related to SET (followed up in event 4). The parties also realized that an introduction of SET 1.0 during September (as earlier agreed on) would be difficult because of the technical challenges in the project. A new date for the introduction of 1.0 was estimated to the 15th of November. General issues were discussed, and assignments were distributed.

*Event 4 (970821)*

On August 21st the parties had a meeting mainly focusing on joint marketing possibilities. A range of activities was discussed, focusing on customers, shops, and the professional business market. For instance, a specific possible joint marketing stand, and an editorial presentation of SOL Business Network (SOL BN) in Europay's customer magazine, was discussed. It was decided that further work concerning marketing activities was to be included in their mutual project plan. An important decision in the meeting was to handle all possible co-branding of cards as a separate process (yet parallel to, and dependent on, their project interaction). Europay followed up on this issue and suggested the possibility of a co-branded card intended for SOL BN customers.

*Events 5 through 8 (970905/970908/970911/970912)*

Early September a set of critical events occurred in the cooperation mainly centered on technical problems with the technical platform chosen for the project. On the 5th of September, problems concerning interface between SOL's webstore platform and the SET platform were occurring, and several problems with the SET platform itself were identified, such as instability and "bugs" related to alpha software (alpha and beta software are not "ready" or "finished" versions of software, i.e. software being developed). This also had consequences for the development of the SET software application. During the morning of the 8th of September solutions concerning the SET development problems were found, and a meeting was called immediately, as a possible change concerning the chosen technical platform for the project became interesting. It was decided to stop all further work on the chosen platform, as the meeting advised a change in platform.

This was drastic, because substantial resources were already put down in the formerly chosen platform. In addition, a change would also lead to extra conversion needs, additional costs, and man-hours. Despite of this situation, the meeting did not allow for additional delays for introduction of SET 1.0 in mid November. This situation did not represent a conflict of interest between SOL and Europay (the situation was rather SOL/Europay vs. IBM).

On the 11<sup>th</sup> of September, dates for platform ready for testing, and other related milestones, were scheduled, taking account of the new situation. Realizing the difficulties of introducing SET 1.0 in November due to the changes described, an important decision was to introduce a beta version of SET (version 0.0), which was scheduled to mid October. In a meeting on the following day, the 12<sup>th</sup>, the formal decision to change the technical platform was taken. During this period, related issues certificates, conversions, testing, and so forth were discussed as well.

Marketing issues were also discussed in these meetings, and on the 9<sup>th</sup> it was decided to arrange a brainstorm meeting. On the 9<sup>th</sup> an important decision was made regarding a rebate SOL membership offers to EuroCard Gold holders. This offer was subsequently sent out on the 1<sup>st</sup> of October. Also joint marketing issues concerning the planned introduction of SET 0.0 were discussed.

Also a final project plan, describing project phases and milestones, was included in, or added to, their formal contract, providing an additional set of guidelines for the project's development (970911).

*Event 9 (971010)*

The first test transactions were run in mid-September, and after a period of testing and preparations for upgrading of certificates, several technical challenges occurred in the project meeting the 10<sup>th</sup> of October. Issues were also related to additional test phases and test problems caused by dating of certificates. However, actions were taken so these challenges could be solved. A consequence was a slight delay in estimated introduction date for the 0.0 version of SET. A new date was set to the 27<sup>th</sup> of October.

Several joint marketing issues were discussed, with special focus on marketing activities around the introduction of 0.0. Particularly, a joint marketing stand prior to introduction was discussed. Europay had a stand at Fornebu during October, and wanted SOL to join a week at the end of October. Europay's customer magazine was distributed, with editorial presentation of SOL. SOL took this very positively. In addition, it was agreed to invite SOL Director Erik Hagen to give a speech at a Europay seminar.

SOL dedicated 2 additional employees to work on e-commerce to create additional push.

*Event 10 (971023)*

Despite the fact that many of the technical issues had been solved by this time, the test situation caused another delay on the estimated date for commercial release of SET 0.0. A new date was set to 31<sup>st</sup> of October at the earliest, because it was necessary to test the software in real context by 18 employees in SOL, Europay and IBM.

*Event 11 (971029/971030)*

After discussions in meetings the 17<sup>th</sup> and 23<sup>rd</sup> of October, a joint marketing meeting was held between the CIO's on October 30<sup>th</sup>. Emphasis was placed on coordination of different marketing activities and the introduction of version 0.0.

Table 7.: Description of Event History SOL-Europay

TIME Date	Establishment of contract and governance mechanisms	Joint Marketing	ISSUES					Other
			Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing	Introduction date estimate	
	<i>PHASE I</i>							
970301 <b>970528</b>	Initial agreement							Idea introduced co-branded card
<b>970609</b> <b>970617</b> <b>970805</b>	Contract Contract						Decision	Conflict (card #1)
970815 <b>970821</b>	Addition	Decision Decision	General issues	Decision General issues			Δ	Decision co-brand separate process ∇ (co-brand)
970825 970905 <b>970908</b>	Addition	Action Decision	General issues	Occurring problem Δ	Decision Δ	Occurring problem	∇ ∇	TP
<b>970911</b> 970912	Addition	Action Decision		∇ ∇	∇ ∇	Decision	Δ	EVAL
971010 971015		Action		Occurring problem Breakthrough		Δ	Δ	ED, ∇ (co-brand)
971020 971023		Action Decision, Action	General issues Breakthrough		Breakthrough	Action	Δ	
<b>971029</b> <b>971030</b>		Action				Action Δ, Action	Δ Conflict, Δ	

Δ: Change decision  
∇: Continuance Δ

TP: Transaction prices in market discussed fall  
EVAL: Some informal evaluation done during fall  
ED: 2 more SOL employees dedicated to e-commerce

Table 7.: Description of Event History SOL-Europay(Continued)

TIME Date	Establishment of contract and governance mechanisms	Joint Marketing	ISSUES				Introduction date estimate	Other
			Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing		
<b>971113</b>	<i>PHASE 2</i>	Action	<b>SET 0.0 intro</b>					Evaluations delay/intro
<b>971114</b>		*						* Co-branded card prospect
971203		Attempts	General issues		Decision	Decision	Decision	Desist conflict
980121		Discussion	Preparations 1.0	OK / Problem	Decision	Decision	(Δ)	MS / FT
<b>980130</b>		Decision	Discussion	Occurring problem		Decision	(∇)	MS / FT
<b>9801ul</b>								Conflict (card #2)
980213							Δ	MS / FT
<b>980302</b>	<i>PHASE 3</i> (∇)		<b>SET 1.0 intro</b>			Decision		End evaluation SET project
9804ul								Spin-offs
9805ul		Attempts						New strategy SOL
<b>9807pr</b>								<b>SOL sell out</b>

Δ: Change decision                      MS: Market slow  
 ∇: Continuance Δ                      FT: Few SET transactions

On Wednesday the 29<sup>th</sup> of October the steering group met to finally decide the introduction date for version 0.0. A change of certificates was scheduled to Monday the 3<sup>rd</sup> of November, so it seemed convenient to introduce version 0.0 the coming Friday. The following situation occurred:

"Europay argued that we should run a demonstration and introduce this before the change to have a safe technology to promote the service with. We asked "are you certain about the events of November the 3<sup>rd</sup>, so that we do not get a period with the system down" (certificates are Europay's responsibility), and they were comfortable. That Wednesday, we had a steering group meeting where it was decided to introduce the service on Friday, but we gave ourselves a last chance until Tuesday at noon in case something went wrong. And it is correct to say that we had not for different reasons been able to run thorough tests before that Wednesday. However, the decision was taken jointly "we will do it". Tuesday at 11:30 AM Europay calls to let us know that they would not introduce on Friday, and that was a bit problematic. We had been preparing for Friday, communicated the introduction to our stores, we had planned marketing activities, advertisements on the Internet ... Europay's argument was that they felt uncertain about the routines regarding November the 3<sup>rd</sup> ... I could understand their arguments, but I was surprised that this had happened overnight. My colleague in the marketing department ... reacted more severely. He thought the decision was very problematic... there were no new arguments ... because Europay themselves had been pushing for the agreement, so we did not like it. We called a meeting the same afternoon, where we were rather outspoken as we perceived it as very unfortunate, but signaled that we had to look ahead" (25)

(Quote, Sonja Fiskum, SOL)

"we ... just said no. And ... SOL just had to accept our veto. Part of the background was that we had this competitive situation between SOL and Interpost. And I guess we had a feeling that for Ole Nordheim, the important thing was to introduce before Interpost, rather than to introduce at that particular time" (26)

(Quote, Jørgen Myhrer, Europay)

Both parties perceived the situation as problematic, and Europay was searching for a way to neutralize the situation. Europay came up with the following:

"I remember that subsequently, we came up with this thing "damn, we must try to get them to introduce jointly" in order to neutralize the situation" (27)

(Quote, Jørgen Myhrer, Europay)

The idea of a joint launch with SET competitor Interpost was recognized as a good solution:

"Then this idea came from Europay: "why not try to make the big joint initiative, with Interpost, DnB, Postbanken", who were about to introduce anyway. It is correct that we argued early in the project that we wanted to introduce before Interpost, so Europay tried to neutralize the situation by suggesting a joint initiative. We were satisfied with that. We were positive, and after some treatment Interpost was as well, the banks were satisfied. ... There are always possibilities in a situation, to change it. While at the same time you have to "voice" your opinion, one should take care to keep some doors open. So in the end, the solution was very good" (28)

(Quote, Sonja Fiskum, SOL)

"I think what we achieved was very good. It was good externally as well. It was fairly easy to convince SOL when they idea was presented to them. They were more concerned with the issue of establishing trust to the new payment transfer system, and then we are better off if everyone states the same..." (29)

(Quote, Jørgen Myhrer, Europay)

Thus, all parties pooled their marketing efforts into one event, and spoke with one voice to the market. This way they minimized risk for the impression that one or the other version of SET was more or less secure, and jointly attempted to establish necessary trust to SET in the market. Introduction was set to November the 13th.

## **Phase 2**

Phase 2 refers to all activities in the cooperation from the commercial introduction of the 0.0 version in mid November 1997 and up to the introduction of SET 1.0 in early March 1998. The most important events aside from the successful introduction of SET version 0.0, was another occurrence regarding the possibilities of a co-branded card between SOL and Europay, and further delays regarding the introduction of SET 1.0. However, technical issues and further delays of SET version 1.0 by now were almost becoming "standard operating procedure", so this was not really "any problem" as the actual use of SET transactions in the market was developing slowly. Then again, this fact may also be an expression of the evolving relationship, as we will return to later.

This phase of the cooperation was less intense in terms of interaction and decision points than phase 1. Phase 2 builds on the same formal (written) contractual framework as phase 1. By the turn of the year SOL System AS was established including the technical staff committed to the project. SOL System was fully owned by SOL, and the work related to the project continued as before.

### *Event 12 (971113)*

SET version 0.0 was introduced commercially to the market on the 13<sup>th</sup> of November, with press conference, web marketing, letters to customers, profilation of SOL Nærhandel's Internet shops, and so forth. After the introduction the parties evaluated both the interactions prior to the release, and the actual release of version 0.0 itself. This represented the first "real" evaluation of their cooperative project so far, however some informal and random appraisals occurred during fall, either in the form of representatives from SOL and Europay addressing the issue in conversations, internal presentations of the project in the respective organizations, or comments and information in the steering committee related to project progression. As indicated above, the parties were not pleased about their initial conflict, but eventually both parties were happy the way things got solved, and how introduction of 0.0 came off.

### *Event 13 and 14 (971114/9801ultimo)*

A letter from Europay to SOL dated the 14<sup>th</sup> of November picked up on the issue of a co-branded card, both for the private market and business market (see events 1, 2, and 4). Due to earlier discussions, intentions were to co-brand a three-level "loyalty" card: (level) 1) a SOL member card (no payment functions), 2) SOL/EuroCard Web for Internet use only, and 3) a SOL MasterCard (ordinary MasterCard functionality). The SOL/EuroCard Web idea represented a possible *new* product. For the second time, a process on possible co-branding of a card was established parallel to the SET project.

This process developed, and in the end of January SOL for a second time rejected the suggested offer from Europay and chose another partner instead. This was very much to Europay's surprise (it should be noted that neither the first time nor this time did any of SOL's employees in the project make the decision). However, the spillovers to the SET project were obvious. Sonja Fiskum explains:

"Then again they were approached by SOL AS. I was not involved in that. And their first reaction was "why bother to do this again", but then they chose to make another attempt. ... Europay worked out a concept, and came back to SOL with it, price tags and all, but ... it was never realized. And that was like the second time. ... The co-branded card was not a part of the project, but I assume that the decision SOL made had impact on the cooperative climate and Europay's ... energy in the cooperation. ...Negatively. ... Obviously, SOL was very interested in getting a good offer, and Europay was very interested in making this work ... but in the end ... How would you assess it? We had an opportunity, but ended nowhere. A pure ... opportunity ... but SOL could get a better deal with another supplier. That is business" (30)

Asked to comment on the episode, Jørgen Myhrer (Europay) responded (excerpt from interview):

JM: ... as I recall, there were similarities as suddenly other decision-makers entered the arena and it appeared that they had been running another project in the SOL hierarchy, and made some decisions.  
HN: Do you think it affected the activity level after the introduction of 1.0, and the low activity level?  
JM: At least for Card issuing. And I mean, Gry ... who is in charge there ... I remember she called the top management in SOL, and was rather upset over what was happening. As far as I remember.  
HN: So the situation was not good for activities related to 1.0?  
JM: It was not good for that. But ... I do not quite remember how they co-occurred. In relation to the project ... it was not that problematic. But for the related marketing directed towards the card customers, it cooled our initiatives considerably" (31)

### *Other interaction in phase 2*

Phase 2 was basically a period of additional testing and conversions. The parties hoped to be able to introduce SET 1.0 commercially the on 15<sup>th</sup> of February.

Marketing issues were also part of the project, but partly handled by the project group, partly by a separate marketing group (which to a large extent remained passive). Attempts were made to include other SET actors in the marketing, but this proved difficult as other external SET projects were delayed. An external forum, Trygg Netthandel, was to some extent the arena for joint marketing discussions. SOL did not push Europay in the SET project to market the 0.0 version because of the conversion needed as software changed from 0.0 to 1.0.

Some technological problems were discussed (late January), and the parties were prepared for possible delays concerning the introduction of SET 1.0 due to testing needs and platform capacity problems.

Since the introduction of version 0.0 the market had been developing slowly, and relatively few SET transactions had taken place. Initial expectations regarding the number of issued certificates and transaction volume had not been met. The market seemed expectant. The situation was attributed to a "hen-and-egg" situation: relatively few SET certified shops kept potential SET certified card holders waiting, and relatively few SET certified card holders kept potential SET certified shops waiting. So far, the cooperating parties had covered the costs of certification of both shops and cardholders.

The parties had given themselves time for testing and final preparations for the introduction of SET 1.0 until the 13<sup>th</sup> of February. Then they planned to evaluate status, and decide whether to introduce 1.0 the 15<sup>th</sup> of February. There were still some problems. As the market was developing slowly, a final delay was allowed in order to make some final corrections. The 1.0 introduction was set to the 2<sup>nd</sup> of March.



### **Phase 3**

Phase 3 refers to the cooperation from the commercial introduction of SET 1.0 the 2<sup>nd</sup> of March 1998 and until SOL *sold out* their Internet shop agreements and the developed SET technology in early July 1998. Important events include a couple of collaborative spin-offs and a joint marketing attempt in early summer. However, maybe the most important aspects are not reflected or taking place, in joint decisive events. One relevant aspect was that once the technical project was concluded, the employees in SOL System were not active in SOL's (now their owner) internal strategic discussions.

#### *Change: An introduction to the end*

As phase 3 began, the project steering committee dissolved. The general cooperative contract signed the 9<sup>th</sup> of June 1997 at this point served as the main foundation for the cooperation. In addition to some of the project participants, new employees (to the project) in both organizations take over the responsibilities for the operative production of SET transactions. The collaboration changes from "project" to "line" organization; from a technology development project, to a marketing and production task; with a SOL organization showing strategic uncertainty and developing losses.

The most important change in phase 3, compared to phase 1 and 2, is the dramatic change in interaction intensity, following from the dissolution of the project group, and the fact that the SET pilot was finished, and the cooperation in principle changed to a marketing orientation. An important consequence of this was that some of the persons that were active in the project took a less active role in the cooperation, and new persons were supposed to bring the cooperation forward. However, these did not possess the same kind of ownership to the collaboration.

Another important change was the strategic change that occurred in SOL the months following after the introduction of SET 1.0. Formerly, SOL had worked across functions, and managed to integrate their roles as a provider of content and Internet access, web-site and Internet shop designer through Neo Interactive, and as an operator of the technical platform. As SOL System AS was organized as an independent organization under SOL AS, these three roles were split apart, and SOL's strategic focus was placed on their role as a media channel. This process resulted in unclear strategic signals during spring, and a withdrawal from SOL System from active cooperation as their future role was not clearly defined.

These aspects also had a contagious effect on marketing efforts in the cooperation, and joint marketing issues were more or less addressed in an external SET project, Trygg Netthandel. This was not very productive, as this project was not willing to promote SET, due to delays in other SET software development projects.

As phase 3 was rather sparse in terms of events, the cooperation changed both in quality and quantity. The fact that the market for SET developed very slowly, in addition to the above-described circumstances, resulted in the cooperation falling apart.

#### *Event 15 (980302)*

The introduction of SET version 1.0 represented the final stage of the SET agreement (970617). By the 2<sup>nd</sup> of March, the market still hesitated to use SET. After the introduction the parties evaluated their cooperation, and both parties were highly satisfied with their outcomes.

"We experienced that we had managed to work together without having a particularly formalized agreement, so that was an achievement, that we managed to break some technical boundaries and made it work ... No other actors in Norway have made it work like we have ... everybody else that has been working with this has spent a very long time. So, speaking of the technical side, we are very happy" (32)  
(Quote, Sonja Fiskum)

"... considering the technological aspects and what we did there, our evaluation of SOL after the conversion to 1.0 in March was very good. We viewed SOL as a very professional partner, with which we wanted to do more projects" (33)

(Quote, Jørgen Myhrer)

These quotes refer much to the "technical project", as this was the cooperative core. Both parties report good personal relations, a clear definition of roles, and a successful technical achievement. The evaluation was also under heavy influence of how they perceived their project in context, and their future expectations for SET 1.0. By the start of March, the parties' expectations for the future were good as they believed they had managed to position themselves favorably as Trygg Netthandel (the external SET project with several central actors) was expected to start promotion of SET as soon as in April, the following month. A marketing campaign in spring was planned in order to "surf the SET wave". So in early March the parties perceived the cooperation as very successful, and gave it a good evaluation.

#### *Event 16 and 17 (9804ul)*

At the end of April, two events occurred. First, Europay approached SOL with an invitation to participate in a Smart card project for web use. The idea was to develop a Smart-card that could be used for secure transactions and payment on the Internet. Different technical solutions were imagined, but relatively soon, the chip technology appeared to be insufficiently developed. The fact that Europay suggested this for SOL was a direct consequence of their cooperation.

Another episode, also influenced by their cooperation, was coming from Neo Interaktiv (a SOL company) and their design of web bookshop "Bokkilden". Europay was offered the opportunity of joint profilation on their web-site, as a way to finance the "store". Also, this was a result of prior interaction, personal relations, and an understanding of joint interests. However, the initiative was not an attempt to bring the collaboration back to a strategic level.

#### *Event 18 (9805ul)*

In late May and early June a joint marketing campaign organized in order to promote the use of SET; it was a kind of "Get SET" campaign. However, the campaign turned out rather anonymous. As Jørgen Myhrer recapitulates:

"Yes, but I got the feeling it was somewhat half-hearted. I cannot point to exactly why, but I kind of do not have that ... there was no particular enthusiasm involved" (34)

SOL also expressed this view.

#### *Event 19 (9807pr)*

In early July, just a year after their cooperative contracts was signed, SOL sold out their agreements with the 22 internet shops located at SOL Nærhandel, and related SET technology to Bankenes Betalingsentral.

### **Outcomes and evaluations**

During the three phases, some evaluations were made. In the project, the most important and formal evaluations were related to the two introductions of SET software to the market (the 0.0 and 1.0 versions). In the case of the 0.0 version, the process leading up to it had been technically difficult and in part characterized by conflict. However, as they managed to reach a good solution for both parties the evaluation was basically (very) good as they had reached a technological breakthrough, an important evaluative dimension. As they experienced a positive reaction from the market in terms of applications for SET certificates, they also saw possibilities for business. In addition, the evaluation related to the introduction of SET 1.0 was very good, as they had managed to introduce the software in a version that was fully operational at a 1.0 level that they felt they could put more marketing into. The technical project was successful, and the parties' expectations for future production of transactions were high and partly due to expectations for marketing of SET solutions on a trade level (including Visa, Trygg Netthandel, banks and other actors).

During phase 1 and 2, many of the evaluations were related to project progression. Typically, status reports were given in each steering group meeting related to decisions taken in previous meetings. The parties had a close working relationship, gave feedback and supported each other, and discussed the development frequently, but in an informal fashion. Much of the ongoing evaluation was related to correction of technical problems during the development of the software (in terms of negative feedback). Basically, no systematic evaluations were conducted. Also internal discussions and presentations related to the project represented opportunities to evaluate, but it was typically done informally and orally. As a result of this ongoing, but informal, assessment of the project, roles were further developed in the cooperation. As clear understandings related to responsibilities became shared, it became easier to identify each party's contribution.

Also with regard to evaluations, the parties shared the technical perspective in phase 1 and 2. As phase 1 only represented costs and no revenues, the primary economically focused evaluations were related to keeping the budget. As they kept the budget, the economic evaluation became no important issue. During phase 2, the technical dimension of the project was still the single most important thing, and this was also reflected in the informal evaluations. However, they observed some interest for the product in the market in terms of certificate applications. The numbers pleased them, as the marketing of the software at the time was limited compared to what they expected would be the case later when the 1.0 version would be released, and other actors in the trade would launch their SET initiatives commercially.

As the project developed well technically through close working relations, and the parties experienced each other as highly competent, positive feelings towards each other as colleagues developed and affected the overall assessment of the cooperation, as expressed by both parties.

During phase 1 and 2 there was a parallel process between SOL and Europay related to the two card histories. Both of these initiatives were related to the SET project, but not an integral part of it. However, they were seen in relation, although handled by different parts of the respective organizations. Both outcomes of these processes for Europay in particular, but also for SOL System (the second time), were unfavorable as they were turned down. In particular, the second turndown was evaluated as a negative incident in the relationship that had

consequences for the overall assessment of the cooperation. Although the technical project was evaluated as successful, both parties expressed that the second turndown was seen as negative, and had negative impact on the cooperative orientation.

During phase 3, the whole cooperation changed, including evaluations. The evaluation of the 1.0 introduction was, as described, technically oriented and very positive at the time. However, as expressed by Europay, the evaluation would have been very different (and negative) if it had been known that SOL eventually would sell out. As the cooperation changed and became more market oriented, the evaluations emphasized the economic dimensions more explicitly. Unfortunately, most of those who had applied for SET certificates chose not to download them, and during spring only about one fourth were in use. As the shops carrying SET mostly were bookshops, CD shops, and gift shops, the frequency of produced transactions was low. This was a joint concern for the parties, who attempted to run a marketing campaign. As little came out of this, the following evaluation was not very positive. During spring, it became clear that the parties had different expectations for the actual volume and revenues from the production of transactions. While Europay expected little from the first year, SOL had higher expectations. Thus, SOL and Europay's internal evaluations were different.

Also relevant was the general situation in the SOL corporate system. They changed their organization (relatively) frequently in order to implement their strategies, but also as a response to the developing economic situation (huge losses during several years). During late phase 2 and through phase 3, SOL worked with new possible strategic directions, and the whole SET project was no longer a part of their core activity in their future plans. In part, new people were working on the project, without the same ownership (and emotions) as the technical staff. As the project did not represent the source of revenues as expected the evaluation was increasingly negative and eventually SOL decided to outsource, or sell, the technology. Basically, SOL wanted to re-define their own role, not only in relation to Europay, but in the trade as well.

### **Summary**

Above I have described the cooperation between Scandinavia Online and Europay Norge, and their attempts to introduce Secure Electronic Transactions (SET) to the (primarily) Norwegian market. SET makes it possible to trade securely on the Internet. The contractual governance mechanisms in the collaboration were described, emphasizing economic elements such as budgets and external incentives, hierarchical elements such as the project group, decision rules and decision rights, and social mechanisms such as trust, personal relations, and developing relation-specific norms for appropriate conduct. Then aspects of the decision process were described. The typical process was characterized as integrative, with sharing of information and understanding of each other's concerns as key elements. The evolving trust in the relations made this possible. Specific governance mechanisms, such as consensus rules, were important in the decision processes. However, more typical contending tactics were also found present, and described. Then followed an event history for the cooperation, divided into three phases. Important events in phase 1 included the idea of a co-branded card, the establishment of a working group with certain working rules, the change of technical platform for the project, the delays, and the joint introduction. Phase 2 started with the introduction of SET 0.0, and ended with another co-branding history and more delays. Phase 3 started with the introduction of SET 1.0, and included some spin-offs and a marketing attempt, before SOL sold out in July. Also, important aspects of, and for, the collaboration that were not

reflected in "events" were included in the description. The description was intended to reflect the theoretical framework laid out in earlier chapters.

## **ANALYSIS AND INTERPRETATIONS**

In this section of the chapter, I will present an analysis of the case based on the description above. While the description of the parties, the product, the business, the governance mechanisms, the decision process, as well as the event history, is drawn from the empirical data (see Appendix 2. for a list of sources), the analysis presented here represents my interpretations of them. In a similar manner as the description, the analysis will build on and be related to the theoretical framework. First I will discuss the established governance mechanisms and implications of these for interaction and use of decision strategies in the collaboration. Then I will turn to discussing the issue(s) of governance and interaction in main and secondary events in phase 1, 2, and 3. A discussion of outcomes and their evaluations will end this section.

### **Establishment of governance mechanisms and implications for interaction strategies**

Through their two (written) contractual relations, SOL and Europay established the formal aspects of the collaboration. However, these formal aspects are to a certain extent abstract intentions, for instance expressed in phrases like their cooperative roles should find "a form that is reasonable and stimulating for both parties".

Economic elements follow to a certain degree from their definitions of roles, as the parties "bear their own respective costs". Their income is also defined by their roles, and each party received revenues from user transactions when the technology was introduced. The strongest incentives to commercially create revenues from the technology thus were not included explicitly in the contractual framework. An important addition to the contract was a budget for the project that set the financial limits for the project. As this budget was held, the economic conditions of the project did not become a very important governance mechanism in phase 1 and 2.

More important were the hierarchical, or authoritative, mechanisms established as interaction in the project started. Most important was possibly the establishment of a joint steering committee, which secured all the involved parties a "place at the decision table", and thus be able to play an active part in the joint decision process. Another important aspect was the role of SOL employee Trond Beckmann, who served as a project manager. This placed "the responsibility" with one person, and a spread of responsibilities over different persons was avoided. The parties reported great satisfaction with this organization, and it seemed natural to place this responsibility with SOL because of the nature of the project. A further pro was that one could economize on coordination, as one person had the leading role. The project group found a "natural" way of working together, and as the roles and the project group's work process were not disturbed by different views of how interaction should take place, a norm for interaction was allowed to become established early.

A key feature of the decision process in the steering committee was the fact that the parties agreed on a consensus rule. In practice, this meant that no joint decision would pass without the explicit agreement from all parties. As mentioned, an important reasoning behind this was concern for commitment to the decisions made. However, this decision rule has several important ramifications:

*\* It presses the parties to come forward with their interests and concerns*

When discussing several issues, or several possible solutions to a single issue, it becomes necessary to share information regarding their underlying concerns and intentions, in order to reach decisions that both parties are willing to support.

*\* If veto is used, this should initiate information sharing in order to understand motives*

If a veto is used, it tells that there is no consensus, and a decision cannot be reached if the positions are not changed. Positions might be changed or moderated without additional sharing of information, but if the intention is to collaborate in order to create joint gains on a long-term basis, information sharing should take place.

*\* It restrains contending*

A consensus rule restrains contending because of the implicit veto vote of the "weak" party. If one party perceives the other as contending in order to get "unfair" outcomes, veto can be used, and the contender must settle for other solutions. This way it will not make any sense to be pushing without at the same time showing concern for the partner's outcomes.

*\* It forces yielding from the possible contender*

If one party contends beyond the limits of acceptance, and a veto vote is used, it automatically forces the contending party to yield, and settle for solutions within the other party's range of possibilities (assuming the primary interest is to reach decisions/outcomes that are "good" for both parties).

*\* It keeps the interaction along the integrative dimension*

Following the reasoning above, the consequence is that the consensus rule by constraining competitive behavior enables and encourages the search for decisions that are integrative.

*In sum, it creates stability and predictability and represents an insurance against imposed decisions.*

The decision to include IBM in the project group was an important decision, as the result is immediate availability of technical expertise on relevant issues, and the ability to move faster ahead, compared to a situation where IBM was outside the project group. This kind of information availability was important for the parties to interact efficiently.

Finally, the relative fast establishment of trust and good personal relations between the involved individuals also had important impacts, as the parties felt at ease and were able to share information and rely on each other's expressed intentions. High levels of trust and the described organization of interaction, created a set of norms that enhanced stability, predictability, and established a shared understanding of appropriate conduct.

### **Governance and interaction in phase 1: Main events**

As described earlier, the main events in phase 1 included the first occasion of a possible co-branded card, the joint marketing decision in August, the decision to change the technical platform, and the introduction events in late October, in addition to the contractual agreements in June.

The idea of a co-branded card (event 1) was introduced as a joint marketing attempt in order to achieve loyal customers as the parties' joint source of income. The idea occurred, as they were about to formalize the agreements on e-commerce. SOL explicitly had talks with several actors, but the idea was clearly related to their joint project. During interaction in summer, the parties developed trust in each other, and when the rejection of Europay as a partner on this came from SOL (in a somewhat rude manner), this was an expression of rather contending strategic behavior, in spite of their obvious mutual interests in e-commerce. The outcome reflects low concern from SOL regarding Europay's interests on this issue. However, as the parties report, what "saved" the good climate and integrative focus in the SET project, was the sufficient amount of trust between the key actors in both organizations. Another result of this episode is reflected in the decision in late August (event 6), when the idea of another co-branded card was discussed, and the parties chose to handle this as a separate process (yet related to the SET project). By handling the process as parallel to the SET pilot, they managed to keep possible further conflicts regarding this issue separate from their main project. A consequence was that they managed to "export" conflict issues from their primary interaction.

In late August (event 4) the parties agreed to coordinate their marketing activities. This was an important decision, because they explicitly focused on their common interests, and this decision "secured" a situation where both parties' interests were acknowledged as equally important in future decisions.

As the project evolved, problems occurred related to the chosen technical platform (events 5 through 8). A range of problems and technical uncertainties were experienced. This led to a discussion related to a specific technical problem. A solution to this problem was found an early morning in the SOL organization, and a meeting was called. The suggested solution questioned the chosen platform, and another version became interesting. This search for solutions ultimately resulted in a change of technical platform, even though the consequences were major. The planned introduction of SET 1.0 became delayed, an interim version 0.0 was scheduled, and additional testing and conversions were needed with additional costs and man-hours as a result. However, their focus on a safe technological platform and transaction stability was a primary and shared interest. Although this fact implied problems in the project, it did not evoke conflicts of interest.

The introduction of version 0.0 was planned for late October (event 11) after several delays. As described earlier, after a "final" agreement both parties felt confident in the agreed-upon date. On second thoughts Europay used their "veto right" to reverse the decision. This occurrence represents the first serious conflict in the SET project. SOL was already committed to third parties regarding marketing of the introduction, and maybe more important, had the opportunity to be the first actor among the web-hosts to introduce SET software. The decision to wait was by some actors in SOL perceived as a breach of commitment, and the conflict became manifest. Europay responded to this situation by introducing new elements to the situation, and suggested a joint introduction with Interpost, one of SOL's main competitors. Europay's argumentation was to a large extent based on their common interests in establishing trust in the SET software in the market, and they succeeded. All parties finally perceived the outcome as a desirable solution, and they managed to turn the conflict into a better solution for all parties involved. By making use of their veto rights and personal relations, the parties were able to change interaction from a contending mode into a problem-solving mode. As a result of earlier information sharing Europay understood SOL's underlying intentions, and

used this knowledge to search for new possibilities. New elements were introduced creatively, and the process took an integrative direction.

### **Governance and interaction in phase 1: Secondary events**

As interaction in phase 1 was intense, a number of events occurred, often involving a set of continuous issues, such as marketing and technical aspects (software development, testing, issuing of certificates). Most of these events did not involve conflict of interest, and interaction was based on consensus decisions and trust. Interaction was mainly oriented towards integration of interests through the use of problem solving techniques such as information sharing, and log rolling (also) over time sometimes (informally) combined with unspecified compensations. These techniques were to a large extent evolving "naturally" (became part of the interaction, but were not decided upon explicitly by the parties). An example could be the rebate SOL membership to EuroCard Gold customers, "reciprocated" through presentation of SOL Business Network and Internet shops in Europay's customer magazine. Another example could be the parties' acceptance of costs, as they trusted a reciprocation logic: "this time us, next time them".

Although they were oriented towards solving problems, this often resulted in compromises, for instance on time estimates for the pilots' different phases, as SOL is reported to be the "pushing" part. However, conflict of interest was not a problem, and they managed to move along an integrative dimension.

The importance of these events is not related to each event per se, but the chain of events they eventually create. Over time these events established a norm for how interaction should take place, and created a certain decision process that reflected concern for both parties' interests. Their decision rules were reinforced through interaction, trust and personal relations were strengthened, and a better understanding of each others underlying concerns developed and informed on the joint decisions made. One might say that a certain social practice developed.

### **Governance and interaction in phase 2: Main events**

The second phase starts with the introduction of SET version 0.0, and related marketing activities, as the parties' joint efforts had resulted in commercially functional software, and certificates were issued and transactions started to take place.

During October there had been meetings parallel to the SET pilot, and just after the introduction Europay picks up on the issue of a co-branded card with specific suggestions and ideas (event 13). SOL found the proposal interesting, and again, a process of developing a co-branded card started (as a separate process). With the former card history still in mind, Europay went for it once again, and one of the reasons seemed to be the fact that interaction in the SET pilot had been to the benefit of both parties, and they seemed to be confident in their partner's intentions. Further, experience had shown the parties' ability to "make it". Intentions were the best from both sides (at least initially), and the suggested three-level card also included a brand new product called EuroCard Web, specially intended for electronic transactions on the web only. This was potentially able to boost issuing of SET certificates and SET transactions, and was of important concern to both parties. A realization of this would have been highly integrative in terms of interests.

However, as Europay in late January 1998 came forward with the final proposal for the card, with "price tags and all", SOL withdrew from further discussion, and chose another partner, to



Europay's big surprise (event 14). Once again, SOL turned down the offer from Europay. As before, the decision was taken by actors "external" to the project, and it became known that other actors in the SOL system had dealt with other potential partners. This time the conflict was more critical, and Europay started to doubt the intentions expressed by SOL. What seemed to be an integrative and joint cooperative process, proved to be strongly competitive from SOL's side.

Prior to this conflict, the steering committee had decided to direct further marketing discussions to an external SET project called Trygg Netthandel. This was an important decision, as the project was about to turn into a marketing oriented cooperation in order to harvest from earlier investments. This was done at the same time as the parties observed that the market for SET transaction developed slowly. However, SOL had not been pushing on Europay to market the 0.0 version, as a change in certificates would be needed, when the 1.0 version was introduced. What SOL had done was to use meetings in Trygg Netthandel to push several actors to market SET, and not Europay in particular. This way, they once again "exported" issues with differing concerns to an external forum, avoiding conflict in the SET project.

### **Governance and interaction in phase 2: Secondary events**

Phase 2 also had several interaction points secondary to the more important events. To a large extent, these centered on preparations for the introduction of SET 1.0. As in phase one, these events had a shared focus on joint interests in being able to introduce well-functioning software. As earlier, several technical problems occurred without evoking conflicts of interest. Interaction related to the same structural aspects as before, and interaction to a large extent reinforced prior structures and behavior.

### **Governance and interaction in phase 3**

Compared to the first two phases, the last phase developed in a peculiar way. Apart from the two important events that start and end this phase (event 15 and 19), the only important event was the joint marketing attempt in May (event 18), which little or nothing came out of, because the parties at this stage had "cooled" considerably regarding their cooperation. Phase 3 is the story of change along most dimensions of the formerly so intense cooperation. As described earlier, there were several reasons for this: the cooperation changed from development to production and marketing, the steering committee dissolved, SOL went through a strategic change, and many of the issues handled in the project group were now directed to the external forum Trygg Netthandel. In addition, some of the project team members withdraw from the cooperation, and new persons were assigned to bring the cooperation forward.

The two (maybe) most important changes in phase 3 are the strategic change that occurred in SOL the first half of 1998. Formerly, SOL has been working in three business areas: as a media channel, as a web designer through Neo Interactive (from 970601), and as a supplier of technical platforms. The 1<sup>st</sup> of January 98, the technical platform business area was established in a separate corporate entity as SOL System as. Formerly, projects in SOL would work across these areas of business, but the splitting up of the organization represented new borders that impeded this kind of interaction. The entities became more autonomous, and information flows and influence on decisions between entities changed. As became clear during spring, the strategic core for SOL's further business would be "SOL as media channel". The business area responsible for the SET project, SOL System, would no longer have the priority and influence it used to.

As this change took place, the second most important thing was the dissolution of the steering committee, because with the dissolution, the formerly main forum of interaction was removed. The consequence was that the collaboration in this transition stage between development and production was not able to rely on the established project organization and social practice for interaction. As far as the data shows, little interaction actually took place. With the dissolution of the project group, some of the governance mechanisms were lost, in the sense that the former organizational principles and the decision rules no longer existed. Some of the project participants took on other roles, and some new personnel were brought in. These did not share the same understanding of, and experience from, the collaboration, and the individually based relations between the firms changed as a result. In addition, the high levels of trust had deteriorated as a result of the second card history, and also because the new personnel did not have sufficient time, and did not engage in sufficient interaction, to build trust.

In addition to the change in hierarchical and socially based (trust) governance mechanisms, the formal contractual framework also changed, as the SET pilot contract was fulfilled, and the cooperation was based on the general cooperative contract. This framework was to a large extent intentional, and did not specify goals for joint marketing in terms of (desired) number of issued certificates, SET transaction volume, or estimated revenues. The incentive structure for the parties was, as a result of their definition of roles, "external" to their contractual relation as the contractual agreement only contained a "shadow incentive structure" (see description of contracts and governance mechanisms). So the result was a drastic change in the structural conditions for the cooperation, understood as change in the governance mechanisms. The parties did not address these structural aspects per se, and the consequence was that the structural framework for the cooperation became insufficient to bring the cooperation forward. Briefly stated, the contractual (structural) conditions impeded collaboration because of lack of mechanisms to direct further interaction.

Collaborative attempts during late winter and spring seemed to be mainly related to spin-offs of earlier interaction in the project. So the issues themselves also changed, as the technical part of the project had come to an end. The main issue was marketing, but little was done.

These aspects also had impact on general interaction strategies. What is observed is a move down along an integrative dimension from former use of problem solving and compromise strategies, towards inaction and withdrawal from both parties. The few interaction episodes identified represent occurring events involving common interests, and as far as the data tells, no identified events involved conflict of interests.

Inaction as a strategic option over time in collaborative efforts does not make much sense, but could be used in stages of transition. As SOL's new strategic direction was identified in late spring, the business area of SOL System was not given the priority it formerly had. When SOL sold out during summer, their concern for Europay interests in a continued cooperation was low, and the common base for further cooperation disintegrated. This was very much to Europay's surprise, as they saw a clearer definition of roles between business areas in the SOL organization as a positive development related to future cooperation.

### **Outcomes and evaluations**

As the cooperation evolved, evaluations of decisions were neither formally conducted as the decisions were taken, nor after each event. However, some informal evaluation was done in

the steering committee, in the form of project status. This appraisal often centered on actual versus planned progression. In some instances informal evaluation was carried out internally in each organization, for instance during internal meetings or presentations. How one did in the project was also discussed between project group members. The more formal part of evaluations was closely tied to the introductions of SET versions 0.0 and 1.0. This fact may be explained as a result of the nature of the project. Each decision is part of a bigger project, and it would not make sense to evaluate each decision with regard to outcomes for each party. In the end, it is the project as such that is of primary interest. Continuous evaluations would take unnecessary time, as the project had little slack. Further, an ongoing evaluation of outcomes could also have impact (e.g. it could impede) on how the parties could trade over time. As many of the project-related issues were dealt with repeatedly over time, it makes sense that evaluations of outcomes were related to "breakthroughs".

What is interesting, though, is that when evaluations were carried out, there seemed to be several important dimensions. Further, the relative importance of different dimensions changed over time. When asked, the informants replied that the technical aspects and success were important (phase 1 and 2), and that they observed that the production of transactions was going well. Concerning finance, the evaluation was concerned with whether the project had kept budgets (costs) in phase 1 and 2 (they had), and not so much with revenues, as the parties expected this to come in the future. Further, the parties placed emphasis on how they had managed their respective roles in the relationship, and how they perceived the partner had fulfilled their role. Another important dimension seems to be how they perceived their personal relations with people in the partner organization. The fact that they had good relations affected their evaluations positively. Much of this changed in phase 3, as the technical aspects became less important, and the economic aspects became more important (at least for SOL). Although their role fulfillment still was a relevant dimension, the assignment of new employees to the collaboration meant that the emotional dimension was probably less important as their ownership to the project was not the same (as expressed in terms of marketing attempts and outcomes).

Finally, and maybe the most interesting thing is that when they carried out evaluations, the high expectations for future interaction and possible revenues are reported to be an important dimension. After the introduction of SET 1.0 the project received a very good evaluation, to a large extent based on how the parties perceived they had positioned themselves in an e-commerce context, and the expectations for revenues from this positioning. Had the project been evaluated during summer 1998, there would have been a very dramatic difference.

## **SUMMARY AND CONCLUSIONS**

The decision rule of consensus had several important consequences for the evolving interaction, and for how different interaction, or negotiation, strategies could be used. As the parties also had defined their roles very clearly, and developed trust and good personal relations, this influenced on how interaction took place in occurring events. The described mechanisms enabled and enhanced an integrative process, as the parties became oriented towards the sharing of information and the joint search for solutions that to a large extent aimed at satisfying both parties' concerns. This is reflected through their focus on challenges and solutions, their general orientation towards solving problems, their sharing of information and experiences, their practice of taking turns with regard to suggest actions and the

acceptance of "the better suggestion", and their broad discussions in order to better understand each others motives and underlying concerns.

The main governance mechanisms used during phase 1 and 2 are relatively few, but reflect the three different kinds of mechanisms (see Table 8. below). As seen through the chain of events, the project budget situation never came up as an issue, but served as an economic frame for the project. The main incentive in phase one was the "shadow of the future revenues" from commercially produced SET transactions. This mechanism might in part explain the introduction of an interim version in November, and was an important aspect with regard to the parties desire to introduce safe SET soon. With regard to authoritative elements the steering group was important with regard to participation, but more important were the consequences of a consensus decision rule, which also implied the right to block decisions by use of veto. In addition, developing trust and personal relations was important, and this actually to some extent saved the cooperation from (most likely) developing into negative spirals. This also made it easier to share information extensively, an important aspect of integrative strategic behavior.

**TABLE 8.: PROCESS AND CHARACTERISTICS IN DIFFERENT PHASES – SOL EUROPAY**

*PHASE 1: DEVELOPMENT OF SET VERSION 0.0*

*PHASE 2: FURTHER DEVELOPMENT OF SET 1.0*

*PHASE 3: SET 1.0 INTRODUCED*

**GENERAL DESCRIPTION:**

STRATEGIC COOPERATION

STRATEGIC COOPERATION

OPERATIONAL COOPERATION  
STRATEGIC CHANGE IN SOL

EXPECTATIONS FOR THE SET PRODUCT / *ACTUAL MARKET DEVELOPMENT:*

HIGH TRANSACTION VOLUME EXPECTED

HIGH TRANSACTION VOLUME EXPECTED  
*MARKET DEVELOPMENT FOR SET  
TRANSACTIONS SLOW (LOW VOLUME)*

*MARKET DEVELOPING SLOW  
OTHER SET PROJECTS DELAYED*

INTERACTION FREQUENCY HIGH

INTERACTION FREQUENCY MEDIUM

INTERACTION FREQUENCY LOW

**CONTRACTUAL ASPECTS:**

GENERAL COOPERATIVE CONTRACT AND SPECIFIC SET AGREEMENT

< COMMON UNDERSTANDING / RELATIONAL INFORMAL AGREEMENT >

GENERAL COOPERATIVE CONTRACT

MID PHASE 2: SOL SYSTEM ESTABLISHED ----->

*GOVERNANCE MECHANISMS:*

PROJECT BUDGET AND "SHADOW INCENTIVE STRUCTURE" (PHASE 1 AND 2)  
STEERING GROUP/CONSENSUS RULE-VETO RIGHT/PROCEDURES (PHASE 1 AND 2)  
MARKETING GROUP PASSIVE (PHASE 2)

SEPARATE STREAMS OF REVENUES  
(EXTERNAL FORUMS)  
MARKETING GROUP PASSIVE

GOOD (INTERPERSONAL) RELATIONS PHASE 1 AND 2

PERSONELL TURNOVER (CONSEQUENCE FOR TRUST)

INSTITUTIONAL AND RELATIONAL TRUST

INSTUTUTIONAL TRUST LOW END PHASE 2

INSTITUTIONAL TRUST LOW

INTERPERSONAL TRUST WORK GROUP GOOD

**ISSUES:**

TECHNICAL FOCUS (PRIMARY) AND MARKETING ISSUES (SECONDARY)

"how to successfully develop and introduce SET commercially in order to create gains for both parties"

-MARKET FOCUS (PRIMARY)

-NEW AREAS OF POSSIBLE COOPERATION  
(SMARTCARD)

POSSIBLE JOINT CARD INTRODUCTION #1

POSSIBLE CO-BRANDED CARD #2

-POSSIBLE MERGERS DISCUSSED IN SOL

**INTERACTION (NEGOTIATION) STRATEGIES:**

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INTEGRATIVE STRATEGIES (PROBLEM SOLVING AND COMPROMISE) IN PROJECT	INACTION AND WITHDRAWAL
(STRONGLY) DISTRIBUTIVE STRATEGIES/ACTIONS RESTRAINED BY DECISION RULE (SOME CONTENDING TACTICS USED TO INITIATE PROBLEM SOLVING)	END: CONTENDING
SPIN-OFF/RELATED INTERACTION: MIXED STRATEGIES (INCLUDED CONTENDING)	SPIN-OFFS: INTEGRATIVE STRATEGIES ATTEMPTED

**KEY DECISIONS:**

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*CHANGE TECHNICAL PLATFORM	* INTRODUCTION OF SET 1.0 DELAYED	* JOINT MARKETING ATTEMPTS IN MAY
* INTRODUCTION OF INTERIM VERSION 0.0	*MARKETING GROUP ESTABLISHED	* SOL SELL OUT VIRTUAL SHOP AGREEMENTS AND SET TECHNOLOGY
* JOINT INTRODUCTION WITH INTERPOST	* CO-BRANDED CARD: SECOND NO	
* CO-BRANDED CARD: START PROCESS - FIRST TURN DOWN - INITIATE NEW PROCESS		

**OUTCOMES AND EVALUATIONS:**

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FREQUENT INFORMAL ASSESSMENTS IN MEETINGS (RELATED TO PROGRESS AND TECHNICAL ISSUES PHASE 1 AND 2)	FEW ASSESSMENTS DONE
	FORMAL EVALUATION OF INTRODUCTION OF SET 0.0 AND 1.0 – TECHNICAL SUCCESS KEY DIMENSION (PHASE 2 AND 3)
ECONOMIC DIMENSION SECONDARY (BUDGET FOCUS)	INITIAL MARKET RESPONSE POSITIVE
	ECONOMIC REALITIES IMPORTANT - FEW TRANSACTIONS PRODUCED
	POSITIVE ECON. EXPECTATIONS IMPORTANT FOR EVALUATION OF INTRODUCTION - NEGATIVE REASSESSMENT LATE PHASE 3
SYMBOLIC DIMENSION IMPORTANT – CLEAR WORKING ROLES ESTABLISHED	CORPORATE ROLES UNCLEAR DUE TO ORGANIZATIONAL AND STRATEGIC CHANGE IN SOL AND SOL SYSTEM
EMOTIONAL DIMENSION – GOOD PERSONAL AND CORPORATE RELATIONS	CORPORATE RELATIONS CHANGING UNFAVORABLY

However, in addition to problem-solving tactics, less integratively oriented strategies such as compromise are also found, as are straightforward contending elements. As discussed above, the consensus rule restrained the open competition between decision interests. An interesting aspect is that contending tactics are used in order to pursue own interests, but also to "force" the cooperating part to go for integrative outcomes. It is also important to note that some issues were moved from the dyadic collaboration and into a network setting (Trygg Netthandel - such as the issue of marketing of SET during the period the 0.0 version was available), so that issues with possible conflicting interests were discussed in another forum. This to a certain extent implies the strategic option of inaction in the dyadic collaboration. The result is basically that strategic behavior in joint decisions to a large extent lies along the integrative dimension.

As phase 3 started, the nature of the cooperation changed; the technical project was over, and the operational aspects became the cooperative content on a daily basis. Also the SOL organization changed and strategic signals were unclear and ambiguous. But also the structural aspects of the cooperation changed, as both the formal and informal contractual relationships were changed. Formally, the SET agreement was fulfilled, and further cooperation was based on the general cooperative contract. Informally, many of the hierarchical elements were becoming less important and less used, as the interaction frequency dropped (dramatically). Finally, some of the trust developed in personal relationships deteriorated in part because of the second "no" regarding a co-branded card, and partly because the composition of individuals in the collaboration changed, and thus the level of trust and the nature of the personal relations. So the governance mechanisms changed in phase 3. Also, as mentioned, the intensity of the cooperation changed. This was due to the described change from strategic to operational collaboration, but also a result of inaction strategies from both sides; from Europay's side in part because of the card conflict, and from SOL's side in part because of strategic uncertainty and search for a new direction. At least, interaction did not turn "sour", conflicting, and contending. In the end, as the parties were not actually marketing the SET software effectively and SOL found new strategic directions, the "ultimate" outcome is not avoided: dissolution. In a way this final act represents an ultimate contending as SOL show little interests in Europay's further interests in the cooperation.

An interesting aspect of the cooperation is the informal conduct of evaluations, and the (low) frequency. However, maybe more interesting is the importance of the different aspects that are brought into the evaluation. Attention is given to technical and monetary aspects, but also social aspects such as roles in the relationship, and emotional aspects related to the parties comfort in the relationship. Most interesting though, are the importance of the (yet to be experienced and highly uncertain) future expectations, and the influence of this on the evaluations (of past interaction) that were carried out.





## 7: NKL - LILLEBORG

### COOPERATION AND SUPPLY CHAIN MANAGEMENT: PLANNING AND TESTING OF AUTOMATIC REPLENISHMENT THROUGH THE WHOLE SUPPLY CHAIN IN ORDER TO REDUCE COSTS AND PRICES TO CONSUMERS, AND DEVELOP COMPETITIVE ADVANTAGE

*WHEN THORBJØRN SKEI, DIRECTOR OF CHAIN OPERATIONS CONSUMER GOODS IN COOP NORWAY (NKL), THURSDAY THE 5<sup>TH</sup> OF JUNE 1997 WENT PUBLIC UNDER THE HEADING "AUTOMATIC GAINS" IN THE NORWEGIAN DAILY PAPER DAGENS NÆRINGS LIV AND ANNOUNCED AN EXPECTED YEARLY GAIN OF 100 MILLION NOK FROM AUTOMATIC REPLENISHMENT OF STORES, HE BASED HIS ESTIMATES ON EXPERIENCES FROM A COOPERATIVE PROJECT WITH A SUPPLIER. THE SUPPLIER WAS LILLEBORG, A DOMINANT NORWEGIAN PRODUCER AND MARKETER OF DETERGENTS AND PERSONAL PRODUCTS. THIS CASE IS ABOUT THEIR COOPERATION FROM 1994, AND UNTIL ABOUT THE TIME IT BECAME PUBLICLY KNOWN. NKL AND LILLEBORG HAVE SINCE 1994 PLANNED, PREPARED, AND IMPLEMENTED A TEST OF AUTOMATIC REPLENISHMENT IN THE SUPPLY CHAIN, FROM LILLEBORG THROUGH NKL AND OUT TO THE CONSUMERS. THE TRADE IN CONSUMER GOODS HAD GROWN INCREASINGLY FIERCE EACH YEAR DURING THE FIRST HALF OF THE NINETIES, AND THE FOCUS ON COSTS AND PRICES TO CONSUMER RESULTED IN EFFORTS TO INCREASE EFFICIENCY IN THE DISTRIBUTION CHAIN. BASED ON COMMON INTERESTS, COMMON EXPERIENCES, AND A SET OF ESTABLISHED PERSONAL RELATIONS A QUICK RESPONSE PROJECT WAS INITIATED. BY EARLY 1996 THE REPLENISHMENT TEST WAS OPERATIVE, AND AFTER 14 MONTHS THE TEST RESULTED IN A PREPARATION PILOT FOR A LARGE SCALE ROLL-OUT.*

*THE CHAPTER STARTS WITH AN INTRODUCTION OF THE PARTIES, THE BUSINESS, THE BACKGROUND FOR THE COOPERATION, AND THE COOPERATIVE PROJECT. THEN I WILL DESCRIBE THE COOPERATIVE AGREEMENT BETWEEN THE PARTIES WITH EMPHASIS PLACED ON THE GOVERNANCE MECHANISMS IN THE COLLABORATION. FURTHER, CHARACTERISTICS OF THE DECISION PROCESS ARE DESCRIBED, FOLLOWED BY A DESCRIPTION OF THE EVENT HISTORY IN THE COOPERATION FROM THE INITIATION OF THE PROJECT AND UNTIL IT CHANGED STRATEGIC FOCUS IN JULY 1997.*

*AN ANALYSIS OF THE PARTNERSHIP, BASED ON THE THEORETICAL FRAMEWORK, IS THEN PRESENTED. ATTENTION IS GIVEN BOTH TO THE STRUCTURAL ASPECTS AND STRATEGIES FOR INTERACTION, AND HOW THESE WERE INTERACTING IN JOINT DECISION EPISODES OVER TIME.*

*A SUMMARY AND SOME CONCLUDING COMMENTS ARE GIVEN.*

*PLEASE NOTE THAT THE DESCRIPTION AND NUMBERS REFERRED TO IN THE CASE REFER TO THE TIME PERIOD RELEVANT FOR THE CASE HISTORY, AND NOT FOR THE PRESENT TIME. THE CASE FITS INTO THE SECOND AND FOURTH QUADRANTS OF THE SELECTION FRAME (COOPERATION TO DEVELOP/INFORMAL CONTRACTS, HOWEVER, ALSO TO MAINTAIN EXISTING RELATIONS).*

## INTRODUCTION

In recent years, supply chain management has been increasingly focused on in the Norwegian consumer goods trade. As on the West-European continent, the Nordic countries including Norway have seen dramatic change and concentration of retail outlets. Competition in the Norwegian grocery business has over the last fifteen years become increasingly fierce. In 1996 four dominant actors had a joint market share of 97.8% of an 82 billion (NOK) market (Dagens Næringsliv 970120). As a consequence, the supply chain is changing, as the retail chains integrate upstream in order to increase efficiency and competitive positions. In Norway, these trends and shifts have had important consequences for the grocery business. From a managerial perspective, computer based systems such as EDI and use of POS data, partnering and alliances with suppliers, Business Process Re-engineering, and Efficient Consumer Response have become increasingly important. Whatever their name, the common denominator is efficiency.

### The parties

#### *NKL (Norges Kooperative Landsforening)*

COOP Norway is the joint organization for all the co-operative societies in Norway, and is member-owned (by 690.000 members in 1995 - increasing to 820.000 in 1997). Anyone can purchase a membership in one of the 366 co-operative societies (1995 - decreased to 315 in 1997), and thereby become an owner with one vote and receive membership benefits. The most important matter is the yearly dividend paid out as a percentage of purchases made in the preceding year, usually around 3%. The co-operative societies operated 1.190 retail outlets in 1995, rising to about 1.250 in 1997. Each co-operative society is an independent judicial unit, and together they own NKL, also a co-operative society. Even though NKL and the co-operative societies are independent juridical units, it is an expressed policy to present themselves as one unit (NKL annual reports 1995, 1996, 1997).

The retail outlets are organized in chains, such as Mega (supermarkets), Obs! (hypermarkets), Domus (department stores), S-markets (conventional groceries), and Prix (discount). In addition to groceries, the 1.250 retail outlets also include chains related to electrical products, home furnishing, and housing, but these are relatively few. The retail outlets are supplied from NKL's 9 regional distribution units. The stores are owned by the local societies and not by NKL. However, NKL are responsible for most of the activities "outside" the stores, and provide the premises for the activity inside the stores.

NKLs executive management consisted of a Managing Director and three Executive Vice Presidents. NKL had 10 profit areas: Industry division, Supply of consumer goods, Chain operations consumer goods, Supply of merchandise non-food, Chain operations non-food, Member division, Society operations, Information technology, Samvirkeskolen (corporate college), and from 1997 also Establishment and retail store development. The main units in the partnership with Lilleborg were Supply of consumer goods, Chain operations consumer goods and Information technology.

COOP Norway employed about 18.000 persons in 1996. Sales revenues (1996) for COOP Norway and NKL respectively were about 23.2 (excluding VAT) and 12 billion NOK. By the end of 1995 COOP Norway's market share in consumer goods was 25.2%, and increased to

26% during 1996. Net profit margin for NKL (1996) was 3.1% (of sales revenues), about 368 million NOK (NKL annual report 1996, Dagens Næringsliv 970314).

### *Lilleborg*

Lilleborg (formerly Denofa-Lilleborg) was founded in 1833, and is currently the biggest manufacturer and marketer of detergents and personal products in Norway. Lilleborg has a broad spectrum of brands, most of them number one in their market segments, partly due to the fact that Lilleborg have been a pioneering firm in systematic development of brand names in Norway. In 1995 Lilleborg had five divisions: Detergents, Personal products, Industrial trade, Textiles, and Cod-liver oil. Lilleborg's main business has, apart from edible oils, been branded products. Well known brand names include Omo, Blenda, Zalo, Jif, Lano, Solidox, Organics, Dove, and Pierre Robert. Some of these brand names are more than 60 years old (Lilleborg annual reports 1995, 1996, 1997). On the 1st of January 1996 then Denofa-Lilleborg Fabriker was split into Lilleborg AS and Denofa AS in order to cultivate the two business areas (brands and edible oils). In October 1997 the divisions for detergents and personal products were merged into a joint division named Lilleborg Dagligvare (Consumer goods). This was expected to make possible a better utilization of competencies and resources, create a more cost efficient structure, and thus contribute to increased competitiveness in the future.

Orkla (one of the biggest companies on Oslo Stock Exchange) own Lilleborg (and Denofa). Orkla operate in three business areas: financial investments, chemistry, and branded goods. Orkla's branded goods business, responsible for about 80% of Orkla's revenues, entails four business areas: Orkla Foods, Orkla Beverages, Orkla Media, and Orkla Brands. Lilleborg is a part of Orkla Brands. In 1995 Orkla's sales revenues were about 22 billion NOK (of which 48% was outside Norway). Orkla Brands represented about 5.666 million NOK (and 500 millions in net profit). Of this Lilleborg contributed 3.125 million NOK to sales revenues, and 384 millions in net profits. Of Orkla's 18.000 employees, 1.042 were employed in Lilleborg (Lilleborg's annual report 1995, Orkla's annual report 1995).

### **The business**

The grocery business in Norway was an 82 billion NOK market (1996) dominated by four groups, or firms: NKL/Forbrukersamvirket (NKL COOP), NorgesGruppen AS, Hakon-Gruppen AS, and Reitangruppen. In early 1997, there were approximately 5125 grocery stores (of different profiles) in Norway. Nine out of ten of these were controlled by one of these four groups, who accounted for about 98% of sales.

*Table 9.: Sales revenues and chains market shares*

Year	Sales (bill NOK)	Chains market shares
1990	58.5	46%
1991	63.5	51%
1992	68	67%
1993	73	70%
1994	78.5	97%
1995	81	97%
1996	82	98%

Sales revenues in the trade increased from about 58.5 billion NOK in 1990 to about 82 in 1996. Including sales revenues from kiosks and petrol stations, the total market is 91 billion. During the same period, the chains operated by the four groups increased their market share from about 46% to 98%. NKL/Forbrukersamvirket steadily increased their market-share from 22.8% in 1990 to 26% by 1996. However, the other groups grew fast: Reitangruppen from 5.7% in 1990 to 11.8% in 1995, and Hakon-Gruppen from 10.2% in 1990 to 28.6% in 1995. NorgesGruppen started out on 32.1%, the biggest market share (founded the 1<sup>st</sup> of January 1995). Market shares have been relatively stable the last four years (NKL's annual report 1996, Dagens Næringsliv 970120, Verdens Gang 970321).

### **The mutual interest for cooperation**

During the nineties, the pace of change in the trade in consumer goods has been high with trends towards increased focus on environment and health, new business concepts based on information technology, vertical and horizontal alliance building, introduction of private brands, and increased internationalization. These factors in addition to intense competition put pressure on the margins. As a response to this situation, actors in several parts of the supply chain realized the need to reduce the costs.

Dag Schøyen, (then) Manager of Logistics at NKL Supply of Consumer Goods, visited the States in 1992 and was inspired by developing trends in logistics management. Back home he brought the ideas into discussions with Jon Jacobsen, Director of Logistics at Lilleborg. At about the same time NKL engaged in a test project with another supplier based in Sweden in order to reduce the time between production and final sale to the consumer. Initial measures showed that it took 71 days from the time the goods were produced and until they were sold. They started the project, and by 1993 the 71 days had been reduced to 34 days. By 1994, 71 were reduced to 23 and the test project was terminated.

The test had become a powerful example in at least two ways: there were huge potential gains to be realized in the supply chain, and vertical cooperation in the supply chain was necessary in order to share information and knowledge so that costs could be reduced. Competitive advantage could be developed in collaboration between NKL and their suppliers.

In 1993 NKL/Forbrukersamvirket invited two suppliers on a study tour to Windsor (UK) and Anderson Consulting's "SmartStore", a "laboratory" for cutting edge supply chain management ideas. Lilleborg, and Jon Jacobsen, was one of them. When they got home they started to discuss possible cooperative projects.

"We talked a couple of weeks later, after the visit over there, and we agreed that this was a particularly interesting area to do some further work in. So that was the start of it" (35)

(Quote, Dag Schøyen, NKL).

### **The project: Quick response**

Different possible projects were discussed, but what seemed the most interesting one was an automatic replenishment project based on use of point-of-sales data (POS data). The project was a very ambitious and pioneering project in Europe, because they wanted to focus on the flow of goods *through the entire supply chain*, from the producer and out to the consumer (see figure below).

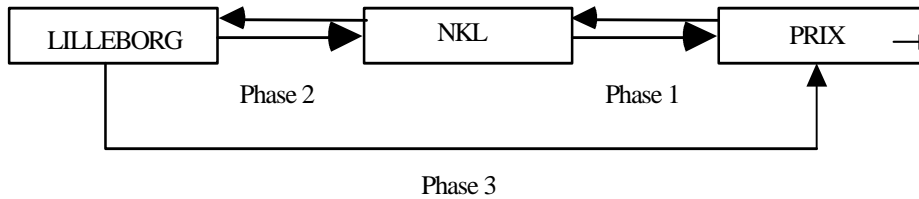


Figure 14.: Automatic replenishment - three phases

The project was strategic and focusing on phase 1 and 2. Phase 1 refers to replenishment activities from NKL and out to the retail outlets. Phase 2 refers to replenishment activities between Lilleborg and NKL. Phase 3 would mean that Lilleborg supplied the stores directly. The cooperation did not move into phase 3, although this was planned initially. It was based on a "Quick-response" reasoning, where scanner-data was fed back up through the supply chain from the store to NKL, and further back to Lilleborg. Existing software (E3 Crisp/Slim) would be used to develop applications in the project, based on the specific needs the change in operations and routines the cooperation would create.

In operation, NKL and Lilleborg received daily actual sales based on scanner data. This information together with additional information such as recent sales, what happened one year ago, what can the calendar tell (Sunday - usually closed - Monday, Easter, etc.), was processed by the software and a suggestion for replenishment would be produced. Minimum quantities or more would be sent, but no orders would be produced based on minimum inventory situations in the next level. This way, replenishment would depend on pull from sales in the store, and not on push through sales from Lilleborg.

The project would create a more optimal flow of goods through the chain, based on demand, and not by accidental and subjective criteria. As Jon Jacobsen (Lilleborg) explained:

"The main point is that the management of the current flow of goods is fragmented and not optimal. The factor that initiates a flow, that is an order from the store, is often very subjective; "here we have room for another one on the shelf", "we can put an extra one on top here", "no, I do not think this will sell much, so we can wait until next delivery", a kind of judgments that is not based on a quantified need. What is unbelievable though, is that in stores with scanning registers, valuable POS information is available, but is not used to develop quantitative sales forecasts. We must move from today's practice where the store and the wholesaler order goods, to a future where the flow of goods is managed through systems that exploit point of sales data from stores and the wholesaler" (36)

So the cooperative project should develop and implement EDI solutions, including invoice, orders and confirmations, sales information, test software for replenishment of goods, and ultimately test automatic replenishment from NKL to selected stores and from Lilleborg to NKL. The parties expected to gain a seamless process regarding flow of goods, effective use of information, simplified administrative routines, removed control procedures, and transportation of goods in demand. Further, this would mean a reduction in inventory levels and increased turnover, increased degrees of service and avoidance of stock-outs, reduction of errors related to invoicing, reduction of returns, and lower transportation costs. An important aspect of the cooperation was that *any gains realized between the parties should be reflected in lower prices to consumer*. Lower prices in the next turn could create increased market shares, and thus increased profitability.

Although the project started as a Quick response idea, they discovered the relations to Efficient Consumer Response (ECR) ideas. ECR includes efficient product introduction, efficient store assortment, efficient trade promotion, and efficient replenishment. Efficient replenishment in turn includes Vendor Managed Inventory (VMI), EDI, and Cross docking (terminalization). Basically, the project was an efficient replenishment project focusing on VMI and EDI. However, as the project developed, the issue of terminalization came up.

The partnership was not exclusive, and both parties were free to engage in related projects with others. The cooperation did not include any relation specific investments, because most of the technology could be used in collaboration with other partners.

### **THE CONTRACTS AND GOVERNANCE MECHANISMS**

"One thing I experienced in this project and found most interesting was that when we were in the middle of the most hectic period, I do not believe that most of the people participating in the group had any sense of the fact that there were people from two different organizations. That was an interesting observation. Then, you do not need a contract" (37)

(Quote, Jon Jacobsen, Lilleborg)

The above citation of Jon Jacobsen, Director of Logistics at Lilleborg Dagligvare, reflects an important characteristic of the cooperation. NKL's cooperation with Lilleborg was based on a "gentlemen's agreement", and none of the parties felt that a formal written contract was needed. However, the parties explicitly agreed on a joint basis for cooperation that included six crucial elements, and if one were removed the basis would fall apart. The six elements were: *trust, organizational foundation of cooperation, value creation for both parties in a long term perspective (this element also included an understanding of a strategic cooperation), an open sharing of information without hidden agendas, operational simplification, and mutual knowledge.*

As will be described below, the parties still have an agreement that includes several contractual mechanisms, including economic, hierarchical and social mechanisms. An important feature of this "open form" agreement is that it to a little extent defined the boundaries of the project, or what the project is not. However, as EPOS95 became a reality, the project handbook in several ways substitutes for a formal contract, and to a certain extent draws borders for the cooperative efforts by identifying goals in the project (both strategic and operational), and also describes content, directions, organization, plans and routines for the implementation of the project (17 pages in all).

#### **Economic elements**

The economic relationship between the parties rested partly on the oral agreements, but was found in documents such as the project handbook that included project budgets. As the basic idea behind the cooperation was to save costs and achieve a more efficient flow of goods, there are obvious economic interests in the cooperation. However, the cost and revenues were not estimated in detail, as the parties believed that the upside of the project were likely to very great, no matter how much they spent on the project. It should be noted that in addition to the project, daily (non-cooperative) operations were still based on standard contract documents between Lilleborg's sales department and the purchasing department at NKL.

### *Costs*

Basically, two rules of thumb applied. Costs internal to each party would be covered internally. Costs common to both parties would be split evenly based on "a gut feeling"; the parties would take turns in paying the bill.

Both parties were expected to commit resources necessary to plan, design, implement, and operate the project. Early in the project a budget was established estimating internal man-hours and external costs. However, these costs were not distributed on the parties. The budget implicit time frame was about 14-16 months, while the project lasted twice as long. Internal costs would be man-hours, leasing costs of necessary hardware and consultant fees for operations of it, internal development, and the like. Joint expenses would be related to for instance external consultants, travel expenses, representation, and hard- and software related expenses.

"... I think you should take into consideration the starting point, here. It was already stated that the project make so large savings possible that calculating the costs the work would cause was not necessary. The reasoning was like, the costs do not matter, because it is insignificant in comparison" (38)

(Quote, Jon Jacobsen, Lilleborg)

### *Revenues*

The revenues of the project, or the costs that the cooperation were able to reduce, were not intended for the parties to keep: the agreement was that what the cooperation would mean in reduced costs were to be reflected in price to consumer. If the project reduced the parties' costs, this money would not in principle add to the bottom line directly, but be reflected in lower prices to consumer.

"... how one should distribute gains ... If we were to share, for instance, 50/50, or something. We say that, in principle, the gains we are able to create should be brought forth to the consumer. That is the idea. So if we manage to cut prices as a result of increased efficiency, then improved competitiveness should be the consequence. That is the idea" (39)

(Quote, Dag Schøyen, NKL)

On a short-term basis, the project would mean additional costs. However, in the long run the parties hoped that their ability to reduce prices again would lead to increased sales, and possible improvement in competitive position. However, the project lacked any "immediate" income possibilities, and the project's "upside" was to a large extent a "shadow of the future"; a shadow incentive system.

The parties to some extent discussed the possible use of "quick-wins", designed short-term revenue or income possibilities, in order to motivate the respective organizations by showing fast results and further potential in the project. However, this option was not included in the cooperation, in part because the project was a pioneering project, and the parties did not know exactly what to expect.

An important aspect of transactions is of course the terms and conditions. In the cooperation these aspects were non-issues, as opposed to the situation in the ordinary operation. As mentioned, parallel to the project was the traditional purchasing system fully operational in all Lilleborg - NKL relations except for those defined internal to the project; eventually it was a

two-track relationship. However, in order to run the tests necessary for the project, the parties started early to discuss use of contract prices (fixed prices in the cooperation based on an average of actual prices during the last ten months) in order to be able to measure performance. Contract prices eventually became established during fall 95.

### **Hierarchical and authoritative elements**

After the decision to start EPOS in late December 1994, a process started to establish a project organization. The organization had several levels and, to a certain extent, each level had decisive authority. Lower level decisions were expected to be consistent/complementary to higher-level decisions. There were lateral relations specifically on the operational level, and a set of formalized standards for project reporting and information management were developed. Also, a set of decision rules developed in the relationship. I turn to these below.

#### *Organization of interaction*

The most important aspect with regard to hierarchical elements was the establishment of a project organization. Three levels were the basic idea: a steering group who had the overall strategic responsibility for the project, a project management group (small) with responsibility for the daily operations, and finally three working groups taking care of the operational side of the project. The three initial working groups were Competence building, information and training, Systems development, and finally Consumer goods flow and routines. The working groups were each chaired by one participant. An important aspect of group composition on all levels was joint participation. Every group would include participants from both organizations. Descriptions of responsibilities and tasks were given in the project handbook.

The initial organization was to a certain degree "complex" (even complicated), because it involved several levels in addition to lateral relations, so coordination of interaction became difficult as the project developed during spring 1995. Consider the following: between the two organizations a steering group was established with representation from the top management level from both sides (i.e. Executive Vice President) as well as involving (higher level) middle management like for instance Director of Logistics. In addition, one person from each organization was appointed responsible for the project (Jon Jacobsen on behalf of Lilleborg and Dag Schøyen from NKL). Similarly, project management was given the daily operations in the project (Jon Jacobsen from Lilleborg and Ellen Haugen from NKL). Then followed a project group level, with three working groups below. In addition a reference group were appointed to the steering group, and coordination groups should be responsible for coordination between working groups.

As this was experienced as "too much organizing" the organization was significantly changed twice as the project evolved. I will return to this in the description of the event history.

#### *Formalization*

Following the establishment of the project organization was the development of certain standard operating procedures. Standard document layout was established for documents such as status reports and minutes from meetings on all levels. A set of archival and information distribution routines was described.

To a certain extent, the project handbook itself represents a set of rules and regulations for interaction in the collaboration. For instance, the issues of conflict resolution are addressed,



and the procedure is briefly stated: if conflict or problems occur, consult the project handbook and correct deviations, update project handbook, or allow deviations.

#### *Rules and decision rights*

Formally, the (oral) agreement and the documentation in the cooperative project do not prescribe a certain procedure or assign a specified set of decision rules. However, informally a set of behavioral practices developed relatively soon in the project. The most important characteristics were the avoidance of open conflict in the steering committee. This was done mainly through focusing on the joint interests in the cooperation. In addition, internal matters would typically be decided on internally. As a necessity, eventual disagreement with these decisions would be "buried" with a silent acceptance. This way, a quasi-consensus rule became established, but did not invoke the possibility of a veto. An example of this would be NKL's right to choose the sites for the test project.

Another important feature of the decision rights was the limited ability for the working group leaders to instruct working group participants belonging to the partner organization. As the event history will reveal, resources became a recurrent problem in the collaboration especially related to committed man-hours, and this was partly due to the limited authority the working group leaders' had over project participants from the collaborating organization. Since project participants were not solely committed to the project, no clear authority was given to working group leaders.

A final informal "rule" that developed in the project was the export of conflict issues. In order to keep the collaborative meetings focused on the cooperation and to be able to maintain an integrative focus, any issue that was perceived as "competitive" or "negotiation issues", i.e. they involved traditional distributive conflicts not particularly related to the project, was exported out of the collaborative decision forums. Early in the cooperation, a separate meeting would be set up, and sometimes the same participants would meet. Later, such issues could be discussed immediately after project meetings, in separate meetings.

#### *Non-market pricing*

As discussed above, the test project required that contract prices were established. Such were established for the test, based on actual prices paid during a previous period. Because these contract prices were fixed in the test, a non-market pricing system was developed between the parties; that is, the prices had no further recourse directly to the market. The prices were established and managed by means of an administrative system between the parties.

### **Trust and personal relations**

The project handbook section "5.6 Ethical norms" emphasizes the importance of accepting "ordinary norms for systematic cooperation between buyer-supplier", and then turns to specify these. Examples are confidentiality, information sharing, and no use of information and knowledge that can be harmful.

The above set of norms are probably implicitly or explicitly included in most partnering projects. In the collaboration between NKL and Lilleborg, they were taken for granted. However, personal relations between employees in NKL and Lilleborg played an important role in the cooperation. Prior to the EPOS project the Executive Vice President in NKL had for some time known Lilleborg's project manager and another Lilleborg representative in the

steering group. Also Lilleborg's project manager and the Manager of Logistics in NKL had over years developed a good personal relationship. Common interests in logistics and shared business experiences (former collaboration, joint study tours to e.g. Anderson Consulting's SmartStore in Windsor) provided a good initial foundation for the project. These aspects might be illustrated with their own words:

"... we have established relations with NKL that probably are better, or that make any discussion, confrontation, or whatever, maybe more positive than it normally would be" (40)

(Quote, Jon Jacobsen, Lilleborg)

"Well, I felt the foundation for openness, having an overview, being able to raise any issue and such, that was completely determining for what we achieved. And, for instance, I do not believe that we could have done this kind of project with just any supplier. ... And that was due to a match between the cultures, trust, and such fundamental aspects" (41)

(Quote, Dag Schøyen, NKL)

This web of relations lasted through the main parts of the project.

Summing up, the most important aspects of the governance mechanisms are found in the oral agreement between the parties, where they expressed their joint basis as *trust, an organizational foundation, joint value creation, sharing of information, operational simplification, and mutual knowledge*. The participants' personal histories, and the web of personal relations these constituted, also secured content to these phrases. However, formal written contracts or not, a contractual relationship became established, and additional mechanisms for governance were developed, such as budgets and, an indirect shadow incentive system, a multi-level project organization with a formalized set of standard procedures and a shared understanding of the distribution of decision rights, and also an administrative pricing system.

### **CHARACTERISTICS OF THE DECISION PROCESS**

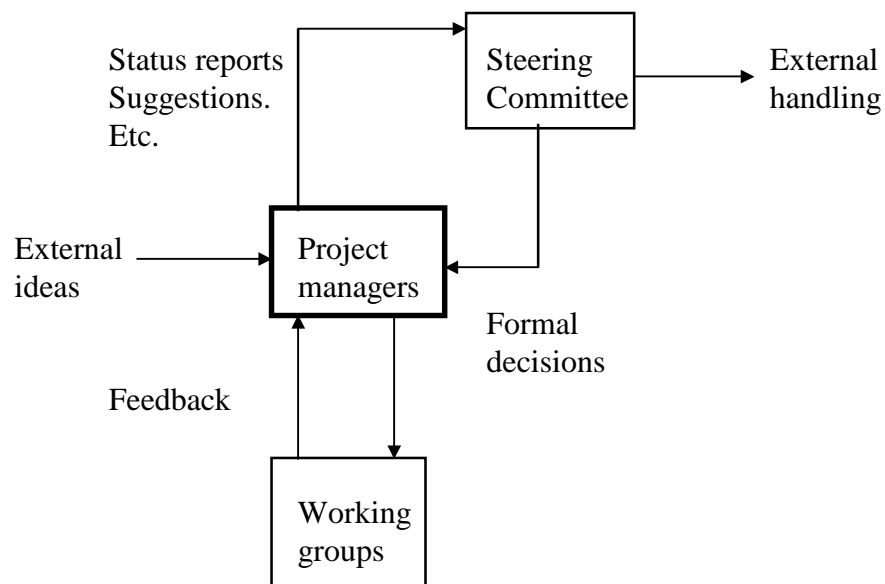
The organization of the cooperative project involved for the most part three levels of interaction, or three decision levels, that in differing ways were coordinated (see earlier section on hierarchical and authoritative elements). The main decision entities, however, were the Steering Committee and the Project Management. Decisions in Working Groups were basically related to implementation of higher-level decisions. Using informant language, the top level was the more "political", i.e. conflicts of interest primarily occurred in the Steering group. On the Project Management level, however, few conflicts of interest were experienced, as they discussed issues on the project's own premises. The "non-political" climate in the working groups, however, did not represent a setting without differing concerns. Most typically, the individual dilemma for project participants was the conflict between placing their daily contributions in the project versus on daily non-project operations. The decisions not to contribute to the project in favor of daily operations ultimately favor concern for own organization outcomes at the expense of the partner. In the following section the typical decision processes will be described, and the characteristics of interaction will be described for each level in such a way that decision strategies and differing concerns are exposed.

### The decision entities

As described above, three organizational levels were established. The project was formally run with a "strong hand" from the steering group, where experienced decision-makers participated. Because the top management level from both organizations was represented, few limitations were imposed on the steering group. The main inputs to the steering group came from the project managers in the project. The project management (Jon Jacobsen from Lilleborg and Ellen Haugen from NKL) prepared status reports for the steering group meetings, based on the activity in the working groups, the general progression, and challenges ahead. As the project management led the daily operations and did much of the paperwork for the steering committee, they had a very influential position. However, their formal authority was limited, but they made decisions on issues they perceived as belonging to their sphere of authority. In case of doubt, decisions were left to the steering group. On the work group level, decisions taken were largely related to two kinds of questions: the practical aspects necessary to implement decisions and how the individual working group member would spend their time during the day. The latter aspect has important bearings in the project because no participant was solely committed to the project. The project was to a large extent an addition to their "usual" daily responsibilities, and in case of conflict between the project and daily operations they were the ones to finally decide where to spend their time.

#### *Typical decision processes*

The typical decision process started in the project management group, either because they felt



*Figure 15.: Decision processes in supply chain management project*

the need to bring up an issue, because of feedback from the working groups (or others in the project), or because external sources influenced on the process. The issue was prepared and then addressed by the steering group. Implementation was left to the project's lower levels.

The decision process at the different levels had several important similarities and differences. In the following, these will be described. I will first describe the process in the project management meetings, then turn to the steering group, and finally to the working groups.

*Project management meetings*

The project management meetings were very important because they had direct contact with the working groups and their leaders, and because they prepared the status reports, agendas, and other information to the steering group. The project management had a key role in the decision process, and a unique possibility to influence on it. As the group was (as) small (as possible) with only one member from each organization, the work process developed naturally into an informal form with frequent meetings; some "official" meetings and some work meetings. In periods there would be daily interaction informally.

The decision process in the project management meetings was characterized by an integrative orientation, aimed at finding workable solutions to their joint strategic goals. As the steering group initially gave very clear directions for the project, and signaled very clear commitments, the project management group was able to focus on joint problem solving. Jon Jacobsen, project manager from Lilleborg, describes the typical meeting like this:

"While Ellen and myself, we ran the operative part of the project and we were supposed to keep things together, make decisions related to further progression, and then formulate how to do it. And that was all right. ... She used to come here twice a week, then we worked for a couple of hours before she left" (42)

The decision process was close to non-political, in terms of differing concerns and interests. However, discussions occurred frequently, but these referred basically to the tactical and operational level.

"Ellen and I had many discussions regarding the content of the project, methods, progression, dedication of employees and man-hours, and even though we did not always agree on how to do things, I did not perceive it to be caused by political considerations" (43)

(Quote, Jon Jacobsen, Lilleborg)

Ellen Haugen, project manager from NKL, played the main role in managing the project, as she spent more time on the project than Jon Jacobsen. However, a balance was attempted through discussions and exchange of views.

"Ellen and I made most of the decisions, which we were free to do. Obviously, many solutions were in line with Ellen's suggestions. I had no problems with that. First, regarding IT-solutions, her background was superior to my own, she had an enormous knowledge of NKL's solutions in particular, and the most significant changes were to take place in NKL. Many of the decisions thus were based on her knowledge and the premises following from technical solutions and practical circumstances in NKL. However, this did not mean that we perceived the project to be dominated by NKL and thus less interesting to us" (44)

(Quote, Jon Jacobsen, Lilleborg)

*Steering group meetings*

Decisions in steering group meetings were to a certain extent a question of confirmation, because the group to a limited degree engaged in raising issues themselves. The steering group usually was presented some status reports, and a set of issues constituting the agenda. As each issue, or bundle of issues, was usually prepared by the project management, the steering group discussions typically referred to a strategic level, and the group seldom dived into the pool of details.

An important and interesting aspect of the steering group decision process was the habit of exporting issues that were perceived as conflicting and "typical negotiation issues" (such as traditional terms and conditions, number of items/categories, or one-off examples of data offerings). By splitting the decision process for (perceived) competitive and cooperative issues, the main idea behind this practice was achieved: keeping the conflict level "low", and thus establishing a "good" working climate in the project. Typically, if discussions included issues involving "negotiations", these issues were taken out and dealt with in separate meetings (often between the same individuals). In some cases the project group was even reported to prepare issues for later negotiations. Primarily, occurring "negotiation" issues were typically dealt with immediately, to avoid accumulation of conflict issues.

"That is how we have done it. We say that even though we work closely, this has not stopped us from being commercial, and it does not imply that we stop negotiations on prices, delivery terms, and other issues"

"I can give another example of an occurring issue. NKL used POS data themselves to calculate the delivery need from wholesale to store in the project. We received data on sales from wholesale, and calculated delivery need from us to wholesale. We also had an interest in POS data for different reasons, and raised the issue outside the project. An agreement was made, and that was it. Some issues just have to be lifted out and dealt with separately" (45)

(Quotes, Jon Jacobsen, Lilleborg)

Similarly to the project management group, the steering group decision process was to a large extent rooted in problem solving strategic orientations. The parties had a history of interaction that created substantial goodwill, and they had a framework for interaction that explicitly addressed information sharing as a cornerstone for interaction. Having at the outset of the cooperation defined their joint strategic interest in the cooperation, these aspects made it easier to engage in integrative efforts. In addition, the above-described practice relating to the export of issues added to this.

"... so I believe that most people that participated in the project did not perceive it like there were people from two different organizations around the table" (46)

"Well, we had a very open relationship, there was very little politics, I would hardly say anything at all for the most part of the project. So it was rather unique, and I will emphasize this as a special circumstance. When we sat down, we could be 8-10 persons, you would not be able to tell where they came from" (47)

(Quotes, Jon Jacobsen, Lilleborg)

"I believe so ... that we feel the same. And the reason is that we do not negotiate. We jointly attempt to make something happen" (48)

(Quote, Dag Schøyen, NKL)

Few rules were applied with regard to decision authority or decisive rights. An important aspect, then, was the developing norm that the internal aspects of the project to a fair extent rested with the actual organization. Another equally important norm that developed was the avoidance of imposition of decisions. No party would exercise contending in such a manner that the other party unwillingly had to accept decisions in the collaboration. Additionally, the parties would in some instances desist from raising objections and silently accept suggested solutions in order to avoid a sense of conflict or disagreement.

"The decision process was a more complicated one. ... We were equal parties to the decision process, which meant that none of us made decisions over the other"

(Quote, Dag Schøyen, NKL)

A final, but important aspect of the decision process in the steering group was the use of "extended discussions". From time to time, the group would engage in discussions related to the gray area between common and private goals. These discussions were often related to possible future development and possible consequences of their interaction. These discussions would typically become more "political" and strategic differences would surface. This way it became easier to keep the collaborative efforts safe within joint strategic areas, and avoid conflict events.

" ... making clear each party's positions is very important, as it is much easier to relate to the other party when you are able to see them clearly, and knowing when you enter areas that will require clarification, discussions, changes, or whatever, right. As well as knowing when you are in an area with no mines. I guess that was what we did. We operated the project in a safe area. ... Where does this activity lead? Where is the goal? In what direction do we want to go? We had some of these discussions, ... I would not refer to them as confrontations, but the discussions became to some extent political, ... because our interests slightly differed. But they never developed into a conflict. But issues became specified, I guess. ... Through engaging in in-depth discussions we probably managed to remove some potential areas of conflict" (50)

(Quote, Jon Jacobsen, Lilleborg)

#### *Working group leader meetings*

On the operational level the working groups were each headed by a leader, and the three leaders of the working groups had meetings with the project managers. These meetings were referred to as working group leader meetings. These meetings were the least political, and issues were mostly related to progression and detailing solutions.

"...at the level of the working group leaders there was no politics at all, I think. I believe no tactical considerations were made. ...One just worked on a project, and that others working on the same project had their offices someplace else did not matter. They were in the *project*" (51)

(Quote, Jon Jacobsen, Lilleborg)

In general, contagion from the cooperative project and to other parts of the organizations was limited. Some positive elements were present when project participants met each other in other circumstances, due to the fact that mutual knowledge can make a decisive process easier and more efficient. However, for instance the respective organizations' sales and purchasing departments were not positively affected by the project, as they engaged in "business as usual".

Briefly summed up, the most important aspects of the decision process were the different levels involved. As the project proceeded, it involved extensive sharing of information that made it easier to maintain a shared interest in the project, and thus enhanced problem solving strategies on all levels. The general integrative orientation of both parties also developed in dual existence with the shared norms in the project organization. This was important, as few formal decision rules were applied in the relationship as governance tools. Also distributive elements were found in the project interaction on the top and line level. However, an important aspect was the propensity to export conflicting issues. This focused their project as a *joint* project and reduced the potential for conflict escalation. Also the use of extended

discussion in order to "map the territory" has similar implications. In working groups low concerns for partner outcomes would be visible as employees gave priority to non-project activities.

### DESCRIPTION OF EVENT HISTORY

This section describes the event history of the cooperation between NKL and Lilleborg. The cooperative project was somewhat complex and extensive, so the description will focus on a set of core events. Some project meetings were more important than others and some issues and themes were more important than others; this is reflected in the event history. However, the description will also to some extent indicate the importance of the un-dramatic and routine meetings and interaction.

The event history is divided into three phases. Phase one refers to the period from the idea of a joint cooperative quick response project was initiated, through the decision to start EPOS95, and finally up to the first automatic replenishment suggestion was delivered in January 1996. As the EPOS95 project was viewed as a "test project" for quick response and VMI (Vendor Managed Inventory), phase two is referred to as the test phase. During the test phase the project was operative in terms of producing a flow of goods, measurement was accomplished, and experiences were discussed. Phase three refers to the time period from the decision to continue the cooperative project as a "pilot" in January 1997, where the main intention was to prepare for a large scale roll-out, until the cooperation ultimately changed in form and content during summer 1997. From being a cooperative dyadic quick response test, the project eventually became a network form of cooperation with a number of suppliers mainly focusing on the replenishment from NKL to the stores.

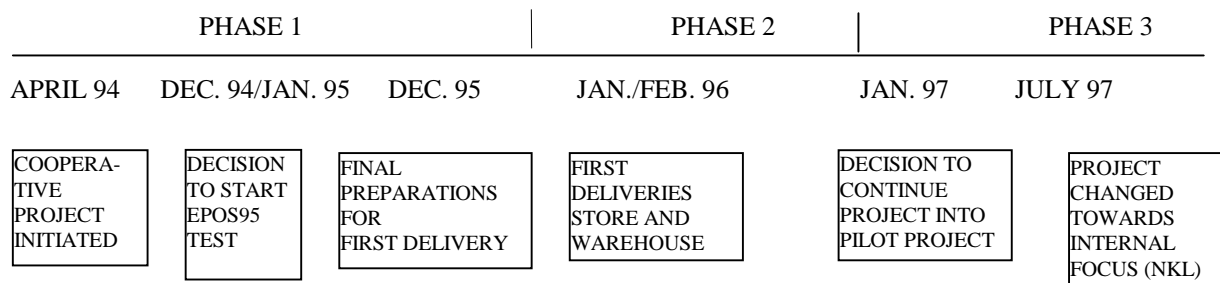


Figure 16.: Phases and events (NKL - Lilleborg)

Over the three phases, a total of 66 events were identified. Information on when these occurred, what kind of data source(s) these are derived from, and what general issues these incidents covered, is listed in the Appendix.

The main interaction points in phase 1, 2, and 3 are listed in Table 10. below. Along the vertical axis events are ordered chronologically after dates. Along the horizontal axis the different kinds of issues are listed. The most important events are marked with date in bold types. Other events are secondary, either leading up to or following from these (as for the previous case, an extended version is found in the Appendix).

### Phase 1

As the quick response project with focus on the *whole* supply chain was a pioneering project in Norway, the parties had to develop solutions to their needs and challenges more or less on their own. The project was strategically centered round an optimal flow of goods through the value system. The operational side involved description of routines (existing and new) related to flow of goods, and development of new routines, information systems and IT applications (et cetera) both between NKL and the stores and between Lilleborg and NKL. These activities became more time consuming and drew more resources than initially expected. The setting up of the software from E3 and the integration with existing systems were breaking new ground. In addition the project "grew" in the sense that it involved more and more of the parties' organizational functions, solutions and routines. After having started the project they soon discovered how their project related to other aspects of Efficient Consumer Response (ECR). Further, an initiative within NKL to prepare for implementation of cross-docking to improve the efficiency of the flow of goods through NKL to the stores changed the project's presuppositions. Cross-docking improves the flow because of a fundamental change in operations at the warehouse. Conventionally, goods would be stored on shelves, and each order would be packed and shipped from the warehouse. Cross-docking changes this, as goods arrive at a specific space and become re-loaded in shipments per destination, and are shipped through immediately without becoming part of the ordinary inventory. This operation significantly improves the efficiency of the flow, but also implies a change in routines and operations.

#### *Events 1 through 5 (940405/941222/950203/950217/950309)*

In early April 1994, after a period of informal talks about several possible cooperative projects, the decision to prepare for a possible joint quick-response project was taken. The initial effort was supposed to end with a "recommendation" whether to carry out an operational test of automatic replenishment or not. An early attempt to estimate the potential cost and income side of the project had shown substantial possible gains. There were discussions between NKL and Lilleborg whether additional "number-crunching" was needed, but NKL's Executive Vice President stated that he firmly believed the project was of great strategic importance and would give ample future returns, so further justification for proceeding with the test was not required.

"... he postponed a lot of work and discussions that might have occurred if we were to conduct a thorough analysis of costs and benefits at that time. We had scant knowledge of what the project would imply. The message clearly communicated that we do this project because we believe in it and that it will mean a substantial increase in future revenues. We will provide the agreed resources and we will discuss the project as it becomes realized" (52)

(Quote, Jon Jacobsen, Lilleborg)

In late December 1994, after the project was given a "more proper foundation", the decision to implement the test was formally taken. As the main idea was to study the effects through the whole supply chain, the EPOS95 project had two strings: replenishment from Lilleborg to the stores directly and through NKL, and from NKL and out to the stores. The parties expected gains to be identified in both flows. Work was initiated immediately in order to establish a project organization, a project handbook, project management, milestones, budgets, and so forth. By early February most of these things were in place, and a formal "kick-off" meeting was held in early March 1995.



The most important governance mechanisms were established through this period, and economic and organizational aspects were settled smoothly. The project was perceived as "so well founded strategically", that no conflicts of interest were identified.

"We established a traditional project organization with participants from both firms and the necessary governing documents that we sent out. The selection of participants for the different working groups was based on the relevant qualifications of the personnel available. This was presented to the steering committee, which made no comments. Basically, the organization was based on the premises of the project, and not on the respective organizations, because we felt that it was a joint project with common goals" (53)

(Quote, Jon Jacobsen, Lilleborg)

The above quote from Jon Jacobsen refers to the process of establishing a project organization, and the design of the project's administrative standards (memos, minutes, meetings, etc). Even if differing views were a reality, the confidence in each other, and the desire to "agree" caused the parties to yield and settle. The quote below refers to the issues of one or two project managers, where Lilleborg introduced the idea of *one* project manager, and NKL thought *one from each* organization would be appropriate:

"We made a very clear proposal. But there really was not a big discussion on the issue. I remember we said, "it is nothing to discuss. If we do not agree, and you think the suggestion is not a good one, we will do it differently, and that is that. Then we get on"" (54)

(Quote, Jon Jacobsen, Lilleborg)

Similarly, the issue of sites, or the choice of test sites were not contended in the steering committee. Basically, NKL controlled the sites and had first hand knowledge regarding their appropriateness for the project. Lilleborg did not want to interfere with NKL's choice of serving NKL Stavanger from Lilleborg in Oslo, serving Obs! Sørlandssenteret from NKL Stavanger, and serving a Prix store in Oslo from NKL Grorud. The decision to choose independent and geographically dispersed sites was not discussed.

"No, we had little influence on that issue. NKL chose the stores and said these are the ideal stores. We said: "Choose whatever is best. Chose the sites that are going to work". And when this occurred, we were rather surprised to find that there was one store here, one store there, and a warehouse there. ... And we attempted to ask a few questions like "why cannot we have these" ... but then we had Prix ... "just down the street""(55)

(Quote, Jon Jacobsen, Lilleborg)

"(it was) ... NKL who was responsible for the operations in that particular store. It was not a locally run store. And Erik Mjøster who participated in the project was responsible for the operations in the store. The main reason for our decision was that we believed that choosing that store would make implementation as easy as possible" (56)

(Quote, Dag Schøyen, NKL, on the choice of Obs! Sørlandssenteret)

#### *Event 6 (950320)*

In late March the steering committee expressed great satisfaction with the recent development, and stressed the issue of joint contributions of resources to EPOS95. Also, the steering group decided to go on a joint study tour during spring (several firms in the USA involved in quick response and vendor managed inventory projects were visited and studied in order to prepare and motivate for the project). With regard to milestones, the preparations

for the replenishment test were scheduled to end the 31st of December 1995, followed by an operative period until the 1st of April 1996. The test project was estimated to be concluded by early June 1996.

*Event 7 through 11 (950515/950529/950620/950627/950822)*

During spring and early summer, several issues occurred as "experienced problems", but not conflicts. These issues were to a certain extent dependent on each other, but were not handled as a whole.

During spring, progression in the working groups became more and more concerned with sorting out details. The issue of detailing occurred first in mid May, and by the end of May the project group called for an overview over estimated resource needs and plans on progression for all work groups. Related to this, the steering committee and the project group discussed the priority given to the project (that eventually became more time consuming than expected) versus other activities the project participants were engaged in. The steering committee stated that priority problems basically were a "management issue" that needed to be handled internally in both organizations, and urged both parties to "be on time".

Related to the increased focus on details and the problems with priority and resources, the organization of the project and the working groups were questioned. In mid May the existence of the Competencies and Information group was questioned, and by the end of May the project organization *per se* was brought up. Participants considered that the organization had too many levels, was administratively complex, and involved too many people with too much else to do. On the 20th of June the project management had a meeting on the issue. The project management agreed on the problems, and jointly drafted a suggestion for a new project organization proposed to the steering committee on the 27th of June. The project organization was eventually changed, and a three level organization was decided, keeping the steering group, the project management, and the working groups; but changing (mostly removing) everything else. In mid August the Competencies and information group were dissolved, and their responsibilities moved to the other groups. Further, the Systems group was split in two: one group was dedicated to the flow from Lilleborg to NKL Stavanger, the other to the flow between NKL and the store(s). Both parties viewed the new organization as a better solution.

Initially, EDI (Electronic Data Interchange) was intended as a part of the project, but it was early decided to minimize the issue in the project. During spring the importance of EDI in the project was recognized, and coordination between the project and related work with EDI was emphasized. However, external projects in the trade dealt with EDI issues, and by August the 22nd, the problem was resolved as the European Association of Numbering (EAN) in Norway initiated an EDI project. As a result, EPOS95 left this work mainly to be dealt with by EAN.

On the 27th of June the experiences from the study tour were discussed in relation to the project, and the steering committee did not see the need for any changes. However, these experiences clearly placed their quick response project in a broader cooperative ECR context.

Table 10.: Description of Event History NKL-Lilleborg

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test preparations	Resource availability	Miscellaneous	Cross-docking/ terminalization	Related activities	Project orientation sites	focus
	<i>PHASE 1</i>							
<b>941222</b>	Initial agreement		Commitment	Milestone test operative			2 stores 1 warehouse Decision	Quick Response phase 1, 2, and 3
<b>950203/</b> 950217 950302 950320 950504 950508 950515	Project handbook, organization, SOPs Work groups	(started)	Discussed Priority disc.	Study tour/milestones  Δ milestone test op. Δ milestones External consultants QR seminar				
950529 950620		Project org. and progress Progression Org. problem	"Management problem" Identify need Insufficient	Project size/organization ∇		EDI EDI/external		Δ ECR influence Δ phase 1 and 2
<b>950627</b> 950814 950822	Δ Project org. Δ Work groups Budget -96 disc.	Measurement Progression Delay	∇ ∇ Available	Contract pricing		∇ Δ EDI ext. OK		
<b>950904</b> <b>950922</b> <b>951002</b>		Progress/delay ∇	∇ Insufficient		X-docking ∇	Project/ext. rel.	Δ site addition Δ site addition	
951018 <b>951026</b> 951109 951113 951117 951214	Budget -96 OK  Contract prices esth.	∇ Progress good Progression ∇ Breakthrough Progress good Breakthrough	∇ ∇ Available ∇ Insufficient Available	Software competence Contract pricing OK Milestone test op. fin. Problem: coop WG level  ∇ Org. test operation Software comp. in prog. Coop. as operation start		∇ ∇ EDI		Δ Increase phase autonomy  Δ dec. eff. pos. 2 operative sites

Δ: Change decision

∇: Continuance of former decision

Table 10.: Description of Event History NKL-Lilleborg (continued)

TIME Date	ISSUES						
	Establishment and evolution of governance mechanisms	Test operations	Resource availability	Miscellaneous	Cross-docking/ terminalization	Related activities	Project orientation sites focus
	<i>PHASE 2</i>						
960117		<b>Test Operative</b>					<b>1 Store Prix</b>
960123		Follow-up		Coop. chain NKL/sales L.	Change need	Coop E3 probl.	Prep. Obs! (phase 1 and 2)
960201		Start-up prob.		∇ Chain, Coop. prob. WG	X-docking	E3	∇
960205		<b>Test Operative</b>					<b>1 Warehouse</b>
960227		Progression	Discussed	Project organization	∇	∇	Prep. new Prix
							Prep. 2 terminals
960403	Δ Project org/WG	Progress: products, tech., <i>Good results</i>		Operative personnel		∇	
960513		Delay	Insufficient:	Test vs. ordinary operation	∇		Expansion delay,
		Progress ceased	Action taken	Need to revitalize project			new add. WH disc.
960806		Campaign problem	∇	Consequences push / pull	∇		Expansion Sept.
		- keep project alive		Turnover NKL expected			
960827		Test operation ok	Insufficient	Roll-out: <i>separate</i>	Δ X-docking		Δ additional
		Gains identified		<i>initiatives</i> , ECR foundation	<i>postponed</i>		sites <i>postponed</i>
96 October	Δ Steering comm. comp.	Chain involvement	Action taken	Turnover NKL			Roll-out: ECR found.
96 October							
961030		Measurement prob.		End report delayed	X-docking disc.	ExWorks (*)	Roll-out: addit.
				Chain involvement		suppliers	sites disc.
							Agreement to cont. coop.
	<i>PHASE 3</i>						
970129		Test prolonged	Pilot discussed	End report; Turnover;		ExWork terms	∇ Roll-out sites
		Pilot prep.		Pilot: Lilleborg in SG			<i>Store focus,</i>
970404		<i>Test end/Pilot prep.</i>	High priority	End E95 and pilot report E2	X-docking in E2	Corporate IS	<i>L-NKL conti.</i>
97 May	Δ Steering comm. comp	<b>Pilot operative</b>		Memo on conti. of VMI			∇
970708		VMI part discussed	Committed	Range of problems discussed			<b>First store</b>
9707medio							<i>VMI part of coop. stopped</i>

L.: Lilleborg WG: Working group WH: Warehouse SG: Steering group E95: EPOS95 E2: EPOS2000 VMI: Vendor Managed Inventory (L-NKL)

During these meetings issues related to further detailing, resources, priorities, and measurements were discussed. By the end of August, the project seemed to have been settled, and the issue of contract pricing had been brought up.

*Event 12 and 13 (950922/951002)*

During September the resource situation at Obs! Sørlandssenteret caused problems and delay because of change of the information system in the store. Problems that related to progression and resources were becoming "standard issues" by this time.

In a working group leader meeting on the 22nd of September, an interesting development occurred as new milestones were presented (references to this occurrence at an earlier point in time are not found in the data): the project was to be expanded to include several *new sites*. In addition to the (three) sites that already were part of the project, it was proposed to include automatic replenishment of NKL Grorud and NKL Ålesund. In addition, the new sites were supposed to be served as *cross-docking sites*, referred to as Central Terminals. The new sites also meant a further dispersion geographically.

The decision in NKL to start preparing for the establishment of a Central Terminal, the site name for cross-docking activities or terminalization, was discussed in the steering committee in early October. Minutes from the meeting state (quote):

"Lilleborg very positive to Central Terminal, but this requires a more complex solution and thus this is re-scheduled" (57)

The introduction of cross-docking as an issue was important, because it changed the projects presupposition. However, there seemed to be a change in the grocery business towards the use of cross-docking as a work process, and the change was welcome. A result was that milestones were given new estimates: the test phase was scheduled to end in May 1996, with the final reports ready by the 2nd of September 1996. Further, another possible additional site was discussed; now a store in Stavanger. However, this was to be included if possible at a late stage of the test phase. Progression issues and resource problems were also discussed.

Another important decision on the 2nd of October was to establish contract prices, or fixed prices, for the test project. Traditional sales terms from Lilleborg were to a certain extent complex, and would cause problems for the measurement of the test. A (joint) suggestion to solve this problem was proposed by the project managers, and the steering committee agreed: contract prices would be based on means from a preceding number of months. An interesting aspect of this process was that "discussions" about contract prices took place internally in Lilleborg between the project organization and the line organization. Jon Jacobsen saw the necessity of enhancing a "free flow of goods", and describes the situation:

"And then we did it (laughs). It was a bit funny, because there was a fair amount of internal discussion in Lilleborg. We were not prepared for a fixed-price regime, even if it was only for the project. NKL, on the other hand, was very clear on it and in the project management we agreed that we needed to find a practical solution. So we suggested a solution and said that this is what we need!" (58)

*Event 14 trough 18 (951018/951026/951109/951117/951205)*

In a working group leader meeting in mid October several important issues were discussed. Lilleborg had internal problems with regard to measurement because of new administrative information systems, and delays were expected. Lilleborg's project manager took the

responsibility and signaled that he would see to it that the problem was solved. The issues occurred again in a project management meeting on the 26th of October, and Lilleborg estimated that measurement could start late November. By the 9th of November the issue seemed to have reached a solution. Parallel to this, the need to develop a total test plan, the need for conversion resources, and related testing issues were discussed. By the 17th of November, the project was reported to be "almost on schedule". For the remaining time up to the 15th of January 1996 (the operative milestone in the project) the importance of available resources was the single most important issue in order to avoid final delays. During late October contract prices were developed.

In the working group leader meeting in mid October, a new "organizational" problem was discussed. Working group leaders experienced that cooperation across organizational boundaries was difficult. Two aspects were discussed: cooperation between the work groups, and the authority of the work group leader in the working group. Both aspects were perceived as important and described as "major challenges" in minutes. With regard to both problems, the groups' recommendations were in line with the project's organizational structure: if attempts to resolve problems between groups or in the group failed, the problem should be reported one level up to the project managers. With regard to problems between groups, the key role of the "flow group" over the "system" groups was stressed. However, the second problem was possibly more important. The practical consequences was that the working group leader perceived it as problematic to go into the partners organization and instruct employees who participated in the project to implement project decisions at the expense of their other work tasks in their respective organizations. The issues occurred again in the project management meeting on the 9th of November. Instructions were given to working group leaders to spend more time in the partner organization than in own organization. However, no organizational changes were implemented to resolve the problem.

"No, and we never found a good solution on that issue, I think. This particular issue is a classic problem I experience in other projects like this as well" (59)

(Quote, Dag Schøyen, NKL)

"We had a couple of situations like that ... that there was someone saying "allright, I am responsible for this group. It is quite easy regarding those that are part of my own organization, but it is not easy with those belonging to the other organization, because I feel I cannot execute direct supervision". And the we decided, "yes, you can. And in case of conflict ... or conflict related to resources in the other organization, then obviously their management must deal with it". ... The main problem was this particular conflict between having an operative job and having a responsible position in the project. And you are measured on the operative job and not on the project" (60)

(Quote, Jon Jacobsen, Lilleborg)

Several issues were discussed during these meeting, as for instance coordination of the project versus EAN and the reporting of resource use. However, on the 17th of November the project management reports to the steering committee that earlier changes in the project had proved positive for the project's focus.

Finally, on the 18th of October the working group leaders suggested that a joint information meeting should be held. By the 9th of November such a meeting was being planned by the project management, and finally decided on by the steering committee on the 17th of November. The meeting was called a coordination meeting, and the goal was to "give all

personnel implicated in the management of the project a common platform regarding chosen solution and strategic direction" (quote from invitation).

## **Phase 2**

Phase 2 refers to the time period between January 1996 and January 1997. In January 1996 the preparations for the automatic replenishment testing were finished, and in mid January the first automatically generated suggestions for delivery were produced and delivered. The accomplishment of the test period was delayed as compared to initial plans. The project end report was finished the 15<sup>th</sup> of January 1997. The delay was mainly caused by resource problems, unanticipated operational problems, and turnover of key personnel during fall 1996.

Of great importance during fall was turnover of key personnel. During the whole project people had been in and out of the project to some extent, but during fall several key actors left the project (and the organization). Most important was that Ellen Haugen, project manager from NKL, quit in October. A consultant from Anderson Consulting replaced her. In addition, site managers, chain representatives, and administrative personnel were replaced. Turnover in several areas of the cooperation (mostly in NKL) affected the partnership in several ways: reduced interpersonal trust, new areas of priority, higher uncertainty, less enthusiasm, and less activity. In addition, the informal understandings and psychological contracts between the representatives and their organizations were not formalized or documented in order to create continuity. Turnover affected all three levels in the project, but the remaining participants represented continuity to some extent.

However, from the start and as long as Ellen Haugen was project manager from NKL, the cooperation was relatively stable and predictable, at least as seen from the views of key participants in both organizations. After Ellen Haugen left the organization, the project's orientation began changing.

The most important events during phase 2 were a new change of the project organization in April following a stronger focus on chain and store activities, and an initial idea in August to establish a roll-out pilot project where replenishment to store and warehouse could be managed as separate initiatives. Continuing issues of importance were the problems related to resource contributions, collaborative problems on the operational level, and the struggle to expand the project with regard to sites (which never succeeded as part of EPOS95).

As the test phase developed, the interaction frequency between the organizations deteriorated and became less intense.

### *Event 19 and 20 (960117/960205)*

Two milestones were passed in early 1996. On the 17th of January the first automatic replenishment suggestion to store was produced and delivered on the 18th. On the 5th of February the first automatic replenishment suggestion to warehouse was produced for delivery.

### *Event 21 (960201)*

As the test had just started in early February, a few minor start-up problems were discussed, as well as relations to the software supplier. More important were the issues of store activities, the organization of the project, and expansion of the test to additional sites.

Some problems were experienced with data transfer and inventory size in the store, partly caused by bad counting in the store (another counting by project participants were done to correct the situation), and partly because of technical difficulties. The problems were quickly sorted out. However, it resulted in an additional focus in the project: it was realized that the information to and follow-up in the store had not been good enough. Also, specific areas of potential conflict in the store were discussed:

"Based on the experiences from the start-up at Prix, we have seen that we must increase focus on the activities in the store. As a consequence we must increase the involvement of chain operations in NKL, the sales department in Lilleborg, and store management" (61)

(Quote, Status report for steering committee meeting 960201)

"Participation from FSØ (Consumer Cooperative East) and store level as the project continues should be considered. Must focus on the problem related to presentation stock ... Avoiding the industry from fighting over shelf space is important" (62)

(Quote, minute from steering committee meeting 960201)

The basic idea in the project was to test a supply chain where demand (or actual sales in the store) was the "motor" that created a pull through the chain. However, the current conventional operations were more push-driven, and this dilemma (to a certain extent) interfered with the test operations.

"Yes, we had several examples, as for instance related to Space management planning that came up, that we were not aware of initially. We became increasingly aware of the necessity of involving the store/chain representatives to make it work. We learned that this was much more than a logistic project. It became much clearer. And that was one of the dilemmas, because we had a hard time involving, among others, chain operations in our organization. They lacked resources to make necessary commitment to the project. That was also a problem for the progression of the project" (63)

(Quote, Dag Schøyen, NKL)

These aspects represented shared views by the project participants.

A recurrent issue was the organization of the project. The problems related to work group coordination and the authority of their leaders were discussed once again, but no changes were made in order to reach a final solution.

"Organizing in joint groups and with joint working group leaders has been a major challenge ... This has not worked equally well in all ways, but in our opinion it is of crucial importance for the shared feelings in the project that this works in the future. We therefore will pursue this issue" (64)

(Quote, minute from steering committee meeting 960201)

Finally, the issues of expansion of products and categories, and of (the new cross-docking) sites (Grorud and Ålesund) were discussed. Work was initiated to identify the change needed in the information systems in order to meet the requirements for new operative sites (both store and warehouse). The central problem, as seen from the project management, was to handle the replenishment of a number of stores, and still be able to have optimal deliveries sent to the central terminal. Work was to be initiated in this issue as soon as replenishment of NKL Stavanger was stable.



*Event 22 (960403)*

In early April the first measures reached the steering group, who were very happy to see what they called "very good results from the relatively short test period". Also the chain management was reported to be responding very enthusiastically. In fact, shortly after the test was started, the parties could observe reduced levels of inventory and good service levels. As in February, minor problems regarding the technical solutions were discussed, and further corrective work initiated. The steering group gave permission to expand the test with regard to number of products in the Prix store.

Following the discussion related to the organization of the project in February, it was decided to change the working group structure once again. The existing groups (flow of goods and the two system groups) were merged, and a new Store/Market group was added. The new group was considered to be very important for the project, as a central aspect of this change was to include the chain management.

*Event 23 through 25 (960513/960806/960812)*

During spring and summer the test continued in the Prix store and in NKL Stavanger's warehouse. The test met operational problems on a continuous basis, but most of these were minor and did not represent a threat to the project.

More important, the resource availability issue seemed to culminate during spring, despite the promising results from the test. The issue had been discussed continuously from the start of the collaboration, and attempts were made to correct this during summer 1996. Part of the problem was the dilemma between short-term and long-term focus, where the participants to a large extent were "measured" on their contribution to the (short term) daily operations.

"EPOS95 has until drifting started in February this year more or less fought a continuous struggle to get necessary resources even though the project has been reasonably focused in both organizations. ... If we are to finish the project as preplanned, it is necessary to revitalize the project through agreeing on the goals, creating renewed interest in both organizations, and not least see to that the project is provided with necessary resources" (65)

(Quote, Status report to Steering committee meeting 960513)

At this point Lilleborg had decided to fully commit one person to run the project, but still lacked resources related to further development in the project. The project management also addressed the situation in NKL, which they perceived as non-supportive. They concluded:

"Therefore, we conclude that the progression of the project has stopped" (66)

(Quote, Status report to Steering committee meeting 960513)

However, in the same meeting (960513), discussions on further progression still confirm the desire to expand the test with two additional stores, one additional warehouse with cross-docking operations, and one conventional warehouse. The reasoning behind this was the promising results of the test. For instance, in Stavanger the inventory level had dropped substantially after the test started. The results seemed promising despite the cost of increased frequency of delivery (almost daily compared to earlier weekly).

The issue of progression came up in early August as well, but this time for other reasons.

"There was a discussion on activities and the challenges they create in the flow. Activities both aimed at store and NKL Stavanger must be managed better. An agreement not to over-focus on activities, but to concentrate on implementation of the project, was reached. Returns from warehouse to Lilleborg should be possible to discuss. ... Look at consequences for sales force – from push to pull.

The main challenge currently is to keep the project alive. Most of the project organization in NKL must be replaced shortly. ... Start-up of additional stores is scheduled for 15<sup>th</sup> September –96. ... Solution via

central terminal must also be worked out, and this is important to make improved results for Lilleborg possible. The goal is to supply Stavanger via central terminal from September 18<sup>th</sup> 1996" (67)

(Quote, minute from Steering committee meeting 960806)

The possibility of reducing the inventory levels by returning some of the goods to Lilleborg was discussed, but the issue did not reach any conclusion. Campaigns and extraordinary activities were considered not to be a part of the project. The reason for this was related to the probability for success, which was perceived to increase with a less complex project (solve problems, avoid problems). As a consequence the Prix store had been chosen as a convenient test site. However, problems occurred in the warehouse:

"What happened was that the purchaser at the Stavanger warehouse took control by ordering extra goods outside the system because he thought the inventory level had dropped too far. In addition, we had some campaigns going on during this period, where the estimates turned out to be completely wrong. Inventory levels for some products thus went very high causing the total inventory level down there to exceed the level before the project started. It took a long time to reduce the levels again. ... The strange thing is that the inventory level is always driven up too high and that this is the consequence of what our salesmen do and what purchasers in local warehouses do. It is almost always self-inflicted" (68)

(Quote, Jon Jacobsen, Lilleborg)

The problem was related to the basic transition the project initiated; the idea of managing supply chains as pull, and not push, systems.

An initiative from May to hold a joint status meeting became a reality in August. As several major challenges had occurred in the project, such as "keeping the project alive", managing turnover, and "identifying gains for Lilleborg", the need to renew the strategic importance of the project became necessary. The goals for the meeting were "to create a common understanding of the project, to secure agreement regarding the priority (of the project), and create enthusiasm and a foundation for continuation". The meeting was successful.

*Event 26 (960827/documents dated 960828)*

The steering committee expressed great satisfaction with the status meeting, and their joint interests were emphasized.

"The meeting was perceived as positive, and there is a broad and shared interest in the project. A roll-out will provide economic gains for both parties. For Lilleborg, the effect is expected only when the roll-out phase provides critical mass in terms of volume of supplied goods, while COOP will experience continuous improvements" (69)

(Quote, minute from steering committee meeting 960827)

The reference to Lilleborg's gains reflects the distribution of positive effects: most of them seemed to appear between NKL and the store.

Replenishment of Prix and NKL Stavanger continued without major problems. A memo from the project management discussed in relative detail the inclusion of two additional stores (Prix

in Stavanger and Obs! Sørlandssenteret), as well as the implementation of cross-docking sites (Oslo and Stavanger) in September and early October. However, the steering committee saw problems related to routines, pricing, and other operational aspects, as well as problems committing resources to handle these. Further implementation was postponed, and new estimates would not be made until resources were available.

Also presented in the meeting was an "EPOS95 – Roll-out" memo intended to generate discussion. The memo initiated a transition phase, where the completion of EPOS95 was discussed in relation to a further roll-out process, or larger scale pilot project. A key formulation was a suggestion to split the project into two separate initiatives, where additional suppliers could be involved:

"A continuance of the project and implementation of continuous replenishment will be best secured through conducting the implementation in two separate initiatives. ... The reason is that this is the simplest way to implement. However, we must not lose the total perspective (ECR) ...

*Supplier to NKL:* Continuance should be organized in partnering projects ... with ... suppliers

*NKL to store:* Continuance will be organized as an ordinary project ..." (70)

(Quote, Roll-out memo)

The suggestion came from Dag Schøyen, NKL. Commenting on the reactions, he indicates that the suggestion evoked mixed emotions.

"... I understood that they (Lilleborg) were negative. Because of body language and reaction, so ... I think they were rather humble in relation to NKL. That they laid bonds on themselves" (71)

From Lilleborg, Jon Jacobsen comments on the event:

"At the moment the idea was presented, replenishment from Lilleborg to NKL Stavanger was in reality dead. Because NKL then felt that ... they realized that it was very important for them to continue in the stores, and they had insufficient resources and perhaps not sufficient faith in ... at least they did not have any personnel interested in running the other part. ... Obviously, that decision ... we did not fight it at all, although we made comments and said that we did not think it was particularly smart" (72)

However, it was decided that continuance in the pilot should include both flow from Lilleborg to NKL, and from NKL and to the stores. The following is quoted from the minute:

"It is important to agree on how we could coordinate the work between Lilleborg and NKL and between NKL and the store in this phase. ... EPOS95 continues as a pilot-project, where new thoughts and ideas are tested and competencies built up under supervision of the joint steering group. Important to keep the overall view of the flow of goods and also take advantage of joint efforts in all areas, as for instance including supplier in the store" (73)

#### *Event 27 (961030)*

In late October the last steering committee meeting in 1996 was held. The meeting did not bring up any new issues, or change the direction on any issue. What is important, however, is to note that the *committee agreed on the importance of continuing the test/pilot as a joint project*, with focus on the whole supply chain.

Some measures were discussed in the meeting. Interestingly, the measurement showed a substantial drop in average number of days on shelf in the Prix store. In comparison, only a slight drop is observed at NKL Stavanger. With regard to sales and service levels, no substantial changes could be identified. Cross-docking and chain involvement were discussed.

The operative test continued, but the project lacked any further development. The only new aspect was a more detailed planning of the pilot (the specific number of stores to be included was discussed).

In late October several actors in the grocery business (both suppliers and chains) prepared for a change towards increased use of cross-docking. A consequence of this operational change was a need to change the transactions' terms and conditions. Traditionally the suppliers had transported and delivered the goods at NKL's warehouse. However, terms were changed to ExWorks, which meant that NKL took over responsibility as the goods left the supplier. As EPOS95 related to these changes, Jon Jacobsen and Dag Schøyen conducted the negotiations as a one-off situation (NKL changed the terms to ExWorks for many of their suppliers, and negotiations were usually conducted by the respective purchasing and sales departments). The established personal relations and learning from the project affected the process positively, as they understood the operational and strategic aspects well. The negotiations were concluded over three meetings, and involved a detailed documentation of numbers. The reason for this was that neither Lilleborg nor NKL accepted smaller margins as a result, and the economic aspect slowed the process. The negotiations were successfully completed without perceived *conflict*, except bargaining related to their roles. Commenting on their outcomes, Dag Schøyen (NKL) sums up:

"No, we have not gained from Lilleborg. So we hope that maybe Lilleborg has gained something" (74)

During late fall, the project stalled because of the turnover in NKL, and in particular because NKL's project manager quit. The function was transferred to an external consultant, who played no active role in the project. As the resource situation remained unchanged, additional sites were not included in the test project, and much of the planned progression was not realized.

"It was then possible solutions started to erode. ... As I experienced it, my confession was that we had been too ambitious" (75)

(Quote, Dag Schøyen, NKL)

"Ellen Haugen and myself had the same focus and belief in the totality of the project, a shared perspective that was very defined. It was very open. When she quit, we entered a new phase. There was no-one to take over for NKL and I would say that the project fell between two stools" (76)

(Quote, Jon Jacobsen, Lilleborg)

The project participants were not particularly optimistic or enthusiastic, and this affected the activity level.

"... (formerly) one was looking forward to working on this project, but then things started to happen. As for instance personnel turnover. The enthusiasm disappeared ... then the development stopped" (77)

(Quote, Dag Schøyen, NKL)

Because of problems with identifying actual gains in the flow between Lilleborg and NKL (that is few gains were identified for Lilleborg) the concerns and focus in NKL slowly shifted away from their joint interests towards their own concerns. However, few actions were taken in this period. The parties withdrew to a certain extent because of the resource situation, and especially NKL because they, in addition, were in the process of recruiting new personnel. Lilleborg, who at the time experienced uncertainty with regard to the strategic direction of the

pilot partly because the stability Ellen Haugen represented for the project was gone, did not take specific actions during late fall to secure their potentially threatened strategic interests.

### Phase 3

Phase 3 represents only a few but important events. The phase represents important changes in the strategic focus of the project, but still in a way develops along the lines drawn during fall 1996. Even though EPOS95 was not finished yet, and the pilot project was not started, the first meeting in 97 in the steering committee was still a landmark event in the cooperation. EPOS95 was about to become a pilot project named EPOS2000. The pilot was intended to prepare for a large scale roll-out in order to increase the efficiency substantially. The test had proven the potential.

Most importantly, EPOS2000 involved several suppliers in addition to Lilleborg, and the dyadic nature of EPOS95 turned into a network form of collaboration. Further, a new actor in NKL, Beate Storsul, became an important decision maker during spring (and eventually became Managing Director, Supply of Consumer Goods, and replaced Egil Sætveit who formally initiated EPOS95). Obviously, this changed the personal relations in the project group, but also the future priorities. During spring and summer 1997, the focus in NKL shifted towards their "internal" relations between NKL and the stores. External relations were maintained through involving suppliers in the internal flow between NKL and the stores. The cooperation regarding replenishment of NKL Stavanger and other planned warehouses/terminals was, eventually, stopped.

#### *Event 28 and 29 (970129/970404)*

On the 29th of January there still were some problems with the testing, and the parties decided to prolong the test to late March. The product line was extended, and all detergents and personal products were to be included in both parts of the test.

In the two steering group meetings during winter 1997 the central issue was their partnership and the continuance of the project. Lilleborg was very interested in continuing the cooperation even if there were problems in documenting gains on "their" side of the cooperation (the VMI part in Stavanger). In January it was decided to start the pilot in early May, to be managed in local units as two projects:

"Part 1 refers to introduction of automatic replenishment from local unit/central terminal to 10-15 stores. ... Lilleborg's involvement in the store is part of the project. ... Part 2 refers to replenishment of local units, and will have three phases: Fully implement the solution for Stavanger; Include Central terminal; Include Hamar" (78)

(Quote, Minute of steering group meeting 970129)

The main reason to split the cooperation in two initiatives, was the economy in the project:

"In our opinion, moving the focus to the stores was a better solution. Because, from integrated supply chain management, the starting point is as close to the consumer as possible, and then work upstream. And, for ourselves, we saw that the effect was largest for the stores" (79)

(Quote, Dag Schøyen, NKL)

During the meeting it became clear that priority was given to the NKL-store relationship in the pilot start-up. Lilleborg did not support the idea, neither was it contended. They saw it as undesirable, although unavoidable.

HN: Was that a negotiation issue whether one should do it that way or not?

JJ: No, we said it was all right.

HN: It did not serve your interests?

JJ: No, I think I would say that, we would have been happier with keeping the things together. And I guess I was a bit sorry because the whole idea behind the project, all the way, had been that this is something we do completely different from others. We engage the whole chain, from supplier and out to the store. Something no one has done before. But ... I think they had private information related to Stavanger and that things did not go very well down there" (80)

(Quote, excerpt from interview with Jon Jacobsen, Lilleborg)

The problems in Stavanger were related to management turnover, as well as operational problems.

The project organization of EPOS2000 was building on experiences from EPOS95, and a steering committee was going to be established. As the NKL-store part of the pilot basically was an internal "NKL" project, it was expected to be an internally recruited committee. As NKL was interested in further involvement and cooperation with Lilleborg, an exclusive representation in the steering committee was offered.

"The situation was a bit special, because we were just discussing this splitting up, and Sætveit asks if we really were satisfied. And then we admitted that actually we were not entirely happy. On the other hand ... and that has also been one of the very exciting aspects of this project that we have worked jointly on solutions in store. Which is an important thing. Very important thing. And then Sætveit said "well ok, but you can participate in the steering committee". ... And for me that was the ultimate proof that we clearly had joint interests. It is rare that you offer a supplier participation in a steering committee in an area you normally would not work together on. Because this was from their warehouse and out to their stores" (81)

(Quote, Jon Jacobsen, Lilleborg)

By offering Lilleborg a seat, several purposes were served: Lilleborg would have ownership in the pilot project (both initiatives), and Lilleborg's interests in the store would be secured. In addition, NKL would be able to draw on resources and competencies from Lilleborg. The pilot was also changing from a dyadic partnership into a network form of cooperation.

"Extension to other suppliers. Transition to whole product categories for detergents and personal products does not mean involvement of other suppliers apart from their participation. NKL have an interest in including for instance ... (82)

(Quote, Minute of steering group meeting 970129)

This (actually) was a common interest, and the fact that Lilleborg had just been offered a special place (as the only supplier represented in the steering committee) in the store pilot contributed to a shared interest.

"That was perfectly all right. It was a precondition from the start, you might say, that when we reached a certain stage others would be included. We viewed it as an advantage from a resource point of view. If you are to roll out in many stores, then you actually need a substantial number of people" (83)

(Quote, Jon Jacobsen, Lilleborg)

When the parties met again in early April, reports on the completion of EPOS95 and the establishment of EPOS2000 were presented. The above issues were confirmed, and potential suppliers were suggested and discussed (NKL did not try to include any of Lilleborg's competitors in the market for detergents and personal products). Several operational issues

related to the pilot initiatives were discussed in order to prepare the implementation. Minutes from the April meeting confirms the organization of EPOS2000:

*"Pilot:* Implementation of a pilot involves an extension both with regard to supplement from supplier to Central Terminal/local unit and from warehouse to store.

*NKL – Store:* ... This will be drifted as an internal project primarily aimed at supplement from NKL to store. Lilleborg is invited to participate in the steering committee for this project.

*Lilleborg – NKL:* An establishment memo for Lilleborg's further work with automatic replenishment will be worked out and based on a discussion with regard to which solutions will be used.

*Open issue:* The project has clear priority" (84)

(Quote, minute from steering committee meeting 040497)

As a final indicator on the further direction of EPOS2000 the documentation of gains was discussed in relation to the flow between NKL and the stores (the percentage of waste had dropped substantially, service levels had been met, turnaround of inventory had increased, inventory levels and related investment had been reduced). All these trends were expected to increase.

*Events 30 through 32 (970521/970708/9707me)*

In May, Jon Jacobsen wrote a memo called "Continuation of replenishment from Lilleborg to NKL's local units". The memo was prepared for a meeting at the end of May between Jon Jacobsen and Beate Storsul, and was intended as a starting point for discussions regarding what kind of solution should be chosen for the VMI part of the pilot. Stavanger and Hamar were explicitly discussed as two possible sites. Resources were also discussed, and Lilleborg offered to contribute sufficient resources, including a dedicated person to run the project, even if this meant moving people to local sites. However, the meeting ended non-conclusive. As Jon Jacobsen comments:

"... the background for picking up on the discussion of this part of the project was the memo, but it was just stopped because of lack of resources and not sufficiently high priority. The new management had more than enough getting hold of the other part of the project and the daily operations. Thus, Lilleborg did not pursue the issue" (85)

During this time period Beate Storsul became more acquainted with the whole project, and come to view it as very interesting. She also got to know the difficulties in the project, and her priorities with regard to the pilot changed away from external relations and towards internal ones. In early July another meeting was held in order to find a realistic foundation for the VMI project, primarily in Stavanger. Another document was prepared from Lilleborg, specifying all problem areas that had to be sorted out. In addition, NKL employees in Stavanger were dissatisfied with the whole project. They experienced that shipments that were part of the test were given priority on transport, sometimes at the expense of other orders. As a result, the VMI part of the pilot was by NKL perceived more as a problem than a possibility.

"And then we were presented a list so long that we found that we did not have resources available, we had to stop this ... As I experience it, it harmed the whole cooperation" (86)

(Quote, Beate Storsul, NKL)

The final decision in NKL not to continue the Lilleborg-NKL part of the pilot was not taken in the meeting on the 8th of July, but a week or two later. Beate Storsul explains:

"The idea of focusing the whole string, ... is very exciting. I think the largest potential lies between the stores and NKL. I say this because the stores have no professional purchasing function, and nor have

they been particularly concerned with purchasing. NKL have, and therefore there is less to gain in the link between NKL-Lilleborg. ... However, to be able to focus EPOS2000 and stores sufficiently, I am completely convinced that stopping the other part of the project was the right thing to do. We did not pay sufficient attention, and concentrated on the first part, because there the gains are largest" (87)

The decision in the end did not seem to come as a surprise; the decision came as a natural consequence of earlier decisions. When asked to reflect on the fact that it took so long, and that the decision in the end was hers, as a newcomer to the project, Beate Storsul responded:

"Well, when one knows each other as well as NKL and Lilleborg do, and you are about to make a decision that the other party do not agree to, or disagree with the priorities, then it is hard to do it. And I think that the situation was a bit like that. That we did not sufficiently clearly, sufficiently early and clearly, tell Lilleborg that "we cannot possibly do this, we have no resources". We should have done that"

"... it was much easier for me to say that this is going nowhere. Either we have to do it 100%, or we have to stop it" (88)

The cooperation continued as EPOS2000 the rest of 1997 and into 1998. Although the project was more limited in focus, there still were sources to problems and delays. As the VMI part of the project was postponed both Lilleborg and NKL felt the importance of keeping a discussion going on possible joint projects in the future. An important condition for the discussions was the social ties between employees in both organizations. The desire to cooperate again (apart from EPOS2000) was related to their experiences in the project, and the fact that there were gains to be realized if they could make the right things work. As Jon Jacobsen concludes:

"Indeed, we will be interested in trying out something new all the time. But we will also be very concerned with costs, because there a big difference between removing costs, and shuffling costs. The former is very positive, the other is unproductive" (89)

### **Outcomes and evaluations**

During the project, the Steering committee had frequent meetings. As an input to these meetings, the project management prepared memos, often in the form of status reports. These reports were not specifically evaluations of past decisions with regard to outcomes in the project, but more a report on deviation in project progression. In addition, two more lengthy reports were written in order to make status in the cooperation. The first was "EPOS95 - Status report phase 1" (referring to the first time period in the project), dated late August 1996. The second, "EPOS95 - a breakthrough in the Norwegian consumer goods trade - final report from test of automatic replenishment" was dated mid January 1997. Both reports discuss in some detail the more technical and operational aspects of the project. In terms of outcomes, the primary concern was on realized and potential future gains (the cooperation *per se* was not discussed formally).

"Yes, we made status for each meeting in the steering committee, an evaluation of where were we compared to the plan, but not a summary statement that provided a description of the results and the situation like if the project ended ... like now" (90)

"Most important was the effect on the economic situation of what we were doing. On sales, on turnover of inventory, on inventory levels, and the aspects of the flow we were able to measure. That was the most important thing" (91)

(Quotes, Jon Jacobsen, Lilleborg)



Interestingly, evaluations of past interactions and realized outcomes are to a certain extent influenced by the perceived possibilities in the future. The estimated possibilities for future gains influenced evaluations positively:

"Well, that is founded in the project model we have used. This about having a ... long-term perspective, and having an opinion of what gain and possibilities exist" (92)

(Quote, Dag Schøyen, NKL)

"Well, our interest in the project is exclusively future expectations. ... You establish a relationship to continuously do good things" (93)

(Quote, Jon Jacobsen, Lilleborg)

Although each party could identify the outcomes in both parts of the project, the treatment of cost savings was unconventional, as they focused on the flow of goods *and* costs in a joint perspective. Participants assumed implicit cost savings in the project, but the size and distribution of these gains were (at best) a secondary concern. The parties expected it would take some time to resolve this issue. Briefly stated, gains (actual) were identified between NKL and the store, but between Lilleborg and NKL Stavanger only possible future gains were estimated. However, both parties contributed in realizing the gains. In addition, the project represented an efficient arena for learning.

"... at least there was a renewed interest in summing up the learning in the project, and really see that we had learned something. And that was positive" (94)

(Quote, Jon Jacobsen, Lilleborg)

With regard to roles in the project, this issue was important. Generally, the participants in the project were aware of the importance of establishing good personal relations in order to develop organizational roles in the cooperation. Through personal interaction and discussions, the organizational roles could be developed and defined. Jon Jacobsen explains:

"Yes, obviously when people get to know each other, the efficiency between two organizations increases. "Oh, is that how you do it. We thought you did it this way, and because of that we prepared to do it like that". Right. You might develop a solution that does not fit. These problems are easily avoided. When you manage to cooperate like this" (95)

Personal well being *per se* was also regarded as important, but was not considered as an important input in the evaluations. It was rather perceived as essential in order to produce and sustain positive outcomes in the project.

### Summary

I have described the cooperation between NKL and Lilleborg, and their implementation of automatic replenishment in the supply chain from supplier and out to the consumer. First the reader was introduced to the parties, the competitive context, and the basic ideas of the collaborative project. Then I turned to describe the governance mechanisms developed in the cooperation in order to govern the relationship over time. As in the SOL-Europay case, many of the same mechanisms were found, as for instance budgets and a "shadow" incentive system, based in indirect rewards. The hierarchical elements related to the project organization, formalization (e.g. related to project documentation), norms related to the decision process (e.g. export of conflict issues), and non-market pricing. Finally, socially based mechanisms were described. I then turned to the characteristics of the decision process, and described how the process differed over the three organization levels, and how these

levels were related. Typically, the process involved extensive information sharing, enhancing the use of integrative strategies for action. However, examples were also given of more contending behavior in the cooperative project, and how these aspects were limited (e.g. through the use of extended discussions). The main section of the chapter describes the event history of the cooperation. Three phases were described: a preparation phase starting in early 1995, an operative test phase through 1996, and finally an initial roll-out phase, where the cooperation changed strategic focus and nature over a few months' period during the first half of 1997. Efforts were made to focus the description around a set of core issues and events (nevertheless, it was difficult to keep it short), and care was taken to reflect the theoretical framework.

## **ANALYSIS AND INTERPRETATIONS**

In this section, I will present an analysis of the case based on the case description and the theoretical framework. While the case description is based on empirical data (see Appendix 3. for a list of data sources), the analysis represents my interpretations of them. First, I will discuss the established governance mechanisms in the cooperation and implications for decision strategies used in the collaborative interaction. Then I will turn to discussing the issue(s) of governance and interaction in main and secondary events in phase 1, 2, and 3. A discussion of outcomes and their evaluations will end this section.

### **Establishment of governance mechanisms and implications for interaction strategies**

Although the cooperative agreement was informal and not represented in the form of a formal legal contract, the cooperation was not entirely based on psychological contracts. The early initiative to establish a project handbook extensively substitutes for traditional formal contracts. With regard to the establishment of governance mechanisms, the project handbook was important. The handbook, a 22 page document, described the background for the project and cooperative goals, the main aspects of implementation, the project structure, as well as routines, plans and initial resource estimates. In addition, the parties had committed themselves explicitly to a set of norms intended as complementary governance mechanisms.

The joint budget was basically an initial estimate for expected costs in the project. As the project was a *pioneering* effort, actual costs were to be covered by the parties as the project developed. Internal costs would be covered by the respective organizations, and joint expense was covered reciprocally. Estimates for cost savings, possible impacts on retail prices, and/or increased revenues were difficult to include. Moreover, the distribution of cost savings was not settled. These aspects were a consequence of the uncertainty related to the operative test results. The main incentives in the project were possible future cost savings and increased revenues. The design might be understood as a "shadow incentive structure" as it does not *specify* short- or long-term gains. Finally, any attempts related to making extensive analyses of the economic potential of the project were cancelled, as the gains were expected to dwarf the expenses (see event 1). This condition had two important implications: there were no conflicts arising from the transfer of financial resources between the parties. The establishment of contract prices in the test also contributed to this situation, as the incentive to act strategically in relation to Lilleborg's "complex" sales terms and bonus systems was removed from the collaboration. On the contrary, the problems of establishing realistic estimates of costs and resource needs *ex ante*, and the fact that initial resource allocations were insufficient, led to a continuous discussion related to problems of resource availability. Over the duration of EPOS, allocative problems occurred in both organizations. However, the main conflict line was not

typically between NKL and Lilleborg, but between the strategic project and daily operations in the respective organizations.

The hierarchical elements in the project were important, and related to the structuring of the project organization, the authoritative relations between firms and project levels, the formalization of routines and development of standard documentation. Most important was the composition of joint groups. The formalized structure for decision-making secured a "presence at the table" for both organizations on all levels. Specifically, the project management played a key role between the steering committee and the working groups. The fact that only one person from each organization served as project managers, made interaction in the group smooth, and responsibilities clear. The project managers were represented in the steering committee, as well as in working group leader meetings. This enhanced coordination across levels. The extensive set of hierarchical mechanisms brought stability and procedural justice into the cooperation. However, an important characteristic of the cooperation was that the involved personnel were not committed to the project only, but also had operative responsibilities in their respective organizations outside the project. Further, and equally important, employees in both organizations were "measured" on their operational contribution outside EPOS95.

The co-existence of trust and control mechanisms were important in the cooperation, as the economic aspects to a certain degree were underlying, or implicit, mechanisms for governance. Although the hierarchical and trust-related mechanisms were important in their own right, their combination in the project were "powerful", as they influenced the dynamics substantially. Most importantly, a set of guiding norms was explicitly established as a foundation for relational development: trust, value creation for both parties in a long-term perspective, open sharing of information, and mutual knowledge. For the project management, this resulted in a situation where they basically sought decisions on the project's own premises. In addition, an informal understanding of appropriate conduct developed in the steering committee. For instance, issues that were perceived as "traditional negotiation issues" (such as terms, delivery, assortment), although related to the project, were exported to external decision forums. These forums sometimes consisted of persons involved in the project, yet were separate entities. Another example was Lilleborg's early avoidance of contesting NKL's wish to engage two project managers, and their avoidance from interfering with NKL's choice of test sites (see events 1 through 5). These early events to some degree anchored behavior in later events, as for instance related to NKL's suggestion to split the test into separate initiatives (events 26 and 27). In negotiation theory terms, Lilleborg's behavior can be understood as indicators of yielding.

The routines for project documentation and distribution, the representation of both parties in decision entities, the norm of information sharing, the web of (good) personal relations, and the joint perspective on value creation - all these mechanisms for governance - enhanced integrative interaction in the cooperation. These aspects were a key to problem solving strategies during (most of) the cooperation, particularly between the project managers. This was expressed both by project manager Jon Jacobsen (see e.g. description of decision process in project management meetings, and event 27), and from NKL's Dag Schøyen. As the project management prepared most of the steering group meetings, their "decisive orientation" was fed into the top level. As reported by the informants, the decision process in the steering committee was to a certain extent more "political", i.e. conflicts of interest were more likely to occur there than on lower levels. Because the agenda and input came from the project

management (the steering committee rarely brought up issues on their own initiative), the typical process was characterized by the same integrative orientation. Another consequence of the parties' evolving practice of sharing information was the willingness to engage in "extended discussions" related to issues outside the boundaries of the cooperative project. Through these discussions, NKL and Lilleborg were able to map the "territory" surrounding the project, and put their cooperation in a corporate strategic context. By sharing information on interests and concerns in other areas of business, both parties were able to understand where (and on what kind of issues) conflicts were likely to occur. This way unnecessary conflict was avoided, and a better understanding of each other's underlying concerns developed. Such understanding is in some cases important input to problem solving efforts, as for instance "bridging".

As mentioned, the steering committee also developed a practice to "export" what was perceived as "conflict" issues, and these issues were handled (i.e. agreement was reached/decisions taken) in a *different corporate context*. This practice is not particularly visible in the case description (or in the data, except for a couple of minor incidents and general examples reported in interviews), most likely because of the issues' peripheral role in EPOS95. Nevertheless, these actions had important implications. This split between shared and competing interests may contribute to keeping the meetings "nice" and enhance a cooperative orientation, but at the same time limit the possibilities for bundling of issues, the use of nonspecific compensation, and log-rolling (both between issues in the same meeting, and over time), all common tactics in problem solving behavior. In addition it may remove issues that could prove to be "driving forces" in the cooperation (for instance issues related to incentive structures), but at the same time the export of conflict issues does not (most likely) directly impede project, or cooperative progression.

As indicated, all decisive entities in the project were not "free standing" or "closed" systems, but dependent on forces, or interests, external to the cooperation. On the working group level, this was most clearly expressed through the participant's day-to-day task priority, which on several occasions caused implementation and progressive delays in the cooperation. Employees were responsible for work tasks characterized by opposing interests, and sometimes this caused problems. Nor were the project management independent of their respective organizations, although this level seemed to be the least "tied up" in external webs of interest (as a consequence of the project's shared strategic interest). However, an example of their dependence can be the process related to the establishment of contract prices, where Jon Jacobsen met resistance internally in Lilleborg, even though it was by both project managers perceived as a necessary condition for implementing measurement in the test. Finally (as discussed above), the steering committee was recurrently influenced by circumstances (be they strategic interests, relations, institutional forces, or others) outside the cooperation. These "external" ties to a certain degree influenced the governance mechanisms and negotiation strategies in use.

### **Governance and interaction in phase 1: Main events**

During the test preparation phase interaction in the project was frequent in terms of meetings; the primary decision arena. Interaction in working groups was more or less continuous, but not so well reflected in the case description. The frequent meetings also indicate close and frequent informal activity. However, the main events in the cooperation took place primarily in the project management meetings and in the steering committee meetings. Although one could argue that informal forums often are the "real" decisive arenas, I still hold that the main

events basically occurred in meetings. This is because much of the preparation and background work for decision-making took place in meetings, and because final decisions (in meetings) could differ from suggestions and expectations.

The early and important events in phase 1 were related to the initiation of the project, as found in event 1, 2, and 3. These events set off the cooperative effort, specified the project and its goals, and also established a framework for collaborative interaction. The early decisions to start working without carrying out extensive economic analyses, the decisions related to the project handbook and organization, the explicit commitments to norms and trust as important governance mechanisms, the decision to engage two project managers, and finally the choice of sites, basically relied on intentions to integrate the two parties' concerns as equally important. The initial prescription of trust as a key element clearly builds on established personal relations and earlier experiences, and was an important element. The mentioned decisions were reached through problem solving interaction, although the parties themselves probably did not think of it that way; the expressions used by informants were that decisions were taken on the project's own premises. Although the decisions to engage two project managers and NKL's choice of sites were differing from Lilleborg's views, Lilleborg did not contend on these issues. This "implicit yielding" shows high concerns for NKL's interest, partly because they did not perceive the issues as particularly important, partly because they were convinced that their interests were mutual and that NKL had private information that made them more suited to make the decision.

The events during late spring and summer similarly reflect interaction based on their shared interests in the project. Experienced problems with regard to increased resource needs, the conflict related to priorities between the project and non-project operations, and the questioned organization of working groups were settled to the satisfaction of both parties. These issues were perceived as joint problems that were solved jointly in order to arrive at better solutions for the further cooperation. For instance, the change of the project organization in event 10, and the adjoining changes in the working groups made in mid-August (950814) were by both parties perceived as resulting in a structure better suited for the remaining planning and implementation of the test.

Availability of resources was a recurrent issue in the cooperation, but was not in particular related to one organization. In September 1995 (event 12), the problem had occurred again after a (short) period with sufficient resources. Despite this, the parties agreed on the inclusion of several new sites in event 12 and 13, in order to do the test more thoroughly. Two of the three new sites were warehouses, and would involve cross-docking. Lilleborg was positive to the suggestions. Cross-docking could potentially be a major contribution to save costs and increase efficiency in the distribution channel. Adding more warehouses to the test could also make it easier to identify gains between Lilleborg and NKL. That this would increase the resource needs did not seem to be a big issue, but the parties prolonged the end point of the test. As the implementation of the operative test came closer, the decision to prepare for cross-docking (even if resources were limited) led the steering group (event 13) to "split" the project in two more independent parts. They believed this would make it easier to focus on both parts up to and through the test. As before, the parties acted in order to arrive at solutions supporting their common interests. No conflict lines were perceived in these decisions. However, later, when the test had been operative for some time, these decisions seemed to "turn on them" and become sources of new problems. Decisions based on problem solving strategies and (presumed) integrative orientations, over time, became a source of problems

themselves, which on some issues initiated a change in degree of concern for the partner's interest in the project. I will return to this issue later.

As mentioned earlier contract prices were established during October, and these serve as a good example of actions taken to serve joint interests, even though resistance was present in Lilleborg. Another interesting issue that occurred in October (event 14) was cooperative problems on the working group level: coordination between the groups, and (most important) the authority of the working group leader over participants employed in the partner organization. Working group leaders experienced problems with such authority, and withheld from using their formal status as group leader to supervise "partner employees'" contribution in the project at the expense of other tasks. The problem was discussed in the steering group in event 16, and leaders were encouraged to "spend more time with the partner organization". This issue became a recurrent one, as the general statement relates to the established and in-use governance mechanisms. As a matter of fact, the problem to a certain extent was rooted in these, and as a consequence, the problem was not solved. The cooperation over the first year had been close, and the established structural properties of the cooperation (the applied governance mechanisms) had in a sense settled. The project organization and working groups had been changed during summer, successfully, and a shared informal understanding of how the relationship should be managed had by this time matured. As a result, the governance mechanisms and the structure of the cooperation were not addressed *per se*. As a consequence, the decision makers in the project failed in their attempts to take corrective action.

### **Governance and interaction in phase 1: Secondary events**

The distinction between main and secondary events are in some cases approximations, as a single event can involve one important issue or decision, as well as several minor issues concerning follow-ups or related activities on the borders of the cooperation. Anyway, the distinction is useful because it emphasizes the importance of the typical interaction that often falls outside the notion of "critical events". As discussed earlier, these interactions are important in order to understand development of trust, relational norms, and joint understanding of appropriate conduct.

In terms of number of events (typically meetings), the first phase of the cooperation was intense with frequent meetings and, in periods, daily informal contact. A substantial part of this interaction was centered on progression and follow up on earlier decisions. In some instances, this routine interaction would culminate in important events as minor issues could grow into major issues, or the combination of several issues develop towards a point in time and increase their impact.

Examples of this are events during late winter and early spring following the initiation of the cooperation, such as: test preparations started in the working groups, the kick-off meeting that introduced the project to a wider "audience" in both organizations, the decision to study similar projects in the US, and the Quick Response seminar. Also during summer (e.g. 950623, 950706, 950712) several meetings were held without any impact except continuity of the cooperation. Finally, several events during late 1995 were secondary in the sense that they followed from events discussed under the previous heading, and/or leading up to milestone events in phase 2.

Typically, these events were discussing progression, resource availability, measurement, and/or other issues. In doing so they often included economic aspects of the cooperative framework, but the governing economic realities of the project did not initiate conflicts of interest. These events were to a large extent governed through hierarchical and normative mechanisms, as issues occurred, and interaction did not turn into "battles over opposing interests" invoking differing decision strategies. These interaction points to a large extent depended on the existing framework for interaction, and their joint interaction in these events contributed to the reproduction and continuity of the dominant structural properties and behavioral orientations.

### **Governance and interaction in phase 2: Main events**

Phase 2 started with two milestone events in about two weeks time, when automatic replenishment were started both to one Prix store from NKL (both in Oslo), and to NKL in Stavanger from Lilleborg in Oslo. The early operative phase included a range of minor start-up problems that were solved as corrective action was taken both jointly and in both organizations.

In meetings late January and early February (event 21) 1996, their shared problems with the software supplier were discussed, and joint efforts were made to press E3 to increase their participation in the project, as E3 had expressed an interest in the success of the project, but seemed to be very concerned with invoicing. Both organizations used E3 software in the test, and their joint efforts mirrored integrative action. The terminalization issue also became important as the test became operative, and as expressed during fall 1995, they had joint interests in making cross-docking work, as this solution was likely to reduce distribution costs, and represented possible contribution at lower prices.

Two important issues were on the agenda for these mid winter meetings. First, there was a perceived need to include other organizational entities on both sides of the dyad. The test operations were dependent on chain and store personnel in the test, because they had unique competencies and understanding of store routines, activities, and test consequences. Similarly, they needed to include the sales department at Lilleborg, as the main part of the flow of goods were initiated as "push" activities when the test needed initiation through "pull" (consumers buying) activity. Second, the experienced problems with coordination and authoritative relations in the working groups had not improved. With regard to the second problem no new initiatives in order to solve the problem were taken. The issue was discussed, but the efforts taken to correct the problem were minimal, as it seems that no actions were taken (implying inaction as a strategic orientation on this issue). The first issue also represents indications of a deviation from the strong integrative orientation so far in the cooperation. However, it is important to note here that there were differing strategic orientations in separate organizational entities on specific issues. The issue came up, as the project managers became aware of the possibility of differing concerns in other parts of their respective organizations. As I will turn to below, this indicates that multiple strategies were used as multiple levels acted in line with (perceived) differing interests. This is reflected in the data, as the project management and the steering committee act on joint interests, drawing on the established hierarchical and authoritative elements in the cooperation, as well as trusting that former decisions will be carried out as intended. However, on lower levels project participants gave priority to non-project activity, and sales and purchasing personnel acted on economic incentive structures and measures external to the cooperative framework for interaction (confer events 22, 23, 24).

Leading up to event 22 (960403), the issue of working group structure was again discussed in late February. In order to adjust to the new experiences from the early test operations, and expectations for further progression, the working group structure was changed. The former groups working with the flow of goods and the information systems were merged, and a new group focusing on activities in the store and market was added. The addition of a store/market oriented working group clearly on one hand increased NKL's "share" of the project, and to a certain extent followed from the discussion in the late January meeting. On the other hand, Lilleborg, subscribing to the view that it is the (final) sales to the consumer that matters for them (and not their sales to the next level in the supply chain), supported this increased focus as they had an explicit interest in store activity. This increased focus on the chain level was at this point a joint concern, and the new organization rose from common interests. As I will discuss further under interaction in phase 3, these initial decisions were later to become reinforced, and ultimately lead to a change in NKL's concerns for Lilleborg's "part" of the cooperation. By this time the first measures had been produced, and results were viewed as "very good". The growing optimism supported the earlier decisions to expand and include new sites in the test (event 23). The measurement confirmed the prosperity of their problem solving efforts and integrative orientation, and reinforced their interaction strategies.

In May (event 23) several of the recurring issues seemed to culminate, and the problems related to priority on the operative level, and availability of resources peaked. It was recognized in the meeting that progression was delayed with regard to inclusion of new sites, and further progression would most likely cease. Ultimately, the steering committee realized the need to revitalize the whole cooperative project. In an effort to correct the immediate resource situation, Lilleborg committed one dedicated person to the operative test. This was clearly an expression of their interest in the project, but not sufficient to meet the planned progression. This unilateral commitment was an attempt to solve the problem, at least in part. (This action was "reciprocated" by NKL in October, when they committed one chain employee 50% to the project. The data does not indicate that this was due to any kind of expressed agreement, but the action reflected their norms of accepting costs in turns and their understanding to cover "internal" costs, as well as resulting from turnover and continuity needs).

By August new problems had arisen. In event 24 the situation from May is slightly worse, as they now saw "Challenge #1" as "keeping the project alive". A joint meeting (event 25) served as the arena for the revitalization and continued commitment to the project from both organizations. However, as mentioned above, different organizational entities made use of differing strategies in their interaction. This became a source of major problems in the test. During summer campaign activities on product lines included in the test had taken place, and Lilleborg's sales department had been "pushing" goods through the (distribution) system, in order to increase their revenues and "ultimately" the economic performance they were measured on. Adding to the situation, NKL employees in Stavanger had not developed sufficient ownership of EPOS95. They were uncomfortable with the reduced inventory levels that had developed in the test period, and took control in the sense that they built up the inventory levels again, and consequently jeopardized all the good initial measures achieved in the test between Lilleborg and NKL.

Although important in their own right, the incidents during spring and summer came to together in event 26, a *significant* event in the cooperation. Resulting from several



developmental states, the long planned and scheduled implementation of additional sites in the test was postponed. Developmental states included the continuous problem related to available resources and progression, the differing interests project participants were exposed to and responsible for, and the unsolved problem of the "instructive" authority of working group leaders. Further progression and preparation for terminalization were also postponed. This was a set-back for both parties, but probably more for Lilleborg, as gains so far had been realized in the internal NKL system, and Lilleborg were dependent on the inclusion of several sites to reach what was expected to be "critical mass". As test operations still were going without serious problems, the test continued in 1 store and 1 warehouse. However, in practice, the test had become two separate projects, as the whole chain had not been tested with one continuing flow (as would have been the case if Obs! Sørlandssenteret, and/or Prix in Stavanger, and/or terminalization of NKL Grorud were included). Developing from earlier decisions (event 13 that increased the autonomy of the two parts of the test (which proved effective), the failure to implement new sites, and the earlier changes related to the increased participation of chain and store representatives in event 21 and 22), it was suggested by NKL to split the forthcoming continuation (the pilot EPOS2000) into two separate initiatives: one focusing the flow between NKL and the stores (in practice an "internal" NKL project), and one focusing on the flow between Lilleborg and NKL. This suggested a change in NKL's concern for Lilleborg's interests and outcomes in the cooperation, as they were more concerned with developing the positive trends identified in their internal flow at the expense of Lilleborg's interests in the project. Lilleborg indicated their disagreement with the suggestion, without success.

Two interesting aspects are found in this event. Lilleborg did not contend on the suggestion from NKL, and to some extent gave in on their own interests in the pilot. Their "yielding" behavior might be attributed to similar events in the early cooperation (as discussed earlier). Other contributing explanations can be the uncertain economic aspects of this part of the flow, as measures were ambiguous, and that the established and reinforced norms guiding appropriate conduct in the collaboration limited, or restrained, Lilleborg's possible range of behavior. The state of the cooperation, and the desire to *do something* in order to cope with the situation, brought the suggestion about. The other interesting aspect is related to the norms and trust that had developed through the cooperation, and the close personal relationships between the organizations, that also included an emotional element. These aspects restrained both NKL and Lilleborg in coming forward "fighting" for their interests, as the established norms and trust made it difficult for both parties to take this confrontation.

The developed norms and trust became a "glue" that made certain actions difficult to conduct, and the earlier extensive use of problem solving strategies and integrative orientations had themselves resulted in, and become, new sources of problems impeding cooperative progression.

### **Governance and interaction in phase 2: Secondary events**

Compared to phase 1, phase 2 is less intense in terms of event frequency. Interaction in phase 2 differs from phase 1 as the test is operative, and much of the interaction is handled in the working groups on a daily basis, without much formal activity related to new decisions needs (as discussed above, several events were important in phase 2, but they were more dispersed over time as compared to phase 1).

Typical secondary events in phase 2 were related to follow-ups and practical implementation issues (e.g. 960227), or working meetings in the project management where for instance the composition of the new working groups was discussed (e.g. 960530, following event 22). Basically, interaction in these events drew on the same set of governance mechanisms used in the events they were derived from, and might influence the "mechanisms-in-use" in the events they led up to. In a similar manner the basic orientations were (more or less) the same as in the main events, as the *decision* is often taken, and implementation *follows* from this (an exception is the priority issue in working groups as discussed earlier). Additionally, strategic orientations anchored in secondary events might affect the strategic orientations, or decision strategies, used in main events (see for instance 960227, 960513, 960723, 960806, 960812 on the issue to revitalize and keep the project alive).

Following event 26 (late August) was a period with little interaction on the project management and steering group level. Formal interaction in working groups was non-existent, but the test operations continued as before without problems. However, further *progression* did not take place.

NKL experienced turnover among project participants, and most importantly Ellen Haugen, NKL's project manager, quit and left the organization. As she had been participating on all levels in the cooperation, this affected the personal relations, and hence the level of trust as a governance mechanism as the close working relationship in the project management came to an end. The informal understanding and psychological contracts existing with Ellen Haugen's participation were never formalized in the project.

In September and October a couple of meetings took place, following event 26 and preparing phase 3. No substantially new issues arose, except for the open discussions relating to the inclusion of several suppliers in the "internal" NKL part of the pilot. However, this had been an implicit assumption during the cooperation, as both parties saw the need to expand the project and include new resources in the pilot. An important issue related to the continuation of the cooperation was the confirmation of the intentions to carry out the pilot as a joint project that also included replenishment from Lilleborg to NKL.

Finally, Dag Schøyen and Jon Jacobsen handled the transition to ExWorks terms between them as a one-off "commercial business negotiation". Although related to the project issue of terminalization, the issues included had clearly distributive elements such as prices, incentive structures, elements related to transportation costs, and so on (their joint interest, however, was to reduce total distribution costs). The issues were solved to both parties' satisfaction in the end, but the process was, in comparison with their EPOS95 interaction, characterized by extensive bargaining and movement along the distributive dimension. However, as several issues were included they were able to log-roll and trade on issues in order to increase their joint outcomes, as a consequence of their knowledge from the collaboration, their established personal relations, their understanding of each others concerns and interests, and because of their experiences from the past business history.

The period during fall, leading up to phase 3 were to a certain extent characterized by withdrawal, avoidance and inaction. The seeds for a strategic change had been planted (event 26), and grew as it was left alone without contending or confrontation. The parties were concerned about the consequences for the trust in the cooperation if earlier commitments were

not carried out and decisions were not implemented. No new (important) actors (decision-makers) were brought into the collaboration during this period. The collaboration stood still.

### **Governance and interaction in phase 3**

Phase 3 consisted of a few important events, basically related to the final preparations for the pilot and roll-out named EPOS2000, building on and continuing EPOS95. In late January 1997 (event 28), the end report on EPOS95 was presented to the steering committee. The report was "very technical", and described a range of activities, problems, learning, possible solutions, and questions to be taken into consideration in the pilot. Also general statements were made with regard to the outcomes of the project in relation to the initial goals, focusing on what kind of technical solutions and routines were implemented in the test. An illustrative example of possible gains that could be realized in the store from further roll-out was presented. The main conclusion was to continue with the pilot. As some final aspects of the test were unfinished, the test was prolonged until March. Following earlier decisions, it was decided to continue the pilot as two separate projects, though under the same name. It became clear during the meeting that EPOS2000 would build on the structural characteristics and mechanisms used in EPOS95 and in a similar manner be headed by a steering committee.

NKL wanted to increase their focus on the internal flow between NKL and the stores, as they believed gains would be easier to identify and realize. This was based on the experiences from the test, but also on the fact that NKL over time had been working professionally with supplier relations and purchasing, an operative area that the stores traditionally had treated step-motherly. Lilleborg was not comfortable with this outcome, but as in earlier events (last time in event 26), they did not oppose NKL's suggestion, and accommodated on the issue. However, when asked directly, they expressed their discomfort. This did not change the decision, but NKL took action in order to show their (still) high concerns for Lilleborg's further interest in the collaboration, and offered Lilleborg a seat in the steering committee as the only supplier represented in the group. As Lilleborg still had important interests in the stores they were happy to accept. During this meeting NKL's concerns seemed to have changed towards their own interests in the pilot, as reflected in the emphasis placed on internal activities. However, NKL wanted and needed supplier views, competencies, and representation in the group, and experiences from working with Lilleborg were excellent. This meant that Lilleborg would still be an active part in the cooperation.

The second problem concerned replenishment from Lilleborg to NKL, and it was decided in the meeting that this part of the collaboration should continue to several sites and include terminalization. This decision was confirmed in April (event 29). Other issues such as additional suppliers, resources in the pilot, and related issues were also discussed based on joint interests. An establishment memo for EPOS2000 was presented, building on the practice in EPOS95. This memo did not focus on the flow from Lilleborg to NKL, but only on the internal flow from NKL and to the stores. An additional establishment memo was intended for the other party, and hence, Lilleborg's special interests in this part of EPOS2000 would be taken into consideration. However, NKL did not take an active role in this effort.

During May the pilot started between NKL and the first stores. In addition, an important change in the cooperation had taken place. During winter, Beate Storsul had become a key participant from NKL, and her entry into the project was important, as she was new to the trade and had no prior established personal relations. She adopted the view of Lilleborg as a close partner, but had not developed the kind of personal relationship and trust to Lilleborg

employees such as Ellen Haugen or Dag Schøyen. In a social context, this placed her in a somewhat "freer" position, as she did not share the history of the cooperation. She came to view EPOS95 as two projects, and this became important, as she during summer was about to replace the initiator of EPOS, NKL's Egil Sætveit. The memo on replenishment from Lilleborg to NKL, written by Jon Jacobsen, ended up in a dead end, and in a final attempt to get this part of EPOS2000 realized, a meeting was held in early July. The meeting was not conclusive, but a few days later, Beate Storsul decided to stop this part of the cooperation. Lilleborg had at the meeting offered to (more or less) run the project, but to no use. The concerns in NKL had changed, and they were not willing to accommodate Lilleborg. During a long period characterized by inaction from NKL, their real concerns were finally expressed.

### **Outcomes and evaluations**

In addition to one status report in August 1996, the end report on EPOS95 was the main document to sum up and make status of the cooperation (these were "technical" in nature). Further, many smaller status documents was produced throughout the cooperation as input to steering committee meetings. Finally, the issue of measurement was important in the test, and great emphasis was placed on getting relevant measures during the operative test. These measures were very important, as they were the main indicators of the outcomes of the collaborative project. The test was carried out in order to reduce distribution costs through increased efficiency, and the measures were the economic indicators. As reported by project manager Jon Jacobsen, this was a primary concern in the evaluations made.

The collaboration was a pioneering project, so emphasis was also placed on the learning taking place between the two organizations. This element is not directly an economic measure, but relates partly to the roles developed in the cooperation. Developing roles were important, as this reduced the duplication of work, and defined what kind of activities should be conducted, how they should be done, and in what part of the supply chain. Learning contributed to answer these questions, and the development of roles in turn contributed to the economic outcomes of the cooperation.

More individually based dimensions of evaluations, such as emotions and the feeling of well-being and perceptions related to cooperation as a convenient way of doing business were not reported to have impact on evaluations, or to be an important dimension of the evaluations, as reported by Jon Jacobsen. On the other hand, Dag Schøyen believed emotional aspects played a role in the cooperation, although not as part of the memos or reports. When asked to reflect on it, he immediately commented on the importance of well being in such a project on an individual basis. As reported in the end section of phase 2 in the case description, he holds that it is of importance that the individual participant experiences a sense of well-being, because in the end, such projects depend on motivated, interested, and eager individuals.

Finally, outcomes and evaluations were not done solely as "looking-back" activities. Although it is often assumed that evaluations are carried out in order to make status related to past interaction (like "what did we/they get out of this?", or "how much did we gain/save?"), evaluations in the cooperation were significantly influenced by future expectations, or possibilities that were yet to be realized (if at all). This uncertain element was of vital importance, as it both affected the judgment of what had actually been realized so far, and was included as a size (or dimension) in its own right.

## SUMMARY AND CONCLUSIONS

The cooperative project between NKL and Lilleborg, EPOS95 (later EPOS2000), a test of automatic replenishment with use of POS-data, went through different phases, divided into three in the description. These phases related to the progressive milestones of the cooperation. The first phase was largely a preparation phase. The second phase started as the test went into operation, and the third phase prepared for the pilot and large scale roll-out. The project was unique as it intended to focus on the whole supply chain from manufacturing in Lilleborg and out through the cash registers in NKL's stores. However, they never managed to focus this in one single flow, as the "separate" flows (between Lilleborg and NKL and between NKL and the store) were dispersed. One store and one warehouse were operative units, despite the fact that the parties through most of their interaction struggled to include additional sites. The issues of resource commitments, project priority, and progression were discussed throughout the cooperation. As the resource problem was sent up the cooperative hierarchy, the message of "management responsibility" was sent down (on occasions it was decided to commit additional resources). This issue was typically managed by using the hierarchy. As resources were committed, the parties trusted that they actually would be allocated (typically) to the working groups, so extensive mechanisms of control, or economic regulations, were not added. As the project participants were not solely committed to EPOS95, but had their ordinary operational tasks to answer for in addition, the progression was to a large extent dependent on these actors' motivation, interest, and working capacity. Sometimes project participants had to choose between whose interests they were to pursue. On other occasions, they just had to take care of their operational responsibilities outside the project. The individual participant was measured on the operational contribution, and no individual incentives were established to encourage project priority in case of conflict.

However, the structural aspects of the cooperative agreement obviously included economically based governance mechanisms. Budgets were established, but more importantly the cooperation was expected to pay off in terms of reduced costs and increased efficiency on several operational aspects. These savings were intended to be "given away" to the consumer through better prices, but "taken back again" through increased sales and a strengthened competitive position. In addition, the actual split of savings between NKL and Lilleborg was not considered. This resulted in a "shadow incentive structure", and the mechanisms of economic advantage were not very visible as the collaboration developed.

More important were the mechanisms of governance related to hierarchy, and the developing trust and norms in the collaboration. Most importantly, the parties expressed that their framework for interaction should build on trust, open information sharing, mutual knowledge, and joint value creation, and the project organization secured that both organizations were represented in the decisive forums. These aspects, in addition to a common strategic goal, strongly contributed to an extensive use of problem solving strategies during most of the cooperation. The use of decision strategies and tactics focusing on integration of interests over time reinforced and enabled further use of these, and also co-evolved with a set of norms for appropriate conduct and trust. The organization of the project *per se* seemed to support this development. In turn, this process limited and restrained decisive orientations that are often found when competing interests are present. The practice of exporting conflict issues to other corporate contexts, and the use of extended discussions as part of their information sharing also contributed to this developmental process. Finally, avoiding contending on issues with differing views was observed, as the parties had strong faith in each other.

The relatively low intensity of economic "drivers", or forces, in the cooperation seemed to have two impacts: the incentive structure as such did not create any conflicts or disrupt the cooperative climate, and the most important economic mechanism was the budget. As costs exceeded the budgets, the parties showed willingness to accept costs on a principle of fairness.

However, as the measures, and thus the economic potential of EPOS95, were presented during phase 2, changing concerns were observed, and fuelled by at least two other aspects.

During spring 1996 Lilleborg's sales department had campaign activities going, and NKL Stavanger were uncomfortable with the low inventory levels the cooperation had produced. In this situation, Lilleborg's sales department acted traditionally and "pushed" goods into the system in order to achieve good sales, while NKL in Stavanger were accommodating Lilleborg's actions. As a result, the test measures were disrupted. In addition, NKL knew that their project organization would experience huge turnover during fall, and that this would most likely affect the personal relations and trust in the cooperation.

These events led NKL to suggest that the pilot should be initiated as separate projects. NKL saw that the economic gains most likely could be realized in their internal system, and not between Lilleborg and NKL. The suggestion was not welcomed, but Lilleborg did not take action on the issue. During fall 1996 both organizations were inactive with regard to the strategic orientation of the pilot. As turnover in the project management occurred, activity was generally low. In phase 3 NKL's concerns more clearly shifted towards their "internal part" of the project, but Lilleborg was given a "special" treatment to include their interests in the stores. With regard to the VMI part of EPOS, NKL were still inactive during spring 1997, and the issue was not really handled before a new actor entered as key decision maker, and stopped the VMI part of EPOS. NKL's concerns for Lilleborg's interests in this part of the project finally became clear. This process took some time, as the trust, personal relations, and former interaction had restrained the other participants from taking this confrontation - the relational norms and extensive focusing on joint interests became a "glue" that slowed the dissolution process substantially - and the final decision depended on a change in the governance mechanisms (as individuals carry trust, orientations, and psychological contracts).

Although the cooperation for the most part was structurally designed to enhance integration of interests, different strategic orientations were observed across different levels. Interestingly, the parallel processes with regard to the two initiatives in the pilot show how multiple strategies can be at work in one relationship.

With regard to outcomes and evaluations, the economic aspects were of great importance, but measures were not entirely conclusive. However, some aspects of the test seemed more promising. In addition to a technical focus on outcomes, the development of relational roles was important, as was learning. Of lesser importance as a formal evaluative dimension were emotions, although emotions might affect evaluations as well being was regarded as a positive force contributing to cooperative efforts. A final interesting aspect is the importance of future expectations on evaluation, as the perceived possibility for future gains was just as important as making status of past interaction and outcomes.

**TABLE 11.: PROCESS AND CHARACTERISTICS IN DIFFERENT PHASES – NKL LILLEBORG**

<i>PHASE 1: PREPARATION OF REPLENISHMENT TEST</i>	<i>PHASE 2: OPERATIVE TESTING</i>	<i>PHASE 3: REFOCUSED ROLL-OUT PILOT</i>
<b>GENERAL DESCRIPTION:</b>		
STRATEGIC COOPERATION/PROJECT	STRATEGIC COOPERATION/PROJECT	STRATEGIC COOPERATION STRATEGIC REFOCUSING IN NKL
<i>PREPARATION AND EXPECTANCIES FOR TEST:</i> -WHOLE SUPPLY CHAIN FOCUSED, SEVERAL SITES -EXPECTED TO IDENTIFY SUBSTANTIAL GAINS IN WHOLE FLOW (LILLEBORG-NKL-STORE)  -RELATIVE STABILITY (PERSONELL) -INTERACTION FREQUENCY HIGH	<i>IMPLEMENTATION/OPERATIVE TEST:</i> -TWO SITES (1 STORE, 1 WAREHOUSE) -SEPARATE FLOWS OF GOODS (NOT WHOLE SUPPLY CHAIN IN ONE FLOW), GAINS NKL - STORE IDENTIFIED -TURNOVER FALL -INTERACTION FREQUENCY HIGH LATE PHASE: LOW	<i>CONTINUATION IN PILOT:</i> -TWO PROJECTS INTENDED; -NKL-STORE: CONTINUED (NETWORK FORM) -LILLENORG-NKL: STOPPED (BOTH DUE TO RESOURCES AND GAINS POTENTIAL) -NEW KEY ACTORS -INTERACTION FREQUENCY MEDIUM/LOW
<b>CONTRACTUAL ASPECTS:</b>		
INFORMAL COOPERATIVE AGREEMENT AND PROJECT HANDBOOK		INFORMAL COOPERATIVE AGREEMENT / MEMO
<i>GOVERNANCE MECHANISMS:</i>		
< PROJECT BUDGET, "SHADOW INCENTIVE STRUCTURE" (GAIN ESTIMATES LOOSE/HIGH), -PROJECT ORGANIZATION/SOPs, ROUTINES, SHARED AUTHORITY AND APPROPRIATE CONDUCT  -GOOD INITIAL RELATIONS, INSTITUTIONAL/RELATIONAL TRUST, NORM DEVELOPMENT		SHARING OF COST SAVINGS (UNSOLVED) > -LILLEBORG IN STEERING GROUP AND IN STORE MAIN PROJECT STRUCTURE CONTINUED (BUT UNDER HIGHER ORGANIZATIONAL CONTROL IN NKL) -TURNOVER (CONSEQUENCE FOR REL. NORMS)
<b>ISSUES:</b>		
PROJECT ORGANIZATION, TEST PREPARATIONS AND IMPLEMENTATION, RESOURCE COMMITMENT AND AVAILABILITY, MEASUREMENT, ROUTINES, IS DEVELOPMENT, > TERMINALIZATION, TEST SITES PHASE 1: CONTRACT PRICING, EDI	PHASE 2: STORE INVOLVEMENT, E3, SITES, PROJ./OTHER ACTIVITY, PILOT, TURNOVER	TEST ENDING, PILOT AND ROLL-OUT ADDITIONAL SUPPLIERS AND PILOT ORGANIZATION, PILOT FOCUS ON STORES, VMI CONTINUATION AND PROBLEMS

**INTERACTION (NEGOTIATION) STRATEGIES:**

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INTEGRATIVE (PROBLEM SOLVING/COMPROMISE), ACCOMODATION > BEFORE/AFTER LATE PHASE 2 < INACTION AND WITHDRAWAL (TEMPORARILY)

(STRONGLY) DISTRIBUTIVE STRATEGIES/ACTIONS RESTRAINED BY NORMS

NKL-STORE ISSUE: PROBLEM SOLVING

EXPORT ISSUES/RELATED INTERACTION: CONTENDING AND MIXED STRATEGIES

VMI ISSUE: CONTENDING

**KEY DECISIONS:**

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PROJECT HANDBOOK, LEVEL COMPOSITION AND SOPS; FOCUS WHOLE CHAIN - INCLUSION OF SITES; WORK GROUP CHANGES; INCREASED FLOW INDEPENDENCE; TERMINALIZATION; CONTRACT PRICES; EDI

INCREASED CHAIN INVOLVEMENT;  
PLANNED IMPL. OF SITES POSTPONED;  
WORK GROUP CHANGES  
PILOT AS SEPARATE INITIATIVES  
TURNOVER PASSIVITY

SEPARATE ESTABLISHMENT OF NKL-STORE PART OF EPOS2000; LILLEBORG REPRESENTING SUPPLIERS IN STEERING COMMITTEE; NKL ASSIGNS NEW KEY ACTOR TO PROJECT; CONTINUATION OF FLOW LILLEBORG-NKL STOPPED

**OUTCOMES AND EVALUATIONS:**

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< FREQUENT (STATUS) ASSESSMENTS IN MEETINGS

>

ASSESSMENT IN EARLY AND LATE PHASE

FORMAL EVALUATION OF PHASE 1

FORMAL EVALUATION OF PHASE 2

(FOCUS ON TECHNICAL AND OPERATIONAL ISSUES, MEASUREMENT, FURTHER CHALLENGES, AND IDENTIFIED AND EXPECTED GAINS POTENTIAL)

ECONOMIC DIMENSION (PRIMARY)

< REDUCING COSTS / INCREASE EFFICIENCY >

< EXPECTATIONS FOR FUTURE GAINS >

IDENTIFIED GAINS POTENTIAL (NKL)

SYMBOLIC DIMENSION (ROLE DEVELOPMENT MORE CLEARLY AND IMPORTANT OVER THE PROJECTS PHASES DUE TO LEARNING)

EMOTIONAL DIMENSION < GOOD PERSONAL AND CORPORATE RELATIONS, STABLE OVER PHASES >

(IMPORTANT CONDITION – ALSO FOR FINAL SOLUTION – BUT NOT AS EVALUATIVE DIMENSION)



## **8: ESTHETIQUE - NORELOR**

**NEW CHAIN ESTABLISHMENT:  
TURNING A FEW PERFUMERIES OF DIFFERING IMAGE AND STYLE  
INTO A TOP IMAGE PERFUMERY CHAIN SPECIALIZING IN SELECTIVELY  
DISTRIBUTED SERIES BY MEANS OF DURABLE COOPERATIVE RELATIONS**

*AS NARVESEN ACQUIRED 9 PERFUMERIES IN 1992, THE PERFUME CHAIN "MODENA" ALMOST DOUBLED IN SIZE OVERNIGHT. SOON AFTER, MODENA STARTED TO RENEGOTIATE THEIR SUPPLIER CONTRACTS, AND BEFORE A YEAR HAD PASSED, A PLAN TO RE-INTRODUCE MODENA AS ESTHETIQUE HAD BEEN RELEASED. MODENA, A CHAIN OF STORES WITH DIFFERING IMAGES, WAS TO BECOME A HOMOGENOUS, TOP IMAGE CHAIN, FOCUSING ON THE HIGH END OF THE SELECTIVE MARKET SEGMENT. IF ESTHETIQUE WAS TO SUCCEED IN IMPLEMENTING THE STRATEGIC VISION, THEY WERE DEPENDENT ON PARTICIPATION FROM THE INDUSTRY, AND THEY APPROACHED THE SUPPLIER SIDE WITH A SIGNAL OF INCREASED COLLABORATION. THE CHAPTER WILL DESCRIBE HOW THE RELATIONSHIP WITH NORELOR (OWNED BY L'ORÉAL) STARTED TO DEVELOP AND GREW DURING THE NINETIES. AFTER SEVERAL YEARS OF COOPERATION, BOTH PARTIES EXPERIENCED GROWTH ABOVE AVERAGES THAT "PROVED" THAT COOPERATION PAYS.*

*THE CHAPTER OPENS WITH A DESCRIPTION OF THE PARTIES, THE BUSINESS, AND THE BACKGROUND FOR COOPERATION. THEN THE CONTRACTUAL FRAMEWORK FOR COOPERATION IS DESCRIBED, FOCUSING ON THE COMPLEMENTARY SET OF GOVERNANCE MECHANISMS REPRESENTED BY FORMAL CONTRACTS AND ADDITIONAL INFORMAL AGREEMENTS. THEN I TURN TO DESCRIBE THE CHARACTERISTICS OF THE DECISION PROCESSES ON THE DIFFERENT LEVELS OF COOPERATION, AND HOW DIFFERENT NEGOTIATION STRATEGIES WERE USED.*

*THEN FOLLOWS A DESCRIPTION OF THE EVENT HISTORY, COVERING THE PERIOD FROM THE EARLY COOPERATIVE ATTEMPTS IN 1992 AND UP TO LATE SUMMER 1998, WHEN THE PARTIES WERE PREPARING FOR NEW CONTRACT NEGOTIATIONS.*

*IN THE FINAL SECTION OF THE CHAPTER, AN ANALYSIS OF THE PARTNERSHIP IS PRESENTED, BUILDING ON THE THEORETICAL FRAMEWORK PRESENTED EARLIER, AS WELL AS THE CASE DESCRIPTION.*

*A SUMMARY AND SOME CONCLUDING COMMENTS ARE GIVEN.*

*PLEASE NOTE THAT THE DESCRIPTION AND NUMBERS REFERRED TO IN THE INTRODUCTION REFER TO THE TIME PERIOD RELEVANT FOR THE CASE HISTORY, AND NOT FOR PRESENT TIME.*

*THE CASE FITS QUADRANT ONE IN THE SELECTION FRAME, TENDING TOWARDS THE SECOND (COOPERATION TO MAINTAIN/FORMAL CONTRACTS TENDING TOWARDS INFORMAL).*

## INTRODUCTION

Perfumes and beauty related products were a growing business in Norway in the nineties. Early in the decade, two chains were established in the business: Parfymelle, Norway's biggest perfumery chain, the Narvesen owned Modena, counting about ten stores, in addition to many smaller companies owning one or a few stores. The business has several idiosyncratic features, among which the most important might be the practice of selective distribution. Selective distribution means that some products and series will only be distributed through specially selected stores, and that stores which want to sell a product or series could be refused on the basis of "inappropriate" or "not good enough" image (based on a set of qualitative criteria). As a result, the "approved" stores carry exclusive, and mostly highly profiled, products in the high end of the pyramid. The 1st of January 1993, a cosmetic tax peculiar to Norway was removed, and some expected the market to polarize as a result (with price competition on the broadly distributed products, and competition based on image, competencies, and exclusiveness in the selective end). As this tax was removed, the whole business expected the Norwegian market to grow relatively fast - some expected the market potential to double. Under these circumstances, Esthetique was established.

### The parties

#### *Esthetique*

Esthetique is a perfume chain specializing in selectively distributed perfumes and series, such as Lancôme, Biotherm, Estée Lauder, Clinique, Clarins and Kanebo. Selectively distributed products account for more than 70% of the stores' assortment, leaving about 20% to broadly distributed products and about 10% to bijouteri, stockings, etc., as "service" products. Among the selectively distributed products, only 6 brands (the above mentioned, actually) are included in their basic assortment. The basic assortment is carried by at least 80% of the chain stores. As Esthetique is very concerned about building their brand, all products carried must be approved for sale in the chain. Esthetique (in 1998) counts about 45 stores, with a total of about 250 millions in revenues (Dagens Næringsliv, 980609). Esthetique primarily competes with Parfymelle with about 100 stores, and P&B, a new chain consisting of about 20 stores of which some left Parfymelle and grouped with some independent stores.

Narvesen ASA, a leading Scandinavian corporation in retailing, wholesale, and catering, owns Esthetique. Esthetique is part of Narvesen Retailing, as is Vita, a perfume and make-up chain competing in the mass-market segment. Vita and Esthetique had 500 million NOK in revenues in 1997, and had a total market share of 24% in the perfume trade.

Narvesen has about 9000 employees and about 1200 sales points with yearly revenue of 6.6 billion NOK (Dagens Næringsliv, 980107; [www.Narvesen.no](http://www.Narvesen.no)). Narvesen owns among others Esthetique and Vita, a major kiosk chain (Narvesen), Peppes Pizza, and holds the rights to brand names such as 7-Eleven, Burger King, and T.G.I. Friday in Norway.

#### *Norelor*

Norelor AS, funded in 1990, is 100% owned by L'Oréal, the name they use in business and marketing. L'Oréal had previously distributed their products through agents to the Norwegian market. Norelor have three divisions. Perfums et Beauté (PB) distributes selective brands such as Lancôme, Biotherm, Helena Rubenstein, Giorgio Armani and Ralph Lauren. Produits Public distributes Studio Line, Elseve, Casting, Ambre Solaire, Gloria Vanderbilt and L'Oréal

Perfection to the mass market. In addition they have a division, not in business with Esthetique, serving hairdressers.

Norelor, representing the biggest (worldwide) company in the trade, is one of the leading suppliers to the Norwegian market. Although having many suppliers creates fierce competition, four suppliers stand out from the rest based on their size: the Lilleborg group, Midelfart, Engelschiøn/Marwell Hauge, and Norelor. While Norelor and Engelschiøn/Marwell Hauge basically serve the perfume trade, the main arena for Lilleborg and Midelfart is the groceries and consumer goods market.

Norelor had 345.5 million NOK in revenues, and was one of the most profitable suppliers to the trade in 1997 with a result of 33.6 million NOK before taxes (Dagens Næringsliv 980610).

### **The business**

The basic product the trade sells is increased self-esteem, security, and a feeling of well being. In order to do this, the *quality and image* of the products are most important to the consumer (as well as of the supplier and the stores). The better the quality and image, the more exclusive the product becomes, and the practice of *selective distribution* serves to support these perceptions of the consumer. Depending on the competitive positions, supplier organizations have changed the organizational mode from using agents to establishing their own organizations in order to control the business and maintain their power over the selective distribution. An idiosyncrasy of the trade, institutionalized worldwide, is that suppliers typically in magazine stores own their own counters, and thus compete for the best store space. In the case of Esthetique and Norelor, Norelor own their counters in Esthetique's three magazine stores. As the *stands* are substantially relationship specific (tailored for each store) *investments* (often between a half and one million NOK), suppliers were concerned about the manning. As a solution, suppliers typically pay part of or *support the employees' wages*, either as a percentage, a sales bonus, or both. This way, suppliers have been able to influence the stores and even the behavior of the employees in the sales situation. This was also the case with Esthetique and Norelor, but Esthetique redirected the flow of money from the employees to the head office, thus limiting the supplier's influence substantially but kept the money coming in. Norelor's stand investments and wage support were only implemented in Esthetique (at the end point of data collection).

Selective distribution often involves large product series under a common name or logo that is contracted for as a whole. This way, perfumeries are forced to carry e.g. all Biotherm products, and perfumeries are obliged to take in new products. This creates large and *complex product lines*, and perfumeries think of themselves as a *competence intensive* business, where customer consulting is a key to success. Training of employees in Esthetique is done by suppliers (knowledge related to products) and at their own academy (business administration, marketing, etc.).

Traditionally in Norway, the trade has been *supplier* dominated, with many small perfumeries often with less than 1 million NOK in yearly revenues and run by "directors' wives that want to play business" (Director Jan-Henrik Handly, P&C, to Dagens Næringsliv 980609). During the first half of the nineties, however, the trade increasingly became dominated by perfume and other retail *chains*. As this development occurred, focus in the supply chain seemed to change from supplier pushing products *to market pull* and sales over counter.

In addition to new chains in the perfume business, increased *convergence* between trades has been a trend. Groceries have substantial market shares. However, about 85% of their revenues come from hygiene and hair care products (Dagens Næringsliv 970429). Also the textile/fashion chains (such as H&M, Cubus and Adelsten) have taken market shares as they started to build small perfumeries inside their stores, competing somewhere in-between the selective and mass market. Another trade channel that has taken market shares is pharmacies (Dagens Næringsliv 950515). The total market for perfume, cosmetics, and hygiene products in Norway was in 1997 4.67 billions NOK, a 320 billions increase (close to 6.9%). The grocery trade represents about 47% of these, while the perfumeries have about 43% market share. The rest is mostly sold through pharmacies, a channel that has gained market shares (Dagens Næringsliv 980408, 970922).

### **The background and mutual need for cooperation**

As I will turn to in the description of the event history, Narvesen owned a perfume chain named Modena, which consisted of a few shops of varying image. Modena over a short time period *acquired* another 9 perfumeries. Two of these were well-known magazine stores in the inner city of Oslo, and two important "*showcases*" for the supplier side. Modena had all of a sudden grown to an important customer, and was about to be converted into a high profiled perfume chain. Intentions were to create a homogenous and firmly managed chain, focusing on the high end of the market, as polarization was expected. Such a chain was missing in Norway, and as part of the Narvesen Corporation, Modena/Esthetique was able to contribute to *increase efficiency* in the distribution channel. Modena, consisting of stores with differing image, was not able to get the products they wanted, especially not all the exclusive ones. However, as the situation was changing, and Modena controlled two of the most important stores in the business, they had power to engage the suppliers in cooperative talks. The magazine stores, with stand agreements and wage support contributed to this power base, as well as intentions to implement a basic assortment in the chain. How this would turn out was uncertain, but the suppliers were interested in being part of it. Further, the *chain concept* presented by Modena/Narvesen was promising, and initial growth estimates showed that Narvesen were aiming at being #1 in the trade. All these aspects made it interesting for Norelor to engage in a cooperative relationship. As will be shown in the description of the event history, the cooperation developed slowly in the early phase due to personal conflicts, but the cooperative intentions were preserved.

On the other hand, Modena/Esthetique could not reach their goals without their suppliers and Norelor with them. Norelor had control over *products and brand names* Esthetique could not do without (that is, they could probably do without, but far from as well). At the time, Lancôme was of primary interest, but other brand names as well were very much needed, if Esthetique was to be able to reach their goal to be the top chain in the selective market segment.

In sum, a sort of power-balance was established. The *interdependence* between Esthetique and Norelor was based on mutual interests - a win-win possibility, as stated by the parties. Although problems occurred early in the collaboration, Esthetique soon proved their ability to do what they intended, and as the problems after some time were sorted out, the foundation for increased cooperation was established.

## THE CONTRACTS AND GOVERNANCE MECHANISMS

The cooperation between Esthetique and Norelor rests on a set of complementary formal contracts. Esthetique do business with two of Norelor's divisions, DPP and PB, and each division contracts separately. In addition to contracts between Norelor and Esthetique's central office, Division PB also contracts with each store (who carries selectively distributed products). The duration of the contracts ranges from 1 to 3 years, before they are typically revised. The parties also contract for the supplier's stands that are built in the magazine stores. The duration of these are typically 3 to 5 years, and do not always cover the same time periods as the other contracts. This way they, in part, contribute to establishing continuity of the relationship.

### General aspects

#### *Contracting for selective distribution*

The most important contract partner is PB, who only sells selectively distributed, high profiled, products and series. PB serve all customers directly (in fact, selectively distributed products are nowhere distributed through wholesalers), and contract directly both with the Esthetique head office, and with each store independently. The contract between Norelor Division PB and the head office of Esthetique is the main cooperative contract, and regulates a few important aspects, such as the size of discounts on PB's selective series that are represented in Esthetique, the size of the central bonus that is calculated at the end of the year, that a yearly bonus scheme is required for each series in each store (except the magazine stores), joint marketing, and wage support for the magazine stores.

Division PB also contract directly with the individual store, in order to secure a selective distribution of their products. The main reason to contract directly is to secure that stores do not sell to others than (ordinary) consumers and other stores certified for selective distribution (as selling to other stores in general would undermine the selective distribution). However, these contracts also set standards for the stores' surroundings, the interior, revenues, rules in case of breach of contract, exposure of products, personnel qualifications, competencies, and capacity, and state that the store should carry a sufficient number of *competing* brands to build up under the image of Norelor's own products.

#### *Contracting for broad distribution*

DPP, distributing "broad" products, is the less important contract partner, as broadly distributed products count for less than 20% of Esthetique's revenues. DPP also sell to wholesalers, and for some time contracted directly to Narvesen Wholesale, who in turn served Esthetique internally. However, the Narvesen organization changed, and DPP now contracts directly with Esthetique again. Agreements are typically renewed on a yearly basis.

#### *The contract supplement*

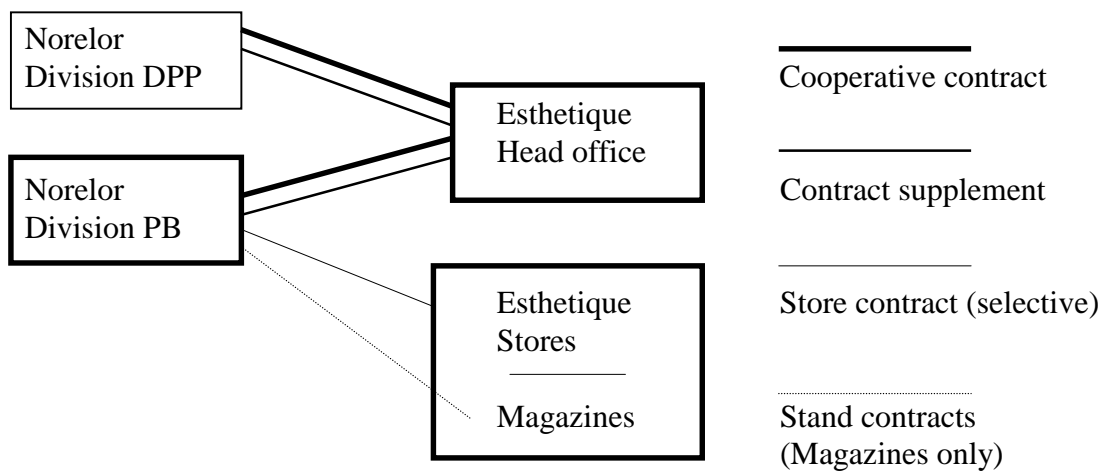
Finally, all suppliers to Esthetique are required to sign a contract supplement in order to do business. This contract supplement regulates a set of seven issues that "typically would cause conflict sooner or later". The issues include a hierarchical ordering between the contracts, rules for ordering, delivery, invoicing, and returns, as well as demonstrations, advertisements, and duration of the contract.

*The stand agreement*

As mentioned, the parties also sign an agreement when new stands in stores are built (and owned) by the suppliers. This contract regulates the duration of the investment, and specifies the rules (consensus) in case of changes before the contract period is over (e.g. if the brand changes image and a new stand would be appropriate, or if Esthetique should implement relevant changes).

The above-described contracts constitute the contractual framework, and are summarized below in Figure 17.

These contracts are important because they to a large extent specify the rules of the game on a daily, operational, level. The contracts, if applied only by the letter, would to a certain extent create a highly regulated and "static" business



Shared understanding of contract based dialogue

Figure 17.: Contractual framework between Esthetique and Norelor

relationship. However, from a relational view, there are planning gaps on many important issues that have to be resolved as the relationship evolves. Thus, equally important is the shared understanding of "having a contract-based dialogue" with a long-term perspective.

**Economic elements**

The economic aspects of Esthetique and Norelor's contracting are very important, and the formal contractual framework in general mainly addresses sales term issues. Many competing brands and suppliers characterize the business, and to some extent, substitution is a threat. A result is that the economic realities of the cooperation is important, in terms of discounts, bonus systems for series and stores, central bonuses, credit times, wage support, and stand investments. However, a constraining element for the economic aspects is the selective, high profile image Esthetique and Norelor are pursuing. In practice this means that Esthetique can do without some of Norelor's series, but not without consequences for Esthetique's image. On the other hand, Norelor wants to be in Esthetique stores, because Norelor view the chain as the best-profiled perfume chain, and distribution through Esthetique contributes significantly to

Norelor's image. Further, there is a duality at work, because the profile Norelor's selective series is given in Esthetique and the store spaces they are given contribute to increased sales and competitive position (both the brand name Esthetique and the individual series), which in turn deepens their common interests and interdependency.

#### *Incentive structure*

The partnering view applied in the cooperation to a certain extent follows from the common interests and interdependency mentioned above, but also stems from pure economic considerations. As Thor Hauge, Managing Director of Esthetique, explains:

"But anyway, to get improved the terms and earn more money on this, we say that we will do this together because we are (cooperative) partners in distribution. And if we can contribute to realize savings and cut each other's costs in that process, both parties can earn more money. That is the reasoning behind it" (96)

These aspects are the formal contractual foundation. Based on the efficiency related to chain organization, Esthetique can lower (the individual stores and) Norelor's transaction costs, and in turn achieve a discount premium for this. In turn, their joint efforts in the marketplace create increased revenues, and the margins are shared through the contracts economic design. In the 1995 contract with PB, 6 out of 8 paragraphs relate to the economic conditions (the last two specify Norelor's commitments related to product presentations to consumers in Esthetique stores). After revision in 1996, 3 of 4 paragraphs specify the economic terms. The annual bonus schemes for each series on store level are a purely economic document, specifying the (increase in) bonus percentage, given different sales intervals.

The contracts between Esthetique and DPP are similar, and the 1995 and 1996 contracts contain five paragraphs related to product data transfer, sales terms (discounts and credit time), service to stores, joint marketing (percentage of invoice value), and returns. Added to the document is a product list describing the product lines, sizes, list prices, discounts, gross profits, recommended prices to consumers, and net profit per unit.

As they have no "shared" revenues, the contracts and their different roles in the distribution define each party's revenues.

#### *Costs*

Costs are also largely defined by their different roles in the distribution. However, the contracts add some elements. The most important ones are related to: the sharing of advertisement costs (%) related to agreed joint activities, the size of the wage support, the stands in magazine stores owned by the supplier, the frequency of product demonstrations including supply of marketing materials and personnel, and the delivery terms (free to store). Of these five, the first three represent the main costs (investments) covered by Norelor.

#### **Hierarchical and authoritative elements**

Business interaction basically takes place on three levels: between Esthetique's head office and Norelor's management, and between the stores and Norelor's sales personnel and representatives (including follow-up in stores related to training of store employees and demonstrations during campaign periods). The Market Council represents an intermediate level. The Market Council consists of representatives from the store managers and the head

office, including Managing Director Thor Hauge. Typically, the Market Council invites suppliers to their meetings so joint decisions can be taken.

#### *Organization of interaction*

The three levels of interaction described typically relate, in practice, to different "contractual regimes". Interaction on all levels in principle takes place within a common contractual framework, but each level has developed a practice related to specific and different aspects of this contractual framework.

Most true to the contracts is the operational store level, as the contracts to a large extent regulate relevant issues that might occur as the parties transact. Apart from the transactions of goods, the most important joint activities in the stores are related to training of personnel and joint campaign activities. Both these aspects are regulated in the contracts, and the need to resolve occurring events outside the contracts are limited. On this level, the most important contracts are the store contract, the contract supplement, and the general cooperative contract as the annual bonus scales for the series are an addition to this one. In case of conflicts between contracts, the contract supplement is given priority.

On the *top management level*, the organization of interaction is less formal, and practice has developed over time as a common understanding. Typically, the managing director of Esthetique and the Director of Division PB have joint meetings three or four times a year, where they discuss more general aspects of their business development such as brand strategies, market developments, and exchange views on "this and that".

In between these operates *the Market Council*. The most important task in the Market Council is to handle product introductions from suppliers and develop 6 months plans (all new products that are not part of the series that Esthetique already carries have to pass through the Market Council as accepted). The suppliers are usually invited to these meetings. As the Market Council makes decisions related to supplier interaction intended for implementation on the store level, they are to a certain extent operating within the contractual framework. This practice has also developed into a kind of informal (non-contractual) formalization. Market Council meetings are held relatively frequently, and are an important decision arena in the cooperation. In many respects, the Market Council represents the tactical level of the cooperation.

#### *Rules and decision rights*

Rules and decisions rights are mainly regulated in the store contracts, and are aimed at securing selective distribution with a high image in an attractive environment. In cases of incidents or issues that are not regulated by the contracts (mainly on the operational level), there are few guiding rules or distribution of decision rights in the cooperation. In general, issues that often cause conflicts in transacting relationships are regulated in the contract supplement. However, when issues are not fully regulated in the contracts, "joint agreements" or "consensus" are primarily applied.

### **Trust and personal relations**

Although the cooperation between Esthetique and Norelor seems to reside in a fairly exhaustive contractual practice, their contracts are in comparison with the European continental contractual practice limited. Being part of an international business, one could



expect an international contractual practice, but the parties have avoided this to some extent. As the contractual practice inside EU aims at regulating every possible future contingency, domestic contracting is just a shadow of this, regulating the most basic and likely aspects of the future. To compensate for this increased uncertainty, the parties rely on trust and personal relations as substitute and complementary mechanisms.

As described above, the relationship on the operational level very much develops on a formal contractual basis. On the top management level, the personal relations and the trust between the main actors (agents) are essential (both in terms of predictability of actions - calculative trust - and in terms of relational trust). Having experienced situations of low levels of trust, and distrust (see Description of event history, phase 2), both parties view these aspects as important in order to develop their cooperation further on a long-term basis.

"... what I have been doing all these years, primarily has been to build on a personal contact. Building relationships. So as to get ...a relationship to each other. ... One can say as much as one wants to about products, terms, et cetera, if there is no personal contact or connection somehow between the people. At least, that has been my philosophy all these years. You have to build relationships. ... There are always alternatives to replace ..." (97)

(Sigurd A. Hauge, Norelor)

"... in these terms, it has definitely helped building the relation. Because I felt easy with his approach. ... I mean ... it is a personal contact"

(Bernhard Claudel, Norelor)

"... with Norelor currently, we have an oral understanding of our mutual commitments, and the way to proceed" (98)

(Thor Hauge, Esthetique)

Building on these aspects, the top management level engaged in what they viewed as a contract based dialogue. This dialogue established a shared understanding of their common interests, and gave direction to their future cooperative relationship. As will be described in the event history, these socially based mechanisms also proved to be important when conflicts arose in the relationship, both in terms of handling specific events and in forgiving what might have been misunderstandings or strongly competitive actions. Without good personal relationships and relational trust, preserving the relationship would sometimes have been difficult.

Summing up, the contractual framework between Esthetique and Norelor consists of four complementary contracts. Two general cooperative contracts, one between Esthetique and Norelor Division Produits Public, and the other between Esthetique and Norelor Division Perfums et Beauté, represent the general agreements. Also, each division has to sign a contract supplement that regulates a set of transacting issues that often occur as conflicts (if these are not regulated). In addition, each store contracts independently with Division Perfums et Beauté. This is mainly to secure the selective distribution. Finally, Esthetique and Norelor contract for each stand that Norelor builds and owns in Esthetique's stores.

Seen from a relational development perspective the most important aspects are the economic incentive structures applied through the contracts, as they to a large extent influence the actions taken on the store level. A set of standard sales terms are also included to resolve a set of issues that are likely to occur often and at all levels, once and for all. In addition, trust and

personal relations become equally important on the top management level, as these mechanisms not only are used to arrive at a joint understanding of future collaboration, but also to resolve conflicts and preserve interaction in difficult times. In-between the stores and the top management is the Market Council, which is an important and tactical arena for interaction in the cooperation.

## CHARACTERISTICS OF THE DECISION PROCESS

Although the formal contractual framework for the cooperation to a large extent governs the transactions on an operational level, there is considerable room for interaction that is not fully regulated. On the store level, this room is considerably limited. Interaction in the Market Council meetings is to a certain extent limited by the formal contractual aspects, but still has a considerable role in terms of giving the cooperation content and direction. Finally, on the top management level interaction and joint decisions are made under formal contractual influence, but the contracts to a limited degree give clear answers (prescribe decisive action) to issues that might occur; they more provide the background. In sum, there are a substantial number of issues and possible incidents that have to be handled under the influence of mixed motives as the cooperation develops. I will in the following describe the characteristics of the decision process at each level, emphasizing the typical aspects, but also indicating how interaction can vary in different events, and how differing concerns for outcomes are reflected in the use of decisive strategies.

### The decision entities

As described in the previous section, there are three levels of interaction: between Norelor representatives and the stores, the Market Council, and the top management. (In interviews, representatives from both parties referred to two levels, the level of the office and the stores, but did not explicitly assign the Market Council to any of these. Thus, I have chosen to deal with it as an intermediate level.) Although meetings between store managers and Norelor representatives are referred to as an entity, this is an approximation (with shifting participants; the Market Council and top management meetings are relatively stable forums). I will describe these in turn.

#### *Top Management Meetings*

A *typical* meeting between the top management discusses the cooperation on a relationship level. Thor Hauge typically meets with Sigurd A. Hauge, General Manager of Norelor, or with Director of Division Perfums et Beauté, Bernhard Claudel. These meetings are to a certain extent intended as arenas for information sharing, discussions of past events and future directions, including testing of ideas and products, as well as reflecting on their business from a broader perspective. Preserving the cooperative orientation is an important aspect of these meetings.

"... they are more ... kind of ... operational meetings in a way (99)

(Quote, Thor Hauge, Esthetique)

"... we have this kind of thing where we spend about two or three hours together, and we discuss a list of points... but after some time we ... wander in other directions. ... but part of the discussion is sometimes about testing ideas and testing things"

(Quote, Bernhard Claudel, Norelor)

By extending the discussion to a broader perspective, they "map the territory" in order to identify their common and opposing interests for future interaction, as well as "flagging" views and concerns related to future actions. The problem solving orientation in these meetings is (in addition to the above) reflected through different kinds of statements and tactics, such as the implicit use of unspecified compensation and logrolling over time (enhanced by a norm of reciprocity), and sometimes through search for new (integrative) solutions by solving underlying concerns (bridging). The informants as in the quotes below expressed these actions:

"It is not (like) "I give you this, what will you give me?", no. In fact, today it is a confidence relationship. I know that if I do something for them, they will do something for me at some later time. Weigh things up".

"... our relationship is developing in a nice way, which means that we have given on our side, but in fact I feel they have been very good at giving on their side also ... things we wanted to add, in terms of space, in terms of how to promote our brand and so on ... So one thing we have seen is that it was really a give and take from both sides. ... definitely over time".

(Quotes, Bernhard Claudel, Norelor)

"He has given us good terms, and we have been working well with him. Sometimes he has been saying "yes, I am going to get the best stand space, and the biggest stand space, and all that". And he has gotten that" (100)

(Quote, Thor Hauge, Esthetique)

"I believe that over time it becomes compensated, even though one ... I do not believe that old issues are drawn in, "do you remember three years ago ...", no ... I believe that becomes history" (101)

"... if there was a picture taken of the Lancôme stand each year for some years, then you would have seen that we have kept on moving, and now we have a very central stand for Lancôme and very nice space for both Biotherm and Helena Rubenstein"(102)

(Quotes, Sigurd A. Hauge, Norelor)

Although these meetings are aimed at developing their joint business interests, the existence of mixed motives is clearly reflected in their interaction which involves the use of tactics related to both integrative and distributive strategic orientations. The shared view of the importance of each other's concerns is well reflected above. Similarly, contending, yielding, and compromise strategies are used. For instance, Norelor often uses these meetings to challenge Esthetique's strategy concerning products that are not selectively distributed, as for instance hair products and make-up that are two important product categories for Norelor. By use of persuasive arguments, Norelor argues that Esthetique should carry more broadly distributed and inexpensive products in order to secure recruitment among (young) consumers.

"... what I worry about is recruitment. See, you want young people into the stores, and in principle they come in through reasonably priced make-up, type Perfection, they come in on hair-dye. These are two ways to recruit. I run that as often as I can, because I think in the long run ... Esthetique have to carry something else than expensive things. So I make that point continuously" (103)

(Quote, Sigurd A. Hauge, Norelor)

Esthetique, on the other hand answer Norelor's attempts by using positional commitments, holding firm to the strategic direction in favor of selectively distributed products.

"I have tried to talk to Sigurd about these things, well, through the years, really. That is not where we are supposed to be strong. To us, these are service products. The last perfumeries we have opened have a selective product share above 90%" (104)

"Regarding the consumer goods market, which Sigurd is very concerned about, and which he often confronts me with, we have this hair-dye concept that we have developed over three levels, and there we have removed the market leader, and Sigurd's brand is the market leader on hair dye"(105)

(Quotes, Thor Hauge, Esthetique)

Also strongly contending elements are found, as for instance the decision referred to above not to carry Norelor's market leader on hair colors, although hair colors are given priority in the chain.

As the financial aspects of the cooperation is important to both parties, contending strategies are used when it comes to the distribution of gains realized (indirectly) from their cooperation. A typical statement reflecting this is found in the quote from Thor Hauge:

"Because what we have been fighting for, the terms of agreement ... "It is going to become extremely expensive for you in the future to handle all these small independent perfumeries. Whatever you do with them, that is up to you, but we need improved terms". And today we have gotten this, so today I would say that we have between (X) and (Y) % better terms than these independent perfumeries. Purely economic terms" (106)

However, these arguments often meet resistance as the distributive "game" is a game of opposing interests, and often lead to solutions in-between initial positions, compromises, as Bernhard Claudel (Norelor) puts it.

"Sometimes ... yes they ask a bit too much, and I do not make money, or these kinds of things, and we try to find another solution. A compromise".

Although the cooperative relationship on some issues involves opposing, or competing interests, the interaction seldom comes to open and severe conflict. The use of threats is found only once, when Esthetique threatened to shut down their entire business with Norelor, as a consequence of inappropriate interference from a Norelor employee. Apart from this, their common long term interests serve to constrain strong contending behavior.

"If we can have a win-win situation, both of us can benefit ... I think it would be stupid in the state of the relationship we are in right now, to try to go to them and try to impose things. If it does not work, it will obviously affect the relationship, and in the long term it will not really help us ...".

(Quote, Bernhard Claudel, Norelor)

"... but it actually is like balancing on the edge of a knife. You have to get as far up as possible, but you cannot go too far, because then you might, kind of, fall down again" (107)

(Quote, Thor Hauge, Esthetique)

### *Market Council meetings*

The Market Council consists of representatives from the store managers as well as some employees from Esthetique's central office. Also Thor Hauge is involved. The store manager representation secures substantial and critical knowledge about store operations and market development; and important competencies for the decisions the Market Council takes. In their meetings they typically invite the suppliers, so joint interaction can take place. The trade has a

high rate of product introductions, and the Market Council decides which products are likely to be part of the basic assortment, which products each store can choose to carry (that is, they decide what products are approved for sale in the chain), and they reject most of them. Opposing interests relate clearly to broadly distributed products.

"... first of all, Esthetique and Thor Hauge have primarily said that they prefer not to carry products that are sold in groceries. That is where he stands. ... (Q: selling in can be a problem?) For DPP, yes. Because they have more products, and it is easier for Esthetique to say no because the consequences are not significant" (108)

(Quote, Sigurd A. Hauge, Norelor; Interviewer question inserted)

The contractual framework states a minimum number of joint activities, where the most important ones are joint demonstrations of products in stores and magazines. However, the specific details are handled in the Market Council. The decisions include deciding on what kind of campaigns and activities on which products or series, priorities between different activities, and the time periods for the activities. When these main issues are settled, decisions regarding advertisements, order sizes for A and B orders, returns, sizes of packing, décor and in-store materials, possible exclusive activities, and such, are taken.

"We try, I try, maybe something the chain does not appreciate: I try not to discriminate. I have so far regarded a Lancôme customer as a Lancôme customer. And should, more or less, be treated fairly. I know that Esthetique wants their own activities, their own introductions, own this own that, and exclusively this and only me gets that, right. But we are depending on another distribution network, namely those who are not Esthetique" (109)

(Quote, Sigurd A. Hauge, Norelor)

As many of the store activities involve suppliers, Norelor is an important partner in the discussion in the meetings. Typically, Norelor have campaign plans on their own for the entire product line, while Esthetique only carries a selection. The challenge is to match these differing concerns, to coordinate, and find ways to realize integrative potentials, as the cooperative climate in the meetings is good.

"We have a very satisfactory turnover on the series, so we stand in a ... how should I say it, rather positive perspective. So I feel that the mood is very positive"

"I feel that the interests to a great extent are common, and sometimes I also feel that certain things cannot be done. It costs too much, insufficient resources to implement it, and my experience is that they accept that. But we jointly attempt to find solutions like ... meet them half-way, and make it into a good campaign, which is the basic aim" (110)

(Quote, Anne Rangård Larsen, Norelor, Marketing Manager for Biotherm)

"Obviously, it has to fit into Esthetique's campaign plan. And of course, we represent only one element in that. And we might have our own campaigns" (111)

(Quote, Sigurd A. Hauge, Norelor)

Twice a year the Market Council engages suppliers in developing 6 months or 12-month plans, and these are important meetings in the cooperation. However, the Market Council does not usually operate with longer time frames.

"I would say that in the Market Council the basic practice is to take issue by issue, without having the big perspective, although it looms in the backs of their minds. ... (they) are more short-term oriented" (112)  
(Quote, Thor Hauge, Esthetique)

The Market Council operates in many respects as an internal decisive forum in Esthetique on a tactical level, but they also operate in a contractual context in order to give the agreements specific content and direction. However, as their decisions might have durable impacts, they also act on a wider informal agreement, or psychological contract.

"They are more short-term. But that is a very important part of creating good relations. We give and take a little" (113)

(Quote, Anne Rangård Larsen, Norelor)

Being a relatively stable entity, personal relations and work norms are developed. These elements in some respects enhance the decision process by smoothing the flow of information, also ahead of meetings. This way the strategic orientations might be adapted to make it easier to reach agreements. The parties typically prepare strategies for the meetings. Giving a specific example, Anne Rangård Larsen, (Norelor) explains:

"... we prepared a kind of strategy prior to that meeting, because we had ... What we often do is to meet and present our respective 6-months plan, or for the next 12 months, for our intentions for introductions, major activities, and things like that... In advance, I had received signals about them wanting Body Harmony, so I think things were kind of structured then" (114)

As described, the Market Council meetings involve both common and opposing interests. The decisive orientations might shift from issue to issue in one meeting, and differ from meeting to meeting. Interaction is to a certain extent based on cooperative problem solving, but typically also involves processes developing from competing concerns, as for instance related to product approval and campaign terms. Sometimes integrative solutions are reached by means of logrolling; sometimes interaction becomes distributive in nature, with contending parties reaching a compromise, or where one yields in order to reach agreement.

#### *Store level activity*

The final interaction level is in the stores. Their "decisive space" is rather limited, but there are three important kinds of interaction on this level: stores can choose to carry approved products voluntarily, stores can participate in Norelor's campaigns (that are not run in the whole chain), and Norelor and individual stores may develop joint sales forecasts. However, from a relationship view, the impact of these decisions is limited, and is substantially constrained by the contractual frameworks and decisions taken by the Market Council and the top management.

#### *Summary*

The decision processes between Esthetique and Norelor are rooted in a market orientation, where Esthetique focus on the demand for selectively distributed products and Norelor are concerned about the demand for their entire portfolio of selective and broad distributed products. This situation creates a cooperative relationship with mixed motives where a range of decisive strategies and tactics are found, reflecting both an integrative and a distributive nature of interaction. However, their joint interests and their interdependency to serve (for both) important market segments, basically lead to a search for decisions that integrate both

parties interests. However, the parties also pursue private goals reflecting differing interests, and interaction in decisive events reflects this well. Two quotes from Thor Hauge (first) and Sigurd A. Hauge state the case well:

"No, we fight continuously, and of course, that is not negative but it is a hard fight all the time in all areas. And, naturally, we have to get as much as possible because what we do is maximizing values in every way. And on their side they do exactly the same. There will always be a fight. Thus, there will always be a certain temperature. Then again, some are more important than others, right" (115)

"There will be a tomorrow. We will be in business, and the customer will be in business. The better they do, the better we do. Without customers I am locked ... The thing is revenue. It is the volume that counts"(116)

### DESCRIPTION OF EVENT HISTORY

Having described the contractual framework, governance mechanisms, and the characteristics of the decision processes on the main interaction levels, I will now describe the event history of the cooperation. As in the former cases, the description will focus on important issues and events, but also indicate the importance of "dull and small" incidents. In addition to the challenge of telling a story of a collaborative relationship, care is also taken to reflect the theoretical framework laid out in earlier chapters, and show how the described governance mechanisms and decisive orientations are used over time.

Compared to the former cases the cooperation between Esthetique and Norelor has not developed with equally clear-cut phases. The cooperation has developed more slowly and incrementally (very much in parallel to how the market and the Esthetique chain have developed), but some significant events have indicated shifts in the collaboration. Based on these, the event history is (again) divided into three phases: an early phase describing the sudden change in Modena (the former name of the chain) and their supplier relations in the summer of 1992 that lead up to the initiation of the Esthetique chain about a year later, a second phase describing the initiation, establishment, and early interaction between Esthetique and Norelor (covering the time period between summer 1993 summer 1995), and a third phase covering the evolution and growth as the cooperation found its form (from summer 1995 and through summer 1998).

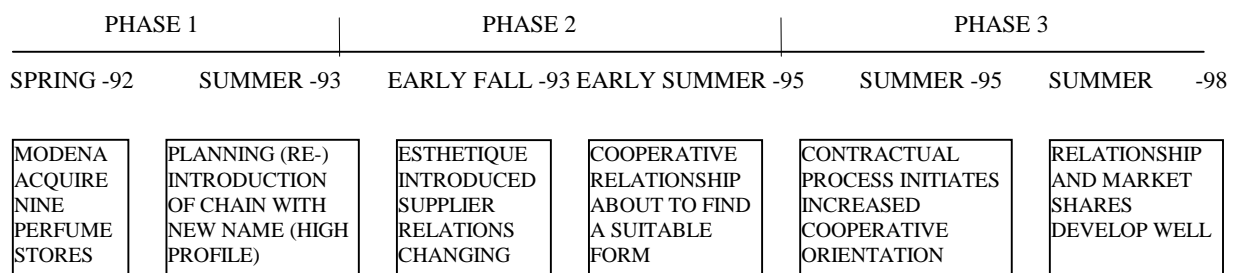


Figure 18.: Phases and events (Esthetique - Norelor)

A total of 139 incidents were identified. The time when these occurred, what kind of data source(s) they are derived from, and what general issues these incidents covered, are listed in the Appendix.

The main interaction points in phase 1, 2, and 3 are listed in Table 12. below. Along the vertical axis events are ordered chronologically according to dates. Along the horizontal axis the different kinds of issues are listed. The most important events are marked with dates in bold types. Other events are secondary, either leading up to or following from these. As Table 12 is not the full list of events, the reader may find this in the Appendix.

### Phase 1

Phase 1 covers the pre-Esthetique phase when the perfume chain was named Modena, and had a somewhat different profile, consisting of individual stores of different quality. During most of the Modena years, prior to this description, the chain did not always get to distribute the high profiled selective series they wanted. However, phase 1 refers to the last year as Modena, a year marked by a few but important events relevant for the cooperation with Norelor. Phase 1 start as Narvesen acquired seven conventional stores, as well as two highly profiled magazine stores, and almost overnight grew from 11 to 20 "doors", as they say in the business. Engaging their suppliers in a process aiming at establishing a different contractual framework for interaction immediately followed this up. For instance, a contract supplement was introduced in December 1992, in order to smoothen interactions on all levels. In late March 1993 a new contract was signed with Norelor's Division Perfums et Beauté, a small but important step towards increased cooperation. The phase ends as Narvesen started to prepare for the re-opening and introduction of Esthetique.

#### *Event 1 (92 spring)*

Over a relative short period of time, Narvesen bought 7 stores and two highly profiled magazine stores (one in Steen & Strøm and one in Glasmagasinet - both well known department stores in Oslo inner city) that were included in their perfume chain, Modena. As Modena doubled in number of doors, and made a jump up the "image and quality ladder", they engaged their suppliers in a dialogue aimed at establishing a new contractual framework. They intended to bring the image of Modena to a higher level; in turn increasing their possibilities to carry high profile selectively distributed series. This could be a start for economic prosperity and growth, and negotiations with suppliers were "tough", as their power had increased.

#### *Event 2 through 7 (921123/921214/921218/930210/930310/930324)*

The formal contract negotiations with Norelor's Division Perfums et Beauté (PB) started in late November 1992. The issues discussed were mainly concerned with the economic structure and related sales terms for coming transactions. Carrying with them the Modena history, the *cooperative* orientation was generally on a low level (as Modena in many ways was not much of a partner). As Modena this time was considerably larger they used this situation to introduce a contract supplement, a list regulating seven issues typically causing discussions or open conflicts on all levels of interaction. Their reasoning was to smoothen interaction and reduce the levels of conflict, as these issues were settled in a formal and simple manner. By doing this they fronted the situation actively, and even went as far as to require any supplier to sign it to be allowed to do business with them at all. New contract drafts were sent from Norelor in late December, leading only to yet another one on the 10th of February in 1993. Now, some changes had occurred related to sales terms and contract issues. Modena wanted to have another try, and a fourth draft occurred on the 10th of March, with some adjustments in terms. These increases in terms were dependent on guarantees for minimum revenues, a commitment Modena could not take. The result was that the final draft the 24th of March was identical to the one from the 10th of February. This draft indicated willingness from Norelor to accept



changes in the way the wage support was organized. Another change from the initial draft was Norelor's wish for individual store agreements, in order to "secure motivation in the stores, based on mutual goals". Part of the discussion was Modena's introduction of a basic assortment, where Lancôme was included. The basic assortment consists of 6 highly profiled series, which at least 80% of the stores carry, and which are given top priority. The issue was new, and to some extent influenced the process in favor of Modena.

"Naturally, we attempted to make it as attractive as possible to be in the basic assortment. When we started to discuss the issue. And I guess none of us really knew all the consequences of being in the basic assortment or not being in the basic assortment. ... but they were not willing to risk being outside either, so there has been a hard fight from Day 1" (117)

(Quote, Thor Hauge, Esthetique)

The whole process was also influenced by bad personal chemistry between Thor Hauge and Norelor's Director of PB.

"There was not a conversation without threats being set forth, right. Either you take this in, or else ... now we do like this and that and ... it was a cultural clash, really. ... But ... we managed to establish the terms and such. That is all right. But the actual cooperation was like from another world, to us" (118)

(Quote, Thor Hauge, Esthetique)

#### *Event 8 (930401)*

In late March it was discussed whether Modena could participate on a discount card for Lancôme. The initiative was taken by a Norwegian weekly magazine for women, *Kvinner & Klær*, as a service and offer to their subscribers. On behalf of their subscribers K&K negotiated discounts ("after X purchases, get one free") for cardholders, and Lancôme participated. So Norelor approached Modena to administer this, as the intention was that each store would hold a card file. This way, the consumer had to be loyal to one store in order to get the free article.

"It was a kind of loyalty card. You were rewarded for being faithful to one brand, and one store. Because the card was primarily related to a specific store" (119)

(Quote, Sigurd A. Hauge, Norelor)

However, Modena perceived this as a supplier initiated activity, where the stores role were to provide the free items. In letters Norelor expressed the importance of, and their interest in, the activity, but the suggestion was turned down.

"We perceived it as a supplied initiated and governed thing, where they managed these things and made the marketing activities and ... all the attention related to it ... We became one that just offered rebates in a way. On Lancôme. And we were at the time interested in developing our own brand name, right. So the timing was bad. It was all wrong, was it not"(120)

(Quote, Thor Hauge, Esthetique)

#### *Event 9 (93 spring)*

By the turn of the year 1992/93, a special tax on cosmetics was removed in Norway, and Narvesen expected the market to polarize. Based on these expectations, they wanted to turn Modena into Esthetique, a high-profiled perfume chain with a top image, focusing on selectively distributed products and series representing the high (expensive) end of the trade.

Table 12.: Description of Event History Esthetique-Norelor

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				ISSUES			Miscellaneous	
	PB	DPP	Stands	Store	Wage support and store influence	Market Council	Joint/campaign activities		Narvesen organizational change
<i>PHASE 1</i>									
92 spring <b>921123</b> <b>921214</b> <b>930324</b> 930401 93 spring	New contractual practice prepared PB: contract negotiations started Contract supplement introduced PB: contract signed				(d i r e c t)	(g o o d)	(s o m e) KK-card issue	9 store acquired  Esthetique planned	
<i>PHASE 2</i>									
<b>930628</b> 930629 <b>930901</b> 931203 <b>931214</b> <b>94</b> winter	Contract supplement extensions adjusted Distrust problem				(t o h e a d o f f i c e)	(s o m e)	(l o w)	Esthetique intro.  Vita/Wholesale in	Stand issue  Threat to stop all business
94 spring 940710 <b>940809</b> <b>941001</b> 941201 950110 <b>9501xx</b> <b>950428</b> 95 spring <b>9505me</b> 950609	Distrust ended  PB: draft  PB: discussions	DPP: new contracts DPP: adjustments  DPP: draft  DPP: changed/signed	Stand agreements		a d o n f i c e)		(i n c r e a s e)	Vita/W.sale merged	Coop emphasis  Hair series: no

Table 12.: Description of Event History Esthetique-Norelor (continued)

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				ISSUES				
	PB	DPP	Stands	Store	Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
<i>PHASE 3</i>						(continued)			
<b>950629</b> <b>9510ul</b> 960124	PB: signed (for -95)	DPP: new/continuation			m o d.)		m o d.)		E. magazine
<b>9602pr</b> 960216						MC: Biotherm basic assortment?			Biotherm issue
<b>960219</b> 96 spring 960710	PB: signed (for 96/97)							Esthetique and Vita into N. Retailing	Biotherm issue
<b>960801</b> <b>9611ul</b> 97 winter/ spring 97 june	PB: new signed ref. Biotherm (97/98)	(DPP: broad products share in Esthetique decreasing)	Stand agreements		Biotherm	Increased store influence / campaign activity / interaction in MC (Biotherm+Lancome basic ass.)			Hair prod. issue Movida issue (hair) Movida issue cont. Movida turndown
<b>970825</b> 970916	(selective products share in Esthetique increasing)								
<b>9710pr</b> 97 late fall 98 winter						Influence good / MC + campaign interaction high (continuance of above)			Sales statistics show good progression for Norelor products
<b>98</b> june 98 july/ august	PB: Preparations for contract negotiations 1999 (terms frozen since 1996)		Stand agreements						

In a presentation folder they briefly described their business vision. In addition, they wanted a concentrated supplier base as partners, in order to reach their ultimate goal: increased profits (for both). The folder describes in brief the intended policy for supplier relationships (e.g. "prepare for mutual developing cooperation", "secure high turnover of inventory"), as well as the chain's contribution to a simplified distribution process (e.g. "secured payment", "volume", "products exposed in Norway's biggest perfumeries"). Expectations in the trade were mixed, skeptical, awaiting.

"When they bought Modena, they intended to upgrade parts of Modena and the old EPA, ... they had a rather unfavorable reputation" (121)

(Quote, Sigurd A. Hauge, Norelor)

"And Lauder was not in at all" (122)

"... that they saw the pro's was important ... See, we do this to earn more money, together. We are together in the distribution of goods. Let us find an efficient way to do it so we can both make more money. But really, they were very skeptical and assumed that it was all talk and not serious. But, at least you start the process ... but, in the beginning, we were not taken very seriously" (123)

(Quotes, Thor Hauge, Esthetique)

## Phase 2

The second phase refers to the time period between the final preparations for the introduction of Esthetique during summer 1993, and the following two years, up to a new cooperative contract was signed between Esthetique and Norelor PB (starting phase 3). Important events include decisions to change the wage support and wage systems in Esthetique, the re-opening of Modena as Esthetique, a difficult conflict in the relationship where finally Esthetique and Narvesen threatened to stop further business with Norelor, as well as the establishment of new stand contracts in the Steen & Strøm magazine store, the arrival of a new Director of Norelor PB, and the following contract negotiation process between Esthetique and Norelor PB. While the first phase described early actions and positioning of the perfume chain, the second phase is more turbulent, but in many ways served to establish a relational orientation rather than a transactional orientation, and laid the basis for a more stable cooperation that followed in the third phase.

### *Event 10 (930601)*

After the plans to re-open Modena as Esthetique had been introduced, Narvesen invited suppliers to an information meeting. Norelor was very positive to the intentions that were expressed, and perceived the chain concept as "a good foundation ... and the best concept that is presented in the business" (quote from memo). As one of their main "partners", Norelor was invited to participate in a "think-tank" forum. As their main suppliers possessed important competencies and business knowledge, Modena wanted to be able to use their experience in the final preparations, and to discuss product assortment and strategies.

"Many of these corporations have international experience, and they also have experience with chains that have done similar things earlier. And obviously, when you are about to do something new you easily do some things wrong, and if someone else has done the same thing before you there is no need for us to reinvent the wheel" (124)

(Quote, Thor Hauge, Esthetique)

Finally, as Lancôme was included in the basic assortment, joint activities were planned for the re-opening.

*Event 11 (930628)*

Following up an issue from the contract negotiations during winter, Esthetique approached their suppliers with a letter concerning their intentions to change the wage systems in the chain. This was an important issue for both the chain and their suppliers, and their interests were to some degree opposed. Historically, the wage support was introduced by the suppliers to secure their stand investments (by keeping them constantly attended). This was done by supporting the employees' ("the stand ladies") wages, and the agreements were made directly between the individual employee and the supplier. This secured a special commitment from the employees to the supplier's stands and products. Obviously, it was in the supplier's interest to influence the store activity in this manner. As seen from the chain point of view, their employees had developed undesirable multiple loyalties that could impede the development of their own brand building of Esthetique.

"They think they have been working for Estée Lauder or Lancôme, or something like that. Such strong ties they establish with the women. "Everything around you, draw the customers towards you, this is where you sell, this is where you make money, and the more you sell the more you earn". Bang, bang, bang. That is a problem. For us. And we have taken care of that. ... Maybe you rather should have had a product from Clinique. To cover your needs. Additionally, when there is standing ... when one has taken lunch and another one went to the loo, then one stand is not served, and those serving the next stand do not give a shit. That there is a queue on the next stand waiting for help, right. And that is a major problem, because then there is lousy service at Steen & Strøm. Or Glasmagasinet. Right. Plus that they did not have any loyalty or identity in their relation to Esthetique" (125)

(Quote, Thor Hauge, Esthetique)

It was still in the chain's interest to receive wage support from the suppliers, but they wanted individual agreements stopped and the support paid directly to the head office, which in turn administered a system consisting of a basic salary, a competence-based compensation, and a sales bonus. Although the decision had important implications for the suppliers, Norelor accommodated in the process, as they saw the advantages of such a system.

"And me, from our side, we realized there was a need to straighten things out, because the employees in the two stores were treated very differently and a straight-forward personnel policy was needed. And I believe that from our side there was no ... it was rather an advantage because you did not have to be confronted with " yes but she is getting and she is getting, why cannot I get?" ... So for us there was no problem with complying with a new system, or a new policy coming from Thor Hauge. I think ... I like to know the rules. Then you have something to relate to" (126)

(Quote, Sigurd A. Hauge, Norelor)

During fall (931103) the system was adjusted, as some employees perceived the new system as unfair, but the same components were kept. Sales bonus was implemented by the turn of the year.

*Event 12 and 13 (930629/930901)*

At the end of June the chain invited the suppliers to participate in product meetings during fall, and they also informed about the importance of these meetings, as they formally approved of products for sale in the chain. The initiative to involve suppliers was important, as it served to institutionalize (relatively frequent) collaborative interaction. Immediately before the re-opening, Norelor in cooperation with the individual stores established (joint) sales plans and store budgets on Norelor's series. These documents represented a possibility for Norelor to influence on store activities.

*Event 14 (930902)*

Esthetique is opened as the new perfume chain, and makes Modena history.

*Event 15 (931203)*

In early December Esthetique planned to make changes in the S&S magazine store, and new stands was an important element. They invited Norelor to discuss possible new stands (with better space) for Biotherm and Helena Rubenstein. The stand issue was an important cooperative signal.

*Event 16 (931214)*

As interaction and transactions had taken place for some time, the contract supplement had proven its usefulness, but small adjustments were needed. Earlier that fall (930906) the supplement had been extended, and in December some implicitly understood aspects were made explicit, to avoid unintended use of the supplement (e.g. "Esthetique is not obliged to purchase any minimum amounts of products, *except* on selective series as regulated in store contracts"; split of advertising costs on *jointly agreed* demonstrations only).

*Event 17 (94 winter)*

For some time, Esthetique had experienced problems with Norelor's Director of PB. In meetings between the top management (i.e. with Thor Hauge) he acted in a somewhat confronting and contending way, which seriously impeded Esthetique's cooperative efforts. On the store level, he interfered with the daily operations telling the store managers how to run their shops. Thor Hauge explains the issue:

"They have Directors for their divisions that stay two or three years on each location, and then they go somewhere else. ...But we had such problems with him. He just went straight into stores, behind counters, down into drawers, and "fixed" things and yelled at the employees, and so forth. He was a one-of-a-kind propeller. ... Then we tried to make it work by means of normal conversations, but it did not. So I sent a letter where I stated that if we did not receive an unconditional apology for, there were three different issues ... and further that he and one of their salespersons were to stay away from Esthetique, both the head office and the stores, for at least one year, we were prepared to cease all further collaboration with L'Oréal. The whole of Narvesen with the whole of L'Oréal ... no more to do with each other. We brought this up to the corporate level internally ... because we never threaten like this without being prepared to carry it out" (127)

Sigurd A. Hauge in Norelor, who was very uncomfortable with the situation, confirmed the story. The actions of his Director clearly broke with his own business ethics, as well as with common cooperative norms, and Sigurd A. Hauge met the demands set forward by Esthetique in full:

"... a way of thinking that is far from my own, and then Thor and I had to talk together subsequently, and try to figure out where we wanted to go. And he (the director) came with his "how should Esthetique be run", in addition to accusing one of the chain vendors for being bought and paid by Clarins, because she came from them. You do not do these things unpunished. And he was declared persona non-grata in writing. And I completely agree. Sorry, but I completely agree. It cannot be done". (128)

As Norelor is part of the international L'Oréal organization, even Paris was informed. However, as the quote above indicated, the Director was bypassed, and the dialogue continued between Thor Hauge and Sigurd A. Hauge (not related, by the way). The cooperation did not develop much, but the relationship was preserved, which deepened the trust between the two.

"... Thor and I had a good dialogue before, during, and after. It took a while before (the Directors name) had gone ... and then he was transferred to duty-free in Hong Kong. So he was sent rather far away"  
(129)

(Quote, Sigurd A. Hauge, Norelor)

During spring Narvesen acquired a new perfume chain: Vita. Vita specializes on broadly distributed products, and competes in a different segment, with groceries and drugstores, where price is the important parameter. This move reflects Narvesen's expectation for the perfume market to polarize, and by acquiring Vita they became an actor in both segments. Following the acquisition of Vita, Esthetique and Vita were organized in one division, and Narvesen Perfume Wholesale was established in order to coordinate purchasing on broadly distributed products (wholesales on selective series do not exist). This product category accounted for only 20% in Esthetique, so these changes in Narvesen had little impact on their supplier relations. Joint activities were carried out during spring, including a "very successful" (quote from memo) Lancôme festival.

*Event 18 (940809)*

In early August (following from Event 15) new stand contracts for Biotherm and Helena Rubenstein (in S&S magazine store) were established, with duration of five years. By now, Norelor had good stand spaces for three of their top priority selective series.

*Event 19 (941001)*

In October Bernhard Claudel came to Norway, and replaced the former Director of PB. Bernhard Claudel had met Thor Hauge once earlier that fall, and the personal chemistry seemed good after just a few minutes. As this event also marked the end of a tense relationship with the PB management, it meant a new beginning for the relationship. The initial trust of the new personal relationship was relatively high, and substantially different from the former one.

"... so I went there and I met Thor and ... we had a good contact. You know some times you get a good feeling for someone ... you understand the person quite well".

(Quote, Bernhard Claudel, Norelor)

*Events 20, 21 and 23 (9501xx/950201/95 spring)*

A new contract negotiation process with PB started in January for 1995, as an initial draft was sent to Esthetique. As usual, issues centered round economic incentive structures and sales terms. Esthetique responded on the 1st of February, wanting to change the current structure by removing all volume-based discounts to stores, and replacing these with a discount on the invoice to Esthetique's head office. The reason for this was an attempt to increase the terms, but also to be able to develop better budgets (as bonuses are paid out after a year's sales are known). This was not a desirable solution for Norelor, because it meant that they lost an important channel for store influence.

"Basically, motivating the final stage is always an opportunity, right, because they sell the goods. ...When everything is to pass through "big brother" in Oslo, you obviously lose some of the influence you have on the individual store. ... We think it is nice to be able to influence the final stage" (130)

(Quote, Sigurd A. Hauge, Norelor)

Another difficult issue was the split of advertising costs on jointly agreed activities. Traditionally in the trade, the suppliers and chain/stores split the cost (X/Y). Esthetique had expressed intentions to change this, adding another Z% of the costs on the suppliers so the split would be  $X+Z/Y-Z$ . Norelor was unwilling to accept these additional costs (+Z), so the discussions continued. In the end, Esthetique had it their way.

"The major issue in that agreement was the split of advertising costs,  $X+Z/Y-Z$ . ... Basically even today we usually have X/Y, and at least I have tried to have a reasonably clear principle of treating my customers equally. (but) ... over time there seemed to be no other option, I believe, if I remember correctly (laughs). Getting an agreement with the magazine stores was important to us. The magazine stores basically represent losses in the first place, but they represent important sites for marketing, showcases" (131)

(Quote, Sigurd A. Hauge, Norelor)

"Yes, that means that they do not have similar agreements elsewhere. That is my interpretation of it, anyway. So ... splitting  $X+Z/Y-Z$  was tough for them" (132)

(Quote, Thor Hauge, Esthetique)

The process became a time-consuming one, partly because important issues were discussed, partly because the process occurred parallel to contract negotiations between Esthetique/Narvesen Perfume Wholesale and Norelor DPP, and finally because the negotiation process became an arena for Thor Hauge and Bernhard Claudel where they could get to know each other better.

"It took time, but it was also a discussion time, and it was also at the same time a way to get to know each other better. In a way, because you do not know the person well, you say what is he trying to have me sign, you know. See what I mean?"

(Quote, Bernhard Claudel, Norelor)

To a certain extent it was a game between competing interests, but importantly, on a "friendly" arena.

#### *Event 22 (950428)*

Parallel to the negotiations between Esthetique and PB, were negotiations Esthetique/Narvesen Perfume Wholesale (NPW) and DPP, a process that had started on the 10<sup>th</sup> of January. In late April agreement was reached. These negotiations centered round the economic aspects of interaction. Esthetique/NPW wanted the best possible agreement, just like Norelor, and opposing interests and contending actions characterized the process. In addition, Esthetique introduced a central bonus as a new issue in mid-April. By adding and bundling, holding firm and arguing, an agreement was reached, but as a middle solution, the central bonus was earmarked for joint marketing activities.

#### *Event 24 (9505me)*

In May Esthetique was preparing to choose new hair products for the chain (color). As Norelor is a central actor on hair color, they were surprised by the fact that Esthetique chose Wella Soft Color (distributed very broadly, including groceries), and not Casting, Norelor's



own brand and market leader in their segment (and also distributed in groceries). Esthetique answered a letter regarding their choice, defending their case by informing Norelor that the chosen product would no longer be distributed outside the trade's own channels, excluding grocery stores.

As the second phase ended, Narvesen restructured Narvesen Perfume. Vita and Narvesen Perfume Wholesale, both mostly concerned with broadly distributed products, were merged. As broadly distributed products accounted for a small part of Esthetique's turnover, the change had no significant consequences for them. However, the change was positive, as Esthetique became more independent from the other entities (Esthetique and Narvesen Perfume Wholesale were very different, and maybe an odd couple).

### **Phase 3**

Phase 3 refers to the time period from the 1995 cooperative contract was signed in late June, and until data collection ended in late August 1998, when Esthetique started to prepare for a new contract negotiation process. Important events in phase 3 included the release of "Esthetique", a lifestyle and product information magazine, issued by Esthetique as part of their branding strategy. In 1996 the market council expressed interest in including Biotherm in the basic assortment, and the following contract negotiation process was important. Further, in late 1996 Esthetique decided to offer to Norelor a new stand space for Lancôme in one of the magazine stores. During fall 1997, after an intense negotiation process, Esthetique decided to distribute hair colors from one of Norelor's competitors, despite the fact that Norelor had received signals indicating they would get distribution in the whole chain. Finally, in late June 1998 after a lengthy rebuilding process in Glasmagasinet, one of Esthetique's magazine stores, Norelor got favorable store space for their stands. Although phase 3 includes some events characterized by contentious actions, this phase first of all represents a stable period of increased cooperation and good market development.

#### *Event 25 (950629)*

Finally, in late June the contract for 1995 was signed, after nearly 6 months of discussions. At this point, time had become a constraint, as they were about to enter the second half of the year. In this letter following the contract Thor Hauge wrote "after a long and cumbersome process", referring to their detailed and time-consuming discussions. In the end, the economic conditions were settled, and outcomes for Esthetique were good, as they had an option to choose between two bonus systems after the year's sales (due to uncertainty, as one of them was new). In addition, they had got acceptance for their position on the split of marketing costs. Thor Hauge describes what he perceived as the reason for this lengthy process:

"... when these new French Directors arrive ... they do not know the situation. ... But they are very much afraid of making new agreements and do something wrong. So therefore it takes a long time, and there are lots of things they have to check and get to know, and ... they are so afraid of doing the wrong thing, right. So then ... it becomes very cumbersome. But at the same time I know that ... losing a major cooperative partner is not what they want, right" (133)

The time invested in this process had a payback, as subsequent interaction could be conducted much more smoothly and within shorter time frames.

"After I think that .... maybe it was the longest discussion we had, right. After things went quicker. So obviously we had to know each other better".

"It was on terms, but the terms were also a pretext in fact to see each other, and exactly how we were dealing with these issues".

(Quotes, Bernhard Claudel, Norelor)

Cooperation during fall continued with Market Councils and activities on the store level (however, the data is not specific enough to refer to actual joint activities or campaigns). During mid-summer Esthetique had released plans to publish a magazine, named after the chain, and in late October the first issue of "Esthetique" was distributed. As the relationship had grown closer (both because of better personal relations and increased revenues), the Market council meeting on the 24th of October reflected typical interaction, as they were discussing the development of Lancôme in Esthetique, which was good, and what could be done jointly to keep the growth continuing. In early January 1996, Esthetique routinely shared sales information for the S&S magazine store, which showed an increase in sales for Lancôme. Lancôme had for the last years been a stable #4, but had increased their position to #2 during 1995. From late December and until late January contract negotiations were held with DPP. The new agreement represented minimal changes.

*Events 26 through 31 (9602pr/960216/960219/95 spring/950613/950801)*

In early February the Market council expressed interest in including Biotherm in the chains basic assortment. Elisabeth Arden had over some time had problems, market development was not good, and Esthetique thought Elisabeth Arden's image was going down. The idea was to replace Arden with Biotherm. Contract negotiations with PB had started, and the 16th of February Thor Hauge introduced the issue to Bernhard Claudel. Three days later Esthetique received the contract for 1996 and 1997 (a two year contract period was new), where PB stated that they preferred to wait "... as we do not have a budget this year to meet your suggestion (da vi ikke har budsjett for inneværende år til å imøtekomme ditt forslag)" (quote from letter). The contract was signed. The process had been a short and easy one, compared to the former contract negotiation process. The following quote from the contract can serve as an indication on the changing orientation towards increased collaboration the last 16 months:

"We look forward to continuing our prosperous and solid cooperation in years to come".

During spring, discussions concerning Biotherm continued. Norelor basically wanted to have Biotherm in the basic assortment, but they wanted the process to develop over time. As Sigurd A. Hauge saw it:

"... in the first place, if you are to carry a series you need a certain amount of education as a basis, and we will do a proper job. And instead of opening all, we now introduce it slowly but certainly. ... Of course, we were very pleased that Esthetique accepted Biotherm. The discussion was related to the speed of the process" (134)

However, also "the money issue" was part of the discussion, as Thor Hauge indicates:

"We do not wish to take that in if we do not get something extra, so we work very hard on that" (135)

Bernhard Claudel described the situation as a classical example:

"Obviously, on one side ... you have in fact two things. On one side you have a supplier with interest to have his brand in the basic assortment of the stores. At the same time they were also very interested because they knew in fact that the brand was interesting in terms of stock rotation and so on, so you make a good margin on this brand. At the same time they want to say "ok, we take it, we want this".

Myself I say "ok, but if you take it, it is because you want it, I am sorry I am not going to give you ...". So there was a discussion going on. I mean it was a classical game ..."

By June the discussion had progressed, and Esthetique and PB were about to reach an agreement. On the 1st of August the issues were solved to both parties' satisfaction, as new elements had been introduced in order to integrate both parties' main interests. Esthetique wanted Biotherm in their basic assortment and an improved economic structure. Norelor wanted the brand included in Esthetique's basic assortment, without having to give too much for it. These issues were solved as Bernhard Claudel (first quote) and Thor Hauge (second quote) describe:

"So finally, what we did was that in fact we gave them half of what they wanted, and we blocked the terms for a couple of years. That was what we did. ... But it is a classical situation, so, I would say if you show you are too much in a rush to get something, you do not negotiate the same way. You do not get as much ...".

"We got X% on everything from (PB), so we took it in" (136)

Parallel to these discussions was the usual cooperative interaction in the Market council meetings and on the store level. Sales statistics from late May showed very good development for Lancôme in the chain (in fact Lancôme showed the biggest sales growth of all series in the chain). In July Narvesen Perfume was liquidated as a separate entity, and Vita and Esthetique were included in Narvesen Retailing. These changes did not have any consequences for the business operations or supplier relations.

#### *Event 32 (9611ul)*

As Arden was taken out of the basic assortment, changes were also prepared in the magazine stores. In the S&S store, Arden's sales stand would be changed, as they no longer were entitled to occupy the best space in the store. Several suppliers were involved in the process, and Norelor was competing mainly with Estée Lauder. However, after reviewing past interactions and the current situation regarding joint activities, campaigns, and the cooperation in general, Norelor was offered the space for a new Lancôme counter.

"That (occupying the best space) is very important. A very hard fight. And Lancôme ... they have done several things. Since Bernhard came in ... (better terms than we previously had ... and that is a development). They certainly will have something in return ... And this is more like underlying, there are no formal written agreements on it, but more like principles for what kind of development we see, and that we agree to that development, see kind of joint gains from it" (137)

(Quote, Thor Hauge, Esthetique)

However, Sigurd A. Hauge expressed a slightly more commercial view of the situation:

"How are they able to get the most out of the placement? – and I suppose that it is that one has to look for: where is it one can make most money and where is it one can get most done. ... So I suppose we see business and they see business" (138)

A comment on the event and the following outcome, given by Bernhard Claudel, sums it up:

"... they propose this to us and it was good because we could take this position, and now Lancôme is number one in the store. So it has been a very good move for us. ... I mean when you have a good relationship you get something, sometimes at another moment".

During winter and spring 1997 the cooperation in Market council meetings and on the store level was frequent, with joint activities on several new product introductions in addition to the yearly Lancôme festival. As the contract terms were blocked, and several important changes were implemented in 1996, interaction on the top management level did not involve significant events. Not until August.

*Events 33 through 35 (970825/970916/9710pr)*

In June, Esthetique started to discuss hair color products with their suppliers. Norelor had the market leader in Norway, Casting, which was not in the chain as it was distributed in the grocery business. Casting's main competitors were Clairol, distributed by Midelfart, and Wella (through Lepsøe), both distributed in the chain. As hair colors had been one of Esthetique's expressed areas of interest, the competition between suppliers to get distribution was not new (ref. Event 23). This time, Esthetique was preparing to decide for a new hair color product to be added in the chain. In addition to Norelor, Lepsøe, and Midelfart, outsider Henkel Kenord was about to introduce Poly Country Color.

"Because what is happening now, Movida introduce a new color, Poly introduce a new color, Lepsøe reintroduce one of their colors, and Clairol do the same. And everybody is going to spend 10 millions on TV, right. It is going to be a hell of a fight. And all of them have gone straight to the professional trade"  
(139)

(Quote, Thor Hauge, Esthetique)

According to Sigurd A. Hauge (and confirmed by Thor Hauge) Thor Hauge was "out shopping for advertisements in Esthetique magazine". So Sigurd A. Hauge offered to buy a double page, if Esthetique took in Movida.

"So my understanding was quite clear that Thor had ... that he was prepared to take in Movida. And in return from me he would receive two pages in his magazine. I never doubted that that was the deal"  
(140)

(Quote, Sigurd A. Hauge, Norelor)

On the 25th of August, Norelor sent a letter to Esthetique with information on activities related to the introduction of Movida, which included television commercials, advertisements in the weekly press, consumer polls with a "dream vacation in the Dominican republic" given away, as well as demonstrations and training in the stores, and other potential marketing activities.

However, when they were about to sell in Movida to the chain, there were additional issues to be settled first. As a new product goes in, something has to be taken out, and the question was what to do with these products. As Sigurd A. Hauge is not happy to buy out his competitors, he offered marketing support so Esthetique could sell them out "fast". The decision process was continued in Esthetique parallel to the negotiations with the suppliers. By September 16th, there were (probably) no good reasons for expecting any more concessions or additional contributions from the suppliers, and drafts for agreement had been received from Norelor and Henkel Kenord.

In addition to the above, Norelor offered a favorable discount on Esthetique's purchases, and fed Esthetique with sales statistics for the different products over time in Sweden and Denmark including/showing impacts of campaigns by both Poly and L'Oréal; numbers in

favor of Norelor. However, the decision was delayed, "and in the meantime the others were pressing".

Stating the case in brief, Sigurd A. Hauge commented:

"We took our pants off for Movida" (141)

And Thor Hauge knows why (also confirmed by Sigurd A. Hauge):

"He is destined to get in. It is not a money issue, ... terms, don't matter. He has to get distribution, right. When you spend 10 millions on TV it does not help if you do not have distribution" (142)

In the end Poly Country Color was chosen for the "basic non-selective assortment" (meaning at least 80% of the chain distribute it). Poly had made equal concessions (more or less) as Norelor, better discounts, and most importantly, as expressed by Esthetique, they were able to bring a new actor on hair products into the picture. As Movida was approved for voluntary distribution in the chain, Esthetique now had four suppliers on this product category. This they hoped would trigger a different kind of competitive dynamics as compared to, for instance, a situation with only two suppliers.

"I honestly admit that I feel I have been fooled. And that is the first time, as I can recall, actually, that I have been fooled on a deal. And I have expressed that very clearly to Thor Hauge" (143)

(Quote, Sigurd A. Hauge, Norelor)

After Esthetique made their decision, no contacts were made between top management for several weeks - an unusual silence. The episode had been a tough one, but after some time both parties put it behind them, and were more interested in looking ahead. During fall several Market Councils were held, and joint activities on Lancôme and Biotherm were carried out.

#### *Event 36 (9711ul)*

In late November, the Market council in cooperation with Norelor was preparing joint activities for the first half of 1998. The meeting was basically a routine event, as the cooperation had developed stable and incrementally. An important issue was joint campaign activities, especially for Lancôme and Biotherm. The following issues, related to a Biotherm product, might serve to illustrate how these meetings typically were.

Both Esthetique and Norelor had prepared plans for the next year, and the meeting (among other issues) should decide on what campaigns to run jointly, and to inform on other activities as well. Esthetique had (up front) indicated their preferences, so Norelor could take this into consideration. Norelor prepared two alternatives for the meeting; one of them was Esthetique's expressed preference, the other Norelor's first choice. Both alternatives were presented and discussed, but Norelor's strategy for the meeting was successful, as Norelor's "first choice" was agreed on. However, the reasoning behind this successful use of positional statements was not a "selfish" one, as Norelor held that their preferred activity would in fact be a better decision for both parties.

"To be quite honest, I did not quite want to give them an option ... I wanted to be flexible to make it work, but I did not feel that that was the right solution, actually. I did not think that it was the best thing to go for. Because what we talk about here is maximizing revenues for both parties"(144)

(Quote, Anne R. Larsen, Norelor)

The process was a "give and take cooperative game" where a range of "small" issues was discussed.

"I believe we even discussed the number of products in the campaign and adjusted the issues whether they should have that many body lotions, that many types of rouge, jelly, if you see" (145)

(Quote, Anne R. Larsen, Norelor)

During these discussions the parties adapted and searched for the best joint solution to the campaign issues. As the parties had differing preferences to which campaign to go for, Norelor, in order to secure their main interest made concessions in order to make the decision easier for Esthetique. The most important aspect was to make the campaign exclusively in Esthetique, which was the first time for Biotherm.

"... we want to have a cooperation with Esthetique that is as good and close as possible, and then we also have ... we also feel that we have to make some "sacrifices" in order to adjust our activities to their wishes. ... it is entirely new that we (Biotherm) do an exclusive campaign adapted to a chain"(146)

(Quote, Anne R. Larsen, Norelor)

During winter 1998, the activities on the store level were normal. On the top management level and in the Market Council, the activity level was low. No particularly important or new issues arose in the cooperation, and activities and discussions related to sharing of sales information, the recurrent issue of hair product distribution, adverts for the Esthetique magazine, and stand spaces in stores. Statistics for 1997 showed a very good development for Norelor's series in Esthetique. Norelor's most important products showed a substantial growth in Esthetique, as well as a slight growth in the total market. In addition, the total market for selective series in Norway had increased. In sum, business was good for both parties, and the cooperative efforts paid off.

"When you see what we have contributed to their business, then it is very, very good" (147)

(Quote, Thor Hauge, Esthetique)

In addition, new contracts were signed, in order to adapt to EU legislation. The differences were small, and the changes did not affect business or interaction in any way.

#### *Event 37 (9806me)*

After a lengthy process of planning and rebuilding Esthetique Glasmagasinet (magazine store), Norelor received top stand space for their selective series in Esthetique's basic assortment.

During summer 1998 no particular important events occurred. The relationship developed well, and Norelor invited 3 key customers to the bronze finals in the World Championship (soccer) in France, of which Esthetique was one. By the end of August the parties were preparing for new contract negotiations on selective distributed series, and Esthetique indicated that it was about time to discuss sales term and incentive structures.

### **Outcome and evaluations**

Assessment of outcomes and evaluation of the impacts of the decisions made in the cooperation basically took place on all levels: in stores, in the Market Council group and at the top management level. In stores, outcomes were compared to joint budgets and bonus systems. However, few data were collected on this level. The Market Council had a short-term

perspective, and focused more on the immediate future interactions, and evaluated the cooperation frequently. The Market Councils evaluations were typically informal, but were also sometimes documented in memos or letters. The typical focus was whether Esthetique and Norelor were able to "make things work", in terms of realizing effective joint activities. To some extent, evaluations were detailed and decision-specific. On the top management level, the long-term perspective was important, in addition to focus on recent events of particular interest. The outcome of each individual decision taken in the cooperation is rarely evaluated on this level, but issues of concern might be discussed in terms of outcomes.

The *economic* aspects of the cooperation are the most important dimensions in the evaluations, and this is important at both levels. Both parties cooperate in order to create "extra" revenues and at the same time lower transaction costs. The following quotes from Anne R. Larsen, Sigurd A. Hauge, and Bernhard Claudel (respectively) are illustrative:

"Both parties are obviously concerned, to state it that way, with doing something that increases the turnover of the inventory. It is hard to get away from that" (148)

"It is the volume that counts" (149)

"If I look at facts we are growing faster with them than the average growth. ... So obviously, it shows that in fact the cooperation pays. We are in fact doing, I think, a good business with them. In terms of also the way we feel and the relation we have... (...) and they are a very homogenous chain, they have the same look everywhere. ... we believe that in fact the chain has done a very good job on this stage, and they are at the same time also taking a very strong position on this market, so whatever happens they are here to last".

As the quote above from Bernhard Claudel indicates, there was more to it than pure financial assessments. Also other aspects as the chain's image, how they fulfilled their role, and their feelings about the cooperation were important. Also Thor Hauge indicated that several dimensions were assessed (quotes below).

"... we do not measure how much we sold that week and that week. That is not what is determining whether we are on the right track. There are many things. ... (but) we do follow these series ... on a monthly basis we see how sales have developed, shares, and so on, that the different series have" (150)

"... well, in the quarterly meetings we make status. Then we go through the things that have occurred, what we think has worked well and not so well on both sides. ... But basically, we are not so concerned about these things in the short term. It is more like ... well, how things work and how positively things are received, and ... yes, there is a lot of feeling ... in that part. We will not leave everything to the computer on those matters" (151)

The *roles* in the relationship, and the way these are maintained and developed (both in relation to each other and in relation to the marketplace), are important. In addition to (the traditional question of) distribution of work and tasks in the (supply chain) dyad, the importance of each party's individual *image* is most central, and is taken into consideration.

"For us, and for the image we give our products, it is important that our series is distributed in Esthetique" (152)

(Quote, Sigurd A. Hauge, Norelor)

Further, the *emotional* aspects of cooperation are important in the evaluation. The feeling of well-being, and being comfortable with the transaction partner, is important as it brings about

stability and confidence. These aspects are expressed as important cooperative conditions if problems occur.

"Then if we have problems, I mean, we are in a good climate so as the relationship is inside a very good climate, so I mean I am very confident with them".

(Quote, Bernhard Claudel, Norelor)

A final aspect mentioned as important in the evaluations, was the economic outlook for the cooperative efforts, and the future "state of the cooperation". Perhaps Bernhard Claudel expressed this most clearly in the quote below:

"I think in every relationship you have to look at what you have achieved, but also mostly what you can achieve. What is your potential to achieve in the future. For me it is almost equal. ... an evaluation of the moment, is always two things: what we have achieved so far, and I mean in the case of Esthetique we have achieved very good results so far, and the potential, which in the case of Esthetique is also good".

The same view is also found in the above quote from Thor Hauge, where he stated they were concerned with where the cooperation was heading. These aspects were also important on the Market Council level. Anne R. Larsen, Marketing manager for Biotherm, expressed similar views:

"... so it is very important that we get a foothold with Esthetique. We know that we currently have that, but we want to do things even better, obviously (...) ... because, for us, Esthetique is *the* chain we feel is the chain for the future. It is a modern chain that we have great faith in" (153)

### Summary

I have described the cooperative relationship between Esthetique and Norelor, and how it developed from spring 1992 and through summer 1998. The business relationship over time grew closer, as a result of shared interests in selectively distributed, high image, perfume brands. First, I described the parties, some characteristics of the perfume trade they are part of, and then the background for the cooperation that developed. I then presented the contractual framework the cooperation was based on, and identified a set of complementary formal contracts, as well as additional mechanisms of governance, such as hierarchical aspects (the Market Council) and relational norms, trust, and personal relations. The "formal" mechanisms were mainly economic, but also authoritative elements were included. I then described characteristics of the decision processes on different levels of cooperation. The description also focused on the use of different decisive orientations, and showed how a range of negotiation tactics related to different negotiation strategies was used in joint decision episodes. The description of the event history was divided into three phases: an early phase of interaction up to the introduction of Esthetique as a new chain concept, a second phase describing early events in the collaboration, and a third phase where the cooperation grew closer and to a certain extent "matured". Important events in phase 1 included Esthetique's acquisitions of 9 stores, the following contract negotiation process, and the preparations for the new chain. Important events in phase 2 included the change of the wage system in Esthetique, the invitation to product meetings, the conflict with the PB management, new stand agreements, and the arrival of a new director in Norelor division PB and the following contract negotiations. In phase 3, the most important events were the inclusion of Biotherm in the basic assortment and the adjoining contract revision, new stand agreements, the frequent events in the Market Council, the Movida issue, and new stand agreements. Care was taken to



describe the cooperative relationship as it developed over time, and to reflect the theoretical framework.

## **ANALYSIS AND INTERPRETATIONS**

While the description of the parties, the business, the governance mechanisms, the decision process, as well as the event history, is drawn from the empirical data (see Appendix 4. for a list of sources), the analysis presented here represents my interpretations of them. Like the description, the analysis will build on and be related to the theoretical framework. First I will discuss the established governance mechanisms and implications of these for interaction and the use of decision strategies in the collaboration. Then I will turn to discussing the issue(s) of governance and interaction in main and secondary events. A discussion of outcomes and their evaluations will end this section.

### **Establishment of governance mechanisms and implications for interaction strategies**

As was pointed out in the case description, room for interaction and decision making not specified in the contractual framework differed between the levels in the collaboration. This was due to the contractual framework applied in the cooperation, where a set of complementary contracts between the different entities in the cooperation regulated different aspects of interaction and the transactions.

On the operational level of the cooperation, the interaction and transactions between the parties were to a large extent regulated, as the most common and likely issues to arise were handled in the contractual framework. The store contracts (aimed at securing selective distribution) and the contract supplement were designed to handle issues that typically occur in business, and left little room for joint decisions on unregulated issues. Hence, there was not much room for use of decisive strategies. In addition, many issues typically handled in the stores were left to the Market Council, as for instance approval of products, limiting the decisive authority of the stores even more. This way, the established set of governance mechanisms to a large extent removed the need to make joint decisions on the operational store level.

On residual issues (e.g. the individual stores' decision to participate in Norelor's campaigns that were not run in the whole chain, or the individual stores' decision to carry Movida as the product was approved for sale by the Market Council), the governance mechanisms did not restrain the use of decision strategies. It is reasonable to expect that personal relations and norms develop on this level, and these could limit the range of strategies and tactics in use (it should be noted that the data collected for the study are not sufficient or detailed enough to be more specific).

The Market Council was to some degree acting upon the contractual framework, but had considerably more room for decision making. Being a tactical level in the cooperation, as well as an important forum between the stores and the top management in Esthetique, they played an active role. The most important decisions the Market Council made were the approval of products for the chain, indicating which series they wanted in the basic assortment, and they also decided which campaigns to run and the details around them. These decisions were typically made in interaction with representatives from the suppliers, and the Market Council was free to act how they wanted within the contractual frame. The contractual frame to some degree regulated campaign issues, but on a much more general level (such as the split of

advertisement costs on *agreed* activities, which was an issue for the Council). As the Market Council was a relatively stable entity, and they (mostly) interacted with the same supplier representative again and again, norms were allowed to develop within the Council and in relation to the suppliers. These norms, in turn, were the only limiting mechanism of governance with regard to decisive orientation. However, both parties seemed to have a shared understanding of each other's business aims: value maximation. So in turn, both distributive and integrative aspects were a natural part of the process. Being aware of the mixed motives of the situation, both parties used and expected the use of both problem solving and contending behavior in joint decisive episodes.

As pointed out previously, the top management interaction was not so much taking place within the formal contractual framework, but more as an extension to it. Although contractual issues and recent events were discussed in relation to each other, focus was more on a general level, concerning where the relationship was heading. In addition, top management interaction was to a substantial degree related to the establishment and evolution of the governance mechanisms themselves (as particularly seen in relation to the organization of the wage system, the supplemental contract, and most importantly the incentive structures and sales terms in the contract negotiations). These two managerial issues (relational development and design of incentive structures) were of different natures, yet intertwined.

The applied governance mechanisms in several ways made it easier for the top management to interact on a relational level and with a long-term perspective. By establishing clear and relatively simple incentive structures for the stores and the magazines, valid through a specified term, much time-consuming and unnecessary interaction involving opposing interests was removed from the collaboration. By ordering the contracts hierarchically, through giving the supplement priority, another source of conflict was removed. Further, by distributing responsibility and decisive authority to an intermediate level (the Market Council), the top management was able to spend more time on strategic issues.

On the managerial level, personal relations, trust (calculative based and relational), and a set of relational norms (such as role integrity, preservation of the relation, harmonization of relational conflict, and supracontract norms), were important. These mechanisms of governance to a certain extent influenced the way each party approached joint decisive situations, and how these were dealt with. However, the two broad managerial issues mentioned, the relational development (ex-post) and the evolution of incentive structures (passing ex-ante situations), were dealt with differently.

The issues that concerned relational development were managed under heavy influence of the governance mechanisms of "trust". Trust and good personal relations enhanced extensive information sharing, which often lead to extended discussions where the parties were able to map the territory of common and opposing interests. During these discussions views were exchanged, ideas tested, and intentions "flagged". Through this interaction the parties became aware of the future potential for cooperation, and on which issues and in what areas of business opposing interests could make collaboration difficult. In addition, this interaction served to establish a broader understanding of each party's underlying concerns and business aims that made it easier to understand the actions taken in specific events. By drawing upon these mechanisms actively, they became "driving forces" for development. By being able to exploit areas of joint interests, they "made a bigger pie" by the use of integrative strategies. As

these "extra gains" were realized, the same mechanisms used to initiate them became reinforced, and the relationship was preserved and deepened.

Interestingly, use of these mechanisms to create additional value in turn initiated a different and competitive process related to the "price" mechanism. As value was created, it was also distributed between the parties. Typically, the distribution of gains was related to the contract negotiation process, where the evolution of the incentive structures was the single most important aspect, as the economic structure between the parties took care of the distribution of gains. Although the incentive structure consisted of a set of issues, or elements, they all related to a single measure in different shades: money. Being a situation of opposing interests (both parties were aiming at value maximation) with one major issue, distributive interaction occurred. Contending strategies were used to achieve favorable outcomes. However, actions were constrained by the relational norms, as the parties expressed the view that it was important for both that the partner performed well. Showing concern for each other's outcomes, a contending strategy was not found in a pure, or extreme, form. Then again, when new economic structures were established (or the old ones were kept), interaction moved back to an integrative orientation. This reciprocal influence reflected complementary processes that both were important "drivers" in the relation.

In sum, the established governance mechanisms to a certain degree influenced the use of negotiation strategies in the collaboration. On the operational level, few issues were to be decided jointly, as the contracts covered most aspects of the relationship. The Market Council exercised more decisive authority, but the applied governance mechanisms only to a limited degree influenced the use of decisive strategies (e.g. norms of reciprocity and appropriate conduct restrained the use of some contending tactics). On the top management level, the relational norms were important, as they laid a good foundation for integrative interaction (they add other elements to the process in addition to the pursuing of self-interest). However, the mixed motives involved also caused distributive interactions to occur, but these were to some extent limited by their shared interest in the long term.

### **Governance and interaction in phase 1**

Phase 1 covered a few but important events. The collaboration during phase 1 was limited, and the most important events were related to positioning of the chain. In addition, data for this phase are not very detailed, so I will not make distinctions between primary and secondary events.

Based on the increased power from the acquisitions of the nine perfumeries, Modena started a process of renegotiation of the sales terms. Most important for the changed power relationship was the two magazine stores; two important "showcases" for the industry. Equally important, interaction with the suppliers also aimed at working their way into the high end of the product specter where also margins were better. At this time, the suppliers had been dominating the business and had considerable control over the entire supply chain, as they had a lot of influence on the stores (by means of being the part that decided where to put their top products, through being traditionally the part that initiated campaigns and bigger marketing activities, by owning their own stands in the magazines, and finally through direct financial support by covering part of store employees wages). After the acquisition, Modena started a fight to balance the suppliers' power, and aimed at taking control of the sales points by establishing a firmly run homogenous chain. The negotiation involved the primary issues of product lines and economic structures, in addition to establishing a contract supplement.

Common interests on these issues were mixed, the personal relations were not entirely trustful, and the hierarchical and authoritative elements of governance were limited in use. So interaction at this point was mostly based on and related to the economic structures of the transactional framework. The supplier side was faced with a situation where their power was likely to decrease, and where the chain was looking for bigger margins. Both outcomes, in the long run, were undesirable. Interactions in joint decisive episodes (and unilateral actions from particularly one Norelor employee) were contentious in nature, dominating a potential cooperative orientation based on common interests and shared understanding, as for instance found in relation to the KK card issue (Event 8).

The issue of selectively distributed products was not that problematic, as Modena now controlled several stores "qualitatively suited" for these products.

The final issue, relating to the contract supplement, was also relatively easy to solve, as Modena *required* suppliers to sign if they still wanted to do business. The supplement was important in three ways. First, the supplement reduced the level of conflict on all levels of collaboration by strictly regulating a set of issues that were likely to be a source of problems and not likely to create any value (such as fighting over returns and split of advertisement costs). Second, the supplement ranked the authority between the contractual documents, through explicitly letting the supplement rule over the others in case of conflict. Thirdly, the supplement brought new aspects of hierarchical mechanisms into the collaboration such as contracting for basic assortment, and it required proper documentation and standard information related to approved product lines, as well as in several ways emphasizing the different levels of interaction through assigning tasks and decisive authority to these.

Interaction in connection with the contract supplement was basically related to the structural aspects of the cooperation. The outcome was a richer combination of governance mechanisms, and the supplement became an important addition to the structural mechanisms governing interaction. As this process involved low levels of conflict (actually both parties shared an interest in establishing the supplement, although they did not share views on all the details), this served as an early step in building a stronger foundation for the collaboration. It also was an early example of how interaction may relate to the structural aspects (or the governance mechanisms) they take place inside, and how a change in the structural conditions affects interaction in succeeding events.

### **Governance and interaction in phase 2: Main events**

Among the main events in the second phase were (apart from the introduction of Esthetique) the new wage system, the invitation to product meetings, the conflict where Narvesen threatened to stop all business with Norelor, the end of the conflict, the new stand agreement, and the first contract negotiation events with PB.

As the plans and preparations for Esthetique were nearly finished, the wage system for (especially magazine store) employees was brought up as an issue (Event 11). The new wage system involved opposing interests, as it represented an important channel of store influence for Norelor. However, the employees were basically *Esthetique* employees, and one could argue that the issue was an internal adjustment. However, employees had been on the suppliers' payrolls as well, so it was an issue in the relationship, specially because Esthetique was still interested in receiving the money, but now to the head office. Although the opposing interests is the dominating characteristic of the situation, Norelor and Sigurd A. Hauge

accommodated (yielded) in the process, and accepted Esthetique's proposal. Instead of engaging in a contentious process, Sigurd A. Hauge emphasized the common interests in the issue, and sought for integrative potentials. By accepting the new system, Norelor had clear principles to relate to that were equal for all suppliers, they got rid of envious inquiries, and avoided any conflicts. This interaction showed concerns for Esthetique's interests. Previously (Event 10) Norelor had been invited to participate in the final preparations for the new chain, and at about the same time (Event 12) Esthetique also invited Norelor (and other suppliers) to participate in product meetings, later referred to as Market Councils. Seen in relation to the joint budgets with individual stores (Event 13), and the opening activity with Lancôme (Event 14), it is clear that these events served to emphasize their common interests, and signaled an ability of Esthetique to implement their strategic intentions. Also the personal interactions most likely served to develop the personal relations positively, and reinforce the trust in the relationship. Further, in December (Event 15) Esthetique invited Norelor to discuss new stand spaces for Biotherm and Helena Rubenstein in one magazine store, although they were not included in the basic assortment. Such an initiative was an important signal to Norelor, as to where the relationship could develop.

Taken together, the above events most likely served to reinforce and further develop personal as well as institutional relations and trust. In addition, they initiated a move from a transactional view of the business towards a more relational view with long-term implications. The interdependence between the parties was increasing, as the traditional power of the suppliers had been decreasing in favor of the chain. Also their roles were changing as a result of the organization of the chain and the initiation of the Market Council. These aspects added to the economic structures for interaction, and in sum, the mechanisms of governance had changed.

For some time Esthetique had experienced problems with one particular Norelor employee (Event 17), and finally it went too far, resulting in a major conflict. Narvesen was ready to shut down their entire business with Norelor if the situation was not immediately corrected. Their threat was credible, and Sigurd A. Hauge knew. In addition, he agreed with Esthetique that the Director's behavior was at best inappropriate. The contending actions from Esthetique were fully accommodated by Sigurd A. Hauge, as there was no other way out of the conflict. As a result, a separate dialogue was established between Thor Hauge and Sigurd A. Hauge. Drawing on the established personal relation and trust between these two managers, the business could continue and the relational aspects were preserved as they waited for a replacement. However, the period up the replacement took place (Event 19) was to a certain degree characterized by standstill. As the replacement drew closer, a new stand contract was signed for Biotherm and Helena Rubenstein (Event 18). The decision signaled further commitment, and prepared for a "new start". Without the good relationship between the top managers, this event would probably not have occurred.

During winter 1995, new contract negotiations were taking place between Esthetique and DPP and PB. These negotiations were parallel, and to a certain degree similar in content. Negotiation with DPP (Event 22) was done relatively quickly, and implications for Esthetique were small, as this division is a "small" supplier to Esthetique. Interaction was based on contending strategies, but by introducing new issues and refocusing positions agreement was reached. Esthetique had asked for a central bonus, an issue DPP would not accept initially, but finally were given and earmarked for joint marketing efforts. This way they turned a distributive process into a situation with an integrative potential they could realize.

The negotiation process with PB (Events 20, 21, 23) was different, and much more time consuming. In a similar manner it involved several issues with opposing interests (like the removal of volume-based discounts directly to stores, and split of advertisement costs), and contending actions were used on both sides. The positions taken by Esthetique were held firmly, and finally Norelor yielded in order to reach an agreement in late June. By this time, time itself was becoming a constraint. An important aspect of the process itself was that it allowed Thor Hauge and Bernhard Claudel (the new Director of PB) to become acquainted. Through the process personal relations were allowed to develop from an initial state of comfort. During negotiations they discovered that they shared views of the business in general, and of the collaborative relationship in particular. Most importantly, the level of trust had been restored between Esthetique and PB. This process also reinforced trust as an important governance mechanism in the relational development between the two organizations.

The overall view of the development also suggests that norms of reciprocity were influencing the interaction, and the actions taken over a set of events. For instance, Esthetique's open and inviting attitude with regard to Market Council interaction, their offer for better stand space, and the emphasis on cooperation expressed in late fall -94, seem to be weighted up by (finally) increased margins for Esthetique. Stated differently, the norm of reciprocity made an implicit use of non-specific compensation possible, and increased the integrative potential in the relationship.

### **Governance and interaction in phase 2: Secondary events**

Although some of the events discussed above (such as events 10, 13, 14, 15) could have been considered secondary, they were not as they were part of the ongoing process of change. As pointed out previously, secondary events are not important in isolation, but the implication of "small incidents" and "routine" decisions as they accumulate influence the use of governance mechanisms and decisive strategies in a subtle way. Over time these events established a shared (implicit) understanding of what elements of the governance mechanisms could be applied in different situations. This informal development of procedures or *praxis* (for instance how joint activities should be carried out and what the responsibilities were, etc.) helped to "define the appropriate range of tactics" in the different strategic orientations used. This in turn influenced the possibilities of reinforcement and change in the incrementally evolving relationship. The above discussed events (in addition to the main events as for instance Event 11 and 12) involved the use of normative aspects of the governance mechanisms and use of integratively oriented problem solving strategies, which in turn were reinforced.

Phase 2 also involved many secondary incidents that more clearly reflected the presence of mixed motives in the cooperation. Among the main events the contract negotiations, particularly between Esthetique and DPP, involved the use of contending strategies. The same aspects of governance and interaction are also found in the secondary events, often related to the broadly distributed products. In late summer 93 (see Appendix 4., Tracked incidents over time, 930817), Norelor approached Esthetique to discuss what could "be done" in relation to sales development for DDPs products, as they were disappointed about their development. However, Esthetique had no interest in discussing these matters, and showed no concerns for Norelor's interests in the issue, and interaction was going into "a dead end", as Esthetique hold firm their positional statements regarding broadly distributed products. Another example is from fall 94 (941111). On the 21st of October Esthetique sent a letter to Norelor, where

they were trying to get a financial contribution for some built-in sales racks for Norelor's series. However, Norelor saw these racks as Esthetique's own responsibility, and Esthetique had to cover the costs entirely. A final example is from May 95 (Event 24), where Esthetique chose to distribute Wella Soft Color, and not Casting - the market leader from Norelor (Esthetique had expressed priority to the hair products segment). The decision not to distribute Norelor's product came just a few weeks after the new contract was signed with DPP (Event 22), and clearly served to reinforce the use of contending actions related to broadly distributed products. Also the contractual framework with DPP are centered around economic issues, and this emphasis in addition to the relative independence from DPP, makes it easier to "fall into" a distributive process.

Most secondary events though, are related to what became routine interaction, such as sharing of sales information, interaction in Market Councils and joint campaign activities, and meetings to discuss the business in general.

In sum, the secondary events served to support the dominating mechanisms of governance, and the dominating orientations in joint decision episodes, and further to enable and restrain the change and reinforcement processes following from the interaction.

### **Governance and interaction in phase 3: Main events**

Several important events occurred in phase 3, and the overall picture indicates a more cooperative relationship than in the previous phases. The phase started as the new cooperative contract between Esthetique and PB was signed. Other important events include the inclusion of Biotherm in the basic assortment, the following contract revision, and finally a new stand contract for Lancôme. However, conflicts also occurred in phase 3, as for instance related to Esthetique's decision not to distribute Movida as part of the chain's standard assortment.

The contract process with PB was time-consuming, but provided a good foundation for further cooperation both with regard to economic elements and the establishment of trust between Thor Hauge and Bernhard Claudel. During fall, Esthetique introduced Esthetique magazine as part of their branding strategy. The magazine, on sale in kiosks and given away free in Esthetique stores, also represented a new channel for joint marketing, in addition to other campaign activities and advertising.

During late phase 2 and early phase 3, Lancôme sales had increased in Esthetique, and when statistics were shared in early January -96, Lancôme was the second best selling brand in the S&S magazine store. This fact "proved" to the parties that the cooperation paid off, as the development was above average. Further, it increased the interdependency between the parties.

During the first 7 months of 1996, interaction on the managerial level related much to an ongoing contract negotiation process, as the issue of Biotherm came up (Events 26-31). The process can be divided into two, as two contracts were signed. The first contract negotiation between Esthetique and PB was a quick and straightforward one, involving few conflicts. It seems to be the case that the former contract process during the first half of -95 paid off in term of speed. The established trust and joint understanding between the parties made it possible to carry out the negotiations over a short period of time. In addition, the duration for the contract was set to two years instead of one. Based on the market development for Biotherm, Esthetique wanted to include the brand in their basic assortment, a suggestion

Norelor was happy to hear, but they wanted a slower process than Esthetique. The issue represented basically shared interests. However, Esthetique coupled the issue to the economic structure, and wanted something extra in order to take Biotherm in. This way, the coupled issues also intertwined integrative and distributive dimensions into the process, bringing the mixed motives into the forefront. The recent figures for Lancôme had clearly shown the potential for brands in the basic assortment, so the dominant orientation was the integrative one. However, it was also a process of contending related to the "money issue", and Esthetique had imposed dependence between the two. Introducing a new element solved the decisive situation: contract duration. The revised contract (signed in August -96) brought Biotherm into the basic assortment. The financial terms were improved for Esthetique through a compromise (half-way) solution. The basis for this was Norelor's successful tactic of bringing in the duration of the contract: the economic structure was blocked for two and a half years (through 1998). In this way, they managed to turn a process involving dual strategies into an integrative one, driven by a problem-solving tactic. Further, the duration of the contract removed (more or less) a potential conflict issue from the interaction for more than two years, and added stability to the future cooperation.

In late November Norelor was offered the best space for Lancôme in the S&S magazine store. Esthetique's decision was based on past interactions, their satisfaction with the revised PB contract, and Lancôme's development in the market (in part a result of earlier cooperation). By offering this space to Norelor, they signaled a further development of their cooperative relationship, and Norelor perceived it as in part being a "compensation" for their concessions made in the contract revision process. "Something for something; sometimes at another time". For Esthetique, it was important to reinforce the relational aspects of their business, such as trust, norms of reciprocity, preservation of the relation, and an expressed concern for Norelor's outcomes.

The above decisive orientations and actions were based on the developing governance mechanisms, both economic aspects and trust, in turn reinforcing the importance and use of these in subsequent events. It is reasonable to expect that the economic aspects are as important as trust in the relational development, at least at this point in time. Esthetique's margins on Norelor's selective brands had over the years increased, in addition to their abilities in terms of stock rotation. So the argument is that even when the process related to the establishment of the economic structure itself involves opposing interests and the use of contending strategies, the outcome (the new economic structure) has impacts often related to problem solving strategies. Thus over time, integrative outcomes might even occur *under conditions of one issue, two parties, contending strategies, and movement along the distributive dimension*. This is because the relative increase in margins on Norelor's selective brands becomes a driving force for additional sales of these brands, and thus favors Norelor's selective brands in competition with other suppliers' brands. The result is increased total margins for Esthetique and, most likely, increased revenues for Norelor. Because there is an incentive "premium" related to specific brands, an extra sales effort can be expected, and both parties gain from it (however, this argument will not hold true in a situation where the additional increase in margins for several or all suppliers is equal, as the relative increase will be zero, applying assumptions of *ceteris paribus*).

As in the earlier phases, conflicts also occurred. The most critical conflict was related to the Movidia issue, where several suppliers were introducing new products as Esthetique was preparing to possibly take in one new hair product as part of the standard assortment of



"broad" products. Norelor's Movida competed with several suppliers, and lost in competition with Poly Country Color. However, Movida was approved for sale in Esthetique as part of the voluntary assortment, so it is found in the chain's biggest stores. The process, going on over a couple of months, involved contentious tactics from Norelor (such as persuasive arguments) coupled with yielding (as they accepted several of Esthetique's demands) and concession making. Esthetique on the other hand contended by holding firm their position and strategy on "broad" products, asked for additional concessions, engaged in negotiations with several suppliers at the same time (establishing multiple possibilities for a respectable BATNA), and showed little concern for Norelor's outcomes. Even though Esthetique's contentious behavior led to a failure to reach agreement with Norelor with regard to distribution in the whole chain, Movida could be sold to individual stores, but this process is of course much costlier for Norelor. The situation reflected low concern for Norelor's outcomes, and high concern for their own outcomes, as they expected a different kind of competitive dynamic between suppliers as they chose to bring in a new one, in addition to the economic agreement reached. However, the approval of Movida for sale at least moderated the low concern position taken. As earlier, the interaction related to broadly distributed products, and DPP, was more distributive in nature.

In brief, interaction in phase 3 further developed the cooperative relationship through exploring and exploiting integrative potentials in joint decision episodes. The mixed motives involved in the cooperation also led to conflicts of interest that involved use of highly contentious interaction. However, these two dimensions of their evolving business relationship seem to relate to different market segments (broad and selective) and different organizational entities or different corporate contexts in Norelor (DPP and PB). This indicates multiple relations where multiple basic decisive orientations are applied.

### **Governance and interaction in phase 3: Secondary events**

A number of events of secondary nature occurred in phase 3. Mainly, interaction in secondary events involved shared interests and low levels of conflict. Examples are the cooperative meeting regarding joint activities on selective series held in late May -96 (parallel to discussions regarding Biotherm), the discussions on stand space needs in relation to the planned rebuilding of the Esthetique store in Glasmagasinet, and the frequent interaction in the Market Council during spring 1997, after Biotherm became part of the basic assortment. These interaction points were, taken together, an important aspect of the relationship building, and reinforced mechanisms and strategic orientations that enhanced the integrative focus of the cooperation.

Although some issues involving conflicts of interests occurred, their relative frequency decreased in phase 3. Some minor conflicts occurred in relation to the contractual framework with DPP, but these were basically a part of the typical interaction. Also, an older issue occurred again in the relationship. Esthetique had formerly tried to make Norelor pay for some sales racks in a magazine store in late -94 (see discussion of secondary events in phase 2), an issue Norelor had refused. However, almost four years later, a similar issue occurred as Esthetique were about to open a new store at Oslo Airport Gardermoen (see Appendix 4., Tracked incidents over time, 980814). This time Esthetique asked for a financial contribution based on Norelor's occupation of shelf space. Esthetique's initial attempts were turned down without discussion, but Esthetique was not letting the issue go, and sent another letter. The outcome of this situation was not settled as data collection ended, but the events clearly showed that the relationship still possessed conflict energy.

As in earlier phases of the cooperation, the establishment and shared understanding of common interests, personal relations, trust, and reinforcement of relational norms (harmonization, reciprocity, etc.) proved to be an important reservoir of goodwill as conflicts occurred, as in the Movida case. Although Sigurd A. Hauge expressed a feeling of being fooled, the impact on the relationship itself was limited.

### **Outcomes and evaluations**

Evaluation of outcomes took place on all levels of the cooperation. As the data for the store level were very limited, not much can be said about these evaluations. What is certain, however, is that individual stores in cooperation with Norelor to some extent make budgets for selective series, and that yearly bonus schemes are established based on actual sales. The economic aspects of evaluation are most important, as an economic compensation is given, depending on previous year's sales. This way, the cooperative efforts are measured in monetary terms in the evaluation.

Data showed that the economic aspects of the relationship were very important. This dimension was the primary one for all levels of cooperation, as expressed both by Market Council participants and representatives of the top management in both organizations. Although there are few formal evaluations undertaken jointly, some documentation was produced, as for instance memos related to joint campaigns in the Market Council, and the sharing of sales statistics between the management levels. In addition, sales development was frequently checked, in order to be able to follow up on developing trends in the market. In addition, regularly held meetings between the top management served as an arena for joint evaluation, although done in a more informal and oral way.

Also other dimensions proved to be important. Related to the symbolic dimension, their role fulfillment and image in the market were important aspects taken into consideration. This was clearly expressed on both sides of the dyad. For instance, the up-to-date and homogenous look of the chain was regarded as a positive element for Norelor in their evaluation. For Esthetique, Norelor's positioning of their selective brands was important.

Also more emotional dimensions were considered as important. Although not the primary one, the feeling of well-being and the perception of being in a confidence relationship were regarded as positive and even important, especially in situations involving conflicts. By drawing upon their mutual understanding and positive feelings, they could handle conflicts in a positive climate, adding a sense of security that reduced the perceived probability of doing harm to the cooperation. In this way, they were able to deal with issues in an open and straightforward way.

A final dimension that was expressed as important was the future expectations. Future expectations were an important dimension of evaluations in their own right. It is reasonable to suppose that the expectations for the future cooperation also influenced the evaluation of past events, as the past events are seen in relation to future possibilities in the cooperation. Evaluation of current state was not an entirely retrospective activity focusing on past outcomes, but also involved prospecting.

## SUMMARY AND CONCLUSIONS

The cooperative relationship between Esthetique and Norelor developed relatively slowly and incrementally from 1992 and through the first half of 1995. The foundation that was established through this period, in turn, was important for the increased cooperation during the second half of the nineties. In 1992, Modena, a small perfume chain with a mixed image who did not get to distribute the brands they wanted, acquired 9 additional stores, and overnight changed their potential, their power base versus the supplier side, and also their image to the better. During the following year, they engaged in contract negotiations with their suppliers in order to establish a more favorable contractual framework. During this time period, Norwegian legislation changed, and a special tax on cosmetics was removed. Actors in the business expected the market to polarize as a result, and Narvesen (who owned Modena) released plans to re-introduce Modena as Esthetique, a top image, homogenous, perfume chain specializing in selectively distributed brands. During the final preparations for the new chain introduction, Narvesen invited the most important suppliers to a closer working relationship. Norelor, an important supplier of selectively distributed brands, was responding positively to this invitation, and a phase of early collaboration started. Esthetique had introduced in the chain a selection of 6 brands, called the basic assortment, which at least 80% of the stores would carry. This way they made it attractive for suppliers to have their brands included, as they were given priority. Norelor had Lancôme in the basic assortment. As Esthetique managed to implement their strategic vision, interdependence increased, as Esthetique soon became an important chain in the selective market segment, and a more relational view of their joint business developed.

Although (bad) personal relations seriously impeded cooperative efforts during late 1993 and most of 1994, a good and trusting relation between the top managers preserved the relation. Turnover in Norelor corrected the personal conflicts, and resulted in increased cooperation. During this time Esthetique had become a major actor in the selective market, and had proved their potential and ability to implement their strategies for growth. From summer 1995 and for the coming three years, their cooperation grew closer, and sales development for both parties was above average and increasing. The cooperation had paid off.

Interaction in the first phase was limited in terms of cooperative efforts, and joint events typically involved economic issues with opposing interests. Based on the increased power and their strategic vision, Modena also acted to integrate common interests in the decisions made. However, the positions taken left no doubt about the fact that they were "in it for the money".

As Esthetique were introduced, a shift in focus was identified in a series of events. Emphasis was moving towards their shared business interests, but without forgetting that they were in business, and that the relationship also involved opposing interests. Opposing interests were particularly the case on broadly distributed products, as well as on "money" issues. Organizational issues rose in the second phase such as implementation of a new wage system and the introduction of the Market Council. Most important, Esthetique took increasingly control over the chain to reduce the influence of the supplier in the stores, and interference from a Norelor employee became a major conflict issue that impeded further cooperative development.

Over the phases, the contractual governance mechanisms changed. In addition to the economic mechanisms of governance, the early introduction of hierarchical elements had

proven effective, and further use of these were reinforced. Further, a more relational view of the relationship had developed, replacing a more transactional view. This view was enabled, sustained and reinforced as trust, personal relations, and relational norms became increasingly important as governance mechanisms. During early and late phase 2, and particularly in phase 3, both parties seemed to prefer the use of integratively oriented problem solving strategies whenever their shared interests allowed them to, but this did not seem to impede the use of contending strategies if opposing interests were involved. As the cooperation for a period had problems related to inappropriate interference in Esthetique from a Norelor employee, a shared understanding of appropriate conduct seemed to have developed. A consequence is that certain tactics used in a contending strategy are avoided, such as the use of threats and harassment. With regard to the hierarchical and authoritative elements, few decision rules were applied in order to restrain, enable, or (even) prescribe certain actions.

As the collaboration clearly involved frequent situations characterized by mixed motives, and the governance mechanisms enabled both distributive (e.g. the economic structure and product catalogues related to the DPP contract) and integrative orientations (e.g. trust, norms of reciprocity, and rules for joint campaigns), a range of negotiation strategies were found. To the degree that these proved effective for the parties over a series of events, they became reinforced, adjusted, and/or changed. During phase 3, contentious actions seemed to be increasingly associated with "broad" products, and the corporate context of Norelor DPP. In addition, the corporate context related to PB seemed to be increasingly oriented towards an integration of both parties' interests, where concerns for each other's outcomes were clearly expressed.

However, there also seemed to be slightly different processes over different levels. In the Market Council the question of joint campaigns, advertisements, and joint activities in stores to make the campaigns successful in the market seemed to be based on mutual interests where an integrative orientation dominates. However, when it comes to details, contentious actions are found, related to order sizes, packing sizes, special activities, special decor, the exposing of logos, and for some time exclusive introductions (before Esthetique stopped using this argument as they realized they had introduced an issue their competitors also could use).

Finally, a relevant aspect might be the general business and market development. Esthetique and Norelor had both experienced a growth during the time period the case describes, and in such a situation, it might be easier to search for and find mutual business interests. In a reversed situation, the use of contending strategies might have been more frequent.

**TABLE 13.: PROCESS AND CHARACTERISTICS IN DIFFERENT PHASES**

*PHASE 1: MODENA (PRE-ESTHETIQUE) PHASE 2: ESTHETIQUE INTRO AND EARLY YEARS PHASE 3: COOPERATION AND GROWTH*

**GENERAL DESCRIPTION:**

STRATEGIC POSITIONING OF CHAIN MIXED IMAGE ACQUISITION OF 9 STORES INTERACTION FREQUENCY LOW	INITIAL COOPERATIVE EFFORTS INTRODUCTION OF HOMOGENOUS CHAIN WITH PROFILED HIGH IMAGE (NEW STRATEGY) INTERACTION FREQUENCY MEDIUM TO HIGH	INCREASED COOPERATION AND INTERDEPENDENCE STRATEGIC IMPLEMENTATION SUCCEED INTERACTION FREQUENCY HIGH
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**CONTRACTUAL ASPECTS:**

HEAD OFFICE AND STORE CONTRACTS; CONTRACT SUPPLEMENT AND STAND CONTRACTS ADDED TO FRAMEWORK	< --- STABLE CONTRACTUAL FRAMEWORK --- > (SUPPLEMENT ADJUSTED / MC LEVEL / TRUST AND ECONOMIC STRUCTURE DEVELOPMENT)	
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*GOVERNANCE MECHANISMS:*

MAINLY ECONOMIC STRUCTURE	CHANGE IN ECONOMIC STRUCTURES	FURTHER CHANGE IN ECONOMIC STRUCTURES EARLY; THEN BLOCKED
SUPPLEMENT ADDED MORE HIERARCHICAL ELEMENTS (RULES FOR INTERACTION)	HIERARCHICAL ELEMENTS EXTENDED AND INTERMEDIATE DECISION LEVEL ADDED (MC)	HIERARCHICAL ELEMENTS STABLE; MARKET COUNCIL IMPORTANT ELEMENT;
INITIAL TRUST TOP LEVEL	DISTRUST DEVELOPED ON PB LEVEL - RESTORED IN LATE PHASE 2 DUE TO TURNOVER IN PB PERSONAL RELATION PRESERVE COLLABORATION	FURTHER REINFORCEMENT OF TRUST, NORMS, AND PERSONAL RELATIONS

**ISSUES:**

NEW CONTRACTUAL FRAMEWORK AND CHANGED GOVERNANCE MECHANISMS	WAGE SYSTEM, PRODUCT MEETINGS/MARKET COUNCIL, STAND SPACES, INAPPROPRIATE INTERFERENCE, SELECTIVE VS BROAD PRODUCTS EVOLUTION OF CONTRACTUAL FRAMEWORK	CHANGE IN BASIC ASSORTMENT, JOINT CAMPAIGNS AND ACTIVITIES, STAND SPACE, SELECTIVE VS BROAD PRODUCTS FUTURE COOPERATIVE DEVELOPMENT
PRODUCT MIX, TERMS	IMAGE/BRANDING, ECONOMIC CHANGE	IMAGE, RELATION, ECONOMIC STABILITY

**INTERACTION (NEGOTIATION) STRATEGIES:**

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CONTENDING STRATEGIES APPLIED (BASED ON SHIFT IN RELATIVE POWER)	CONTENDING STRATEGIES APPLIED (OFTEN MET WITH ACCOMMODATION FROM NORELOR)	USE OF CONTENDING STRATEGIES INCREASINGLY ASSOCIATED WITH ISSUES INVOLVING BROAD DISTRIBUTION AND DPP (MATCHED/ACCOMMODATED)
POWER ALSO USED TO MAKE CONTENDING TACTICS CREDIBLE IN ORDER TO SOLVE PROBLEMS (E.G. SUPPLEMENT REQUIRED)	INTEGRATIVE ORIENTATION ALSO REFLECTED IN COMPROMISE / PROBLEM SOLVING STRATEGIES	INTEGRATIVE POTENTIALS REALIZED AS PROBLEM SOLVING, COMPROMISE, AND RECIPROCAL CONCESSIONS (YIELDING) DOMINATES INTERACTION

**KEY DECISIONS:**

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RE-INTRODUCE MODENA AS ESTHETIQUE CONTRACT SUPPLEMENT INTRODUCED KK DISCOUNT CARD REJECTED	WAGE SYSTEM CHANGED, MC INTRODUCED, STAND AGREEMENTS, PB DIRECTOR NON-GRATA AND BYPASSED, SUPPLEMENT EXTENSION AND ADJUSTMENT, HAIR PRODUCT: NO, PB CONTRACT	CHANGED ECONOMIC STRUCTURES AND DURATIONS EXTENDED; ESTHETIQUE MAGAZINE (print); BIOTHERM INTO BASIC ASSORTMENT AND CONTRACT REVISION, STAND AGREEMENTS, MOVIDA INTRO: NO
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**OUTCOMES AND EVALUATIONS:**

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ASSESSMENTS IN STORES / HEAD OFFICE (DATA INSUFFICIENT ON FREQUENCY, FOCUS, AND FORM)	DATA INDICATE FREQUENT ASSESSMENT OF OUTCOMES ON TOP MANAGEMENT LEVEL SHORT/LONG TERM FOCUS, THE MARKET COUNCIL LEVEL (SHORT TERM FOCUS - MAINLY), IN STORES (SHORT TERM); SALES STATISTICS, MEMOS, AND ORAL ASSESSMENTS ----->	
ECONOMIC DIMENSION DOMINATING ACQUISITIONS: EXPECTATION IMPORTANT	ECONOMIC DIMENSION IMPORTANT - REALIZED GAINS AT "CURRENT" STATE - AND FUTURE EXPECTATIONS KEY DIMENSION IN ASSESSMENT OF OUTCOMES ----->	
	SYMBOLIC DIMENSIONS (ROLE DEVELOPMENT, IMAGE, ASSIGNMENT OF WORK TASKS) INCREASINGLY RELEVANT AS EVALUATIVE DIMENSION AS RELATIONSHIP DEVELOPS --->	
	EMOTIONAL ASPECTS CONSIDERED, BUT NOT CENTRAL DIMENSION (DATA AMBIGUOUS: NORELOR REPORT IMPORTANCE, ESTHETIQUE REPORT "NOT IMPORTANT" SUPPORTED PARTLY BY HANDLING OF NON-GRATA CONFLICT)	EMOTIONAL DIMENSION INFLUENCE (HARMONIZATION OF CONFLICT AND PRESERVATION OF RELATIONSHIP) EXPRESSIONS INDICATE THAT THE VIEWS WERE, IN PART, SHARED

## 9: CROSS CASE ANALYSIS

*The purpose of this chapter is to draw together the individual case analyses, and analyze the data across cases. The chapter is divided into four main sections. First I will analyze and discuss the most basic similarities and dissimilarities between the cases with regard to initial conditions, process aspects, and outcomes. Then I will provide a relatively detailed account of how use of governance mechanisms and negotiation strategies developed over time in the relationships. In the third section some common aspects of the different cases are analyzed, including the dependence between events, relationships between issues, the interdependence between levels in the relationships, and evaluation of outcomes. Finally, based on the insights from the three earlier sections, the fourth section seeks additional explanations for change in developmental processes by adopting a broader view of how long-term cooperative relationships develop and are managed over time.*

### INTRODUCTION

The analysis presented in this chapter will be based on the conceptual framework developed in the early chapters of this thesis, as well as on the presented cases and their respective within-case analyses. The cross-case analysis will be done in four steps. Each step will be presented in a separate section of this chapter. Taken together, these will lead up to a further development of the conceptual framework accounting for the empirical observations. However, this study's confrontation with relevant literature, the adjoining discussions, and a revision of the conceptual framework will be addressed in the next chapter.

Thus, the aim of this chapter is to answer the research questions asked with reference to the empirical data, and it will thus provide an empirical account of the phenomena under study. In turn, the next chapter will be more concerned with the explanations of the observed developmental processes presented here.

This chapter is organized as follows: First, I will attempt to provide a broad and general view the similarities and differences of the cases, and establish a framework for the more detailed analysis that follows. Moreover, this empirical framework will, together with the theoretical framework, provide the structure for the discussion in the next chapter. The cases are divided into *cooperative developmental projects* and *maintaining exchange relation* as two kinds of cooperation, which I will return to. Similarities and differences with regard to initial interaction and contractual conditions, the developmental process, as well as the basic outcomes will be identified. Interestingly, the two projects develop similarly up to a certain point, where they suddenly part. The cases that were continued were both buyer-supplier dyads. Then I will turn to analyze the use of governance mechanisms and negotiation strategies, and their development over time, in the different cases. The main interdependencies between governance mechanisms and negotiation strategies seem to be the combination of trust and problem solving, as well as trust and price coupled with problem solving. Another frequent interdependency is the combination of price and contending. Interestingly, several events involved combinations of various governance mechanisms and negotiation strategies. Further, the two kinds of cooperation suggested above represent distinct developmental paths. Third, some common aspects of the three cases are analyzed. The assumed dependence between events is analyzed and found strong. However, several key events might be

considered as moderately discrete events. The relationships between issues are discussed, and the data suggest that while most issues were interdependent, some were dependent, and some independent. As, again, some were exported, the complexity was high. Also the interdependence between levels will be discussed as a common aspect of the cases as all cases involved multiple levels of interaction. The data suggest that different levels in the cooperative relationships interacted under different contractual realities. The third section ends with an analysis of evaluation of outcomes. Although several outcome dimensions are considered, and symbolic and emotional values to some extent are assumed to be important particularly in the early stages of the relationships, the material value the relationships represent over time became the dominating evaluative dimension. Finally, in the last section a wider perspective is adopted in order to understand the evolution of governance mechanisms and negotiation strategies in context, as well as to throw light on how the evolving "states" in the relationships contributed to the developmental processes observed. Taken together, the four sections represent different accounts of the empirical data that compliment each other well, and in turn provide a solid foundation for the subsequent discussion.

### **"TO TAKE A BROAD AND GENERAL VIEW OF THINGS..."**

This section will provide a brief and general overview of some of the most obvious characteristics of the cases. The analysis will be related to the initial conditions and the basic aim of the cooperation in each case. Then I will discuss some basic and major developmental aspects of the cases, before the main outcomes of the cooperation are briefly addressed. The section provides an "empirical framework" for the subsequent analysis and for the discussion in the following chapter.

#### **Development and maintenance**

In Chapter 5, I argued that selection of cases should consider the nature of the cooperative relationship, and in particular it was suggested that whether the cooperation involved a substantial element of *development* or if the cooperation related to *maintenance* of a relationship should provide variability. Although these kinds of cooperation are not mutually exclusive, they were expected to represent different "realities". To some extent, the reasoning proved to be empirically valid. Below I will turn to discuss the most basic similarities and differences between the cases I have presented.

Two of the cases (SOL – Europay and NKL – Lilleborg) represent cooperative relationships organized as *joint developmental projects* while in the last case (Esthetique – Norelor) cooperation *evolved more incrementally from market/recurrent transactions* where the parties basically *maintained* their exchange relationship.

The two cooperative projects share several contractual and processual aspects, such as a joint project organization, steering committees, and development/testing of and production/operation with new technological solutions. Both projects are to a certain extent technical of nature. Further, their cooperative goals are clearly operationalized in terms of technological solutions for interaction. Thus, it was easier to identify when important milestones in the cooperation were passed.

The last case relates more closely to maintenance of a business relationship. Although the relationship represents some shared goals, these were not specified in more "technical terms"



as was the case with the projects. Thus, the cooperation between Esthetique and Norelor evolved towards a more general goal of profit maximization (a goal that is more difficult to identify, e.g. when does it occur?).

Interestingly, the "ultimate" outcomes of the cases differed. While one of the project based cooperative relationships was dissolved, the maintenance of the exchange case most clearly represented a continued and most prosperous relationship. In between these is the second project-based case. This relationship represents partly a continuance based on a re-positioning of their cooperation. While the (partly) *continued* relationships, NKL – Lilleborg and Esthetique – Norelor, represent *buyer-supplier relationships*, the dissolved relationship, SOL – Europay, was related to co-production of payment transfer services.

Figure 19. (see next page) identifies the main similarities and differences between the cases with regard to initial contractual conditions, processual aspects, and outcomes. I will discuss these in brief.

### **Initial interaction and contractual conditions**

Initially, it was assumed that the contractual form in terms of formal and/or informal agreements mattered for the developmental processes. The empirical findings to some extent support such a view, but more interestingly the findings provide a description of how formal and informal aspects substitute and complement each other over time. To some extent the initial conditions related to combinations of governance mechanisms in all cases, however the emphasis placed on each of the three mechanisms differed.

#### *Cooperative development projects*

Both projects were based on extensive informal, or psychological, contracts, supported by extensive use of hierarchical elements such as a steering committee, project and working groups, a set of shared routines and agreed-upon rules for interaction. While SOL and Europay had some formal written contracts as a basis for their cooperation, the cooperation between NKL and Lilleborg was initially based on informal agreements (no formal contract). Further, the project-based relations involved no direct incentive structure between the parties, except for budgets estimating costs. The parties built extensively on trust in order to manage the relationship.

#### *Maintaining business relations*

Contrary to the project-based relationships, the cooperation between Esthetique and Norelor aimed at maintaining the exchange relationship was more extensively based on formal written contracts. Several contract documents represented a formal contractual framework. Particularly, the incentive structures were addressed in the formal documents, as opposed to the project-based relations. In this context, building on recurrent contracting, the required levels of trust to manage interaction were relatively low, but the relationship involved moderate levels of trust. While the other cases made extensive use of hierarchical elements, these were initially to lesser degrees used in the more transaction-based case. However, the relationship also built on informal agreements, although to a much lesser extent than the other cases initially. In addition, the "maintenance relationship" involved some physical asset specificity, and the cooperation as such was characterized by more clearly defined mixed motives.

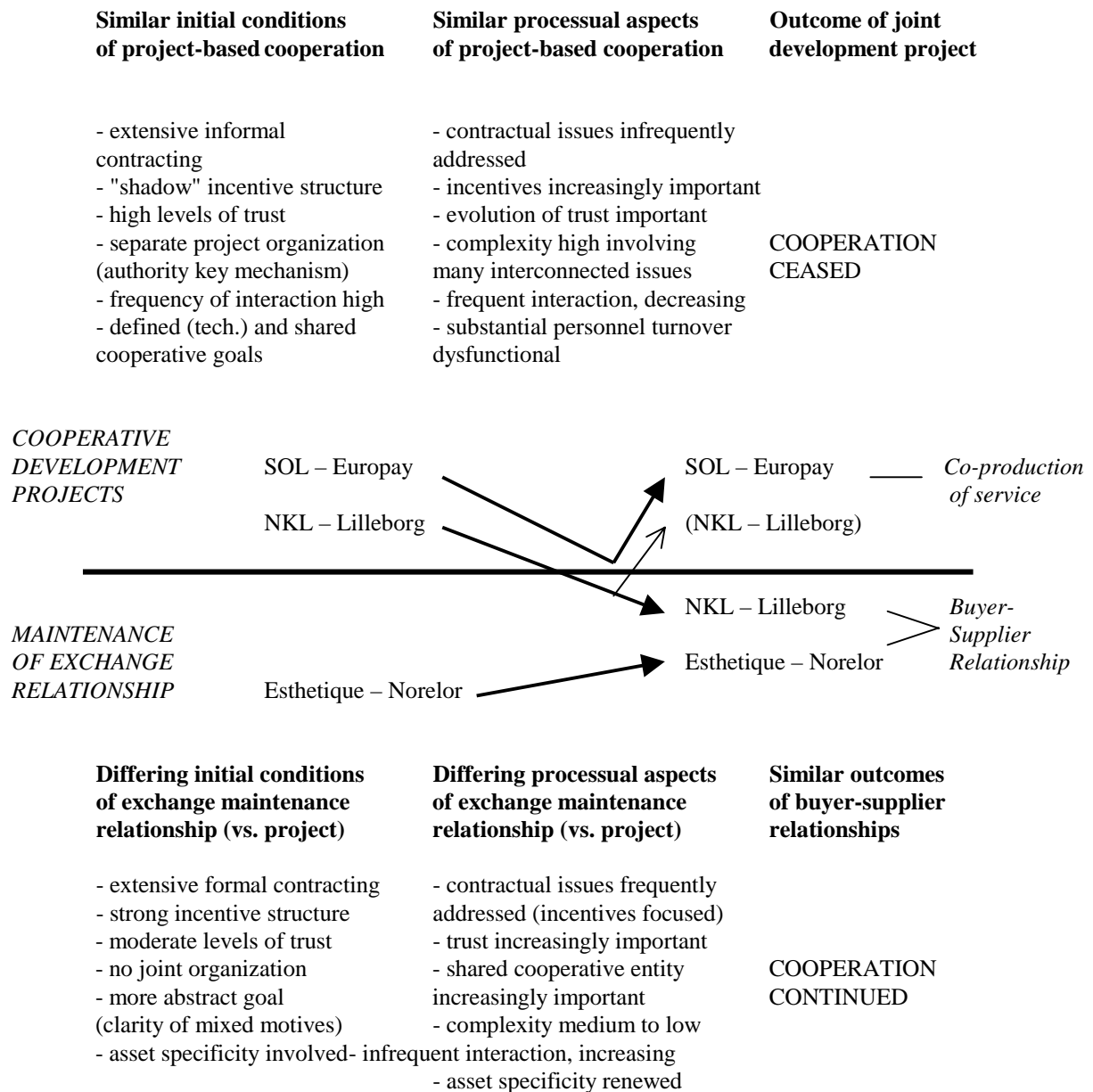


Figure 19.: Similarities and dissimilarities between the three cases

### Processual aspects

While initial conditions mainly differed between the development projects and the maintenance of exchange relationship, the developmental process also involved similarities.

#### *Cooperative development projects*

In the projects, contractual aspects were after initial interaction rarely brought up as an issue. Intentions in the SOL-Europay case to establish an additional agreement for the production phase was never realized as their common understanding was perceived as sufficient, and if contractual aspects were brought up, it was basically related to minor adjustments. To some extent hierarchical mechanisms of governance were addressed, particularly in the NKL-Lilleborg dyad, but to a much lesser degree in the other case.

The two projects represent more intense interaction both in terms of frequencies of events and progression. Relative to Esthetique – Norelor, the projects between SOL – Europay and NKL – Lilleborg involved more numerous and interconnected issues (as for instance reflected in the adjoining "breakthroughs" on technical issues in table 7., or the relatively frequent occurrence of cross-docking and related issues, and miscellaneous issues in table 10., relative to the issues in table 12.). In short, the projects can be referred to as relatively complex.

#### *Maintaining business relations*

The relative frequency of events related to contractual/structural issues is high in the Esthetique – Norelor case as compared to the other two cases. While the contractual issues are settled over a relative few sets of events early in the cooperation between SOL – Europay and NKL - Lilleborg, contractual issues occur more frequently and are dispersed over time in the last case. An interesting aspect is that most of the interaction related to contracts concern the incentive system (price mechanism). Further, the relationship also involves different contracts, as for instance separate stand agreements in addition to the contracts defining the incentives.

While the two projects might be described as complex, relatively speaking, the last case is more "straightforward". There is no technological development involved, and interaction frequency compared to the other projects is lower, except for the sales and purchasing activity that takes place based on the relatively market-based aspects of the contractual framework.

#### *Similar processual aspects*

Although the discussed differences were important, the three cases also shared some developmental aspects. Common to the cases was the evolving substitution of mechanisms. In the cases building substantially on informal agreements and understanding, and only to a limited extent on formal contracts, the documentation related to the cooperation over time added a growing body of written documentation to the informal agreements. However, these were not formalized as contracts. On the other hand, in the case that built on a more explicit and formal contractual framework, informal agreements evolved over time. In particular trust evolved and became increasingly important as the relative importance of informal understanding increased. Thus, the two contractual practices over time evolved *towards similar combinations of governance mechanisms*, although initial conditions and formal conditions differed.

Another similarity was that once the hierarchical and authoritative elements (mechanisms) had been established they were rarely brought up as an issue again or referred to specifically during interaction. Exceptions, particularly seen in the NKL – Lilleborg case, typically related to small adjustments of the existing mechanisms. This suggests that once the hierarchical and authoritative mechanisms were settled, they became taken for granted, and addressing the structural conditions *per se* was difficult.

More difficult to detect as "an issue" is the mechanism of trust. Trust is, in all cases, an important mechanism as the relationships evolve, but is more a structural condition or state, than an issue. However, distrust is. As suggested by Lewicki, McAllister and Bies (1998), trust and distrust are separate dimensions, which means that high/low levels of trust might co-exist with high/low levels of distrust. In one of the cases, the occurrence of distrust is exposed, and contrary to trust, distrust became an issue. However, as the problem was brought up the contending tactics of one party was fully accommodated by the other. The structural

conditions contained moderate levels of trust in other (top management) relations, so the issue was settled and the relationship continued. Anyway, distrust had a cost, as few new initiatives were taken in the relation until it became known that the distrust situation would be solved because of personnel turnover.

Furthermore, although early interactions basically were either competitive and contentious as in the exchange case, or cooperatively and problem-solving as in the projects, the behavior in all cases became more varied and rich over time as structural conditions, interests, concerns, and issues evolved over time.

### **Outcomes**

The project-based cases shared many of the initial conditions, as well as many of the processual characteristics. Although they also in part share the outcomes, this is where they part. Basically, the formal contracts in the SOL – Europay case did not mean much when SOL sold out, and certainly was not used in terms of legal action. Furthermore, the informal and the social aspects were no more useful with regard to continuance, as the decision was taken by other "players" in the corporate system. As losses developed in SOL and the revenues from the project seemed distant, the economic conditions dominated. This was also the case of the Lilleborg-NKL project, where automatic replenishment from Lilleborg to NKL was stopped (at least temporarily). However, the project relating to the flow between NKL and the stores continued with Lilleborg's participation. Thus, their test was partly a success. As the maintenance based cooperation between Esthetique and Norelor also represented continuation, these two cases represent similar outcomes although both initial conditions and processual aspects differed. However, like in the SOL-Europay case, this seems to relate to the economic realities and expectations. Both of the continued relationships involved realized gains and promising economic potential. Thus, common to all was the dominance of economic considerations.

An interesting aspect is that the cases that represent continued cooperation also represent the two buyer supplier relationships, while the dissolved relationship represents a joint production relationship. Thus, the two cases that represent vertical distribution channel relationships continue their cooperative interaction.

### **Some additional comments**

The three cases display different time frames, with cooperation lasting from 16 months (Scandinavia Online – Europay Norge) and up to 6 years (Esthetique – Norelor). However, in their particular business context (e-commerce), 16 months is considered a long time, although the initial intention was a more durable relationship.

Inspecting event frequencies might be speculative as the data for Esthetique-Norelor is probably incomplete for the early years. However, each case represents a sufficiently detailed account of a sufficient number of incidents (events) to study developmental processes. For reasons discussed in chapter 5, it is reasonable to believe that all primary events are included in the event histories, and that possible "holes" represent "minor details".

While the two projects involved low levels of physical asset specificity, the case of Esthetique and Norelor involved relation-specific assets as Norelor invested in stands and contributed wage support in order to secure stand attendance.

Finally, each individual case event history is divided into three phases, not because it was a point in itself to study or identify "stages" of cooperation, but because the characteristics of the developmental process to some degree shifted. Thus, it seemed reasonable to "break up" the temporal descriptions, as description, analysis, and comparison could benefit from it. Conveniently, all three cases seemed to evolve through three "natural" phases.

This general overview of the three cases' initial conditions, and the aspects related to the developmental process, as well as their outcomes in terms of dissolution or continuance represent a "rough" cross-case comparison. Below, I will provide a more detailed analysis of the evolution of governance mechanisms and negotiation strategies.

### **Summary**

The initial analysis identified some key differences found in the cases. Particularly, the two developmental projects seem to share a set of important characteristics with regard to initial conditions and developmental processes. However, the outcomes achieved are only partly shared. The more traditional exchange relationship differs from the projects both with regard to initial conditions and some key processual characteristics. However, one of the projects and the exchange relations share the basic outcome of continuance. Interestingly, both the continued cases were buyer-supplier relationships, while the dissolved case was not.

With regard to initial conditions and early interaction, the projects seemed to rely more extensively on trust and authority mechanisms, applying what I have referred to as a "shadow" incentive system. On the other hand, the exchange case was more governed through the use of traditional incentive structures. Following early interaction, the developmental processes between the "kinds of cases" differed. While the interaction in the projects was extensively based on trust and integrative approaches in joint decisive events, the exchange case was more based on incentive structures and distributive approaches. However, over time the observed performance measures (reflecting the price mechanism) in the projects became increasingly important, while trust became increasingly important in the exchange relation. These structural changes seemed to be interdependent on behavioral change, as interaction in the projects moved towards a distributive mode, while the exchange case evolved towards a more integrative orientation. Thus, over time the combinations of governance mechanisms to some extent converged between the cases and the behavioral range increased in all cases and reflected well the tension created by the existence of mixed motives in interfirm relationships.

### **GOVERNANCE MECHANISMS AND NEGOTIATION STRATEGIES: DEVELOPMENT AND CHANGE OVER TIME**

In this section of the chapter, I will present a more detailed analysis of the relationship between governance mechanisms and negotiation strategies, and how they become reinforced and changed, in sequences of events over time in the three cases. Thus, underlying the analysis are the theoretical ideas of the *duality of structure* and the *recursiveness of social practice*.

As discussed earlier in the thesis, the cooperative agreements (contracts) represent a combination of governance mechanisms that might be viewed as a vector (Haugland and Reve 1994) that changes over time. However, little empirical evidence is presented that shows how and explains why the combination of governance vectors changes over time. I have chosen to

study their relationship to organizational agents' actions in order to answer these questions, as they are *interdependent* on interaction in events.

The figure below intends to show a sequence of events over time, illustrated by the small boxes, in which interaction takes place (thus reflecting the conceptual model developed in Chapter 4). The empirical data show how interaction related to the established (and evolving) governance mechanisms, and how the interaction involved agents' use of strategies in order to arrive at joint decisions. Over time learning took place, the parties became experienced with regard to how to handle the relationship and social practices evolved. These practices were also exposed to other sources of influence. For instance, expectations related to future interaction and outcomes affected the way the parties behaved in decisive episodes. *In particular*, expectations related to increased future revenues and increased competitive advantage as "ultimate" outcomes from the cooperation reinforced relational norms and trust, which in turn co-evolved with problem-solving tactics. Conversely, when future expectations for the cooperation were unclear and did not fit with the strategic direction, trust and relational norms were affected negatively. This change co-evolved with inaction and contentious interaction.

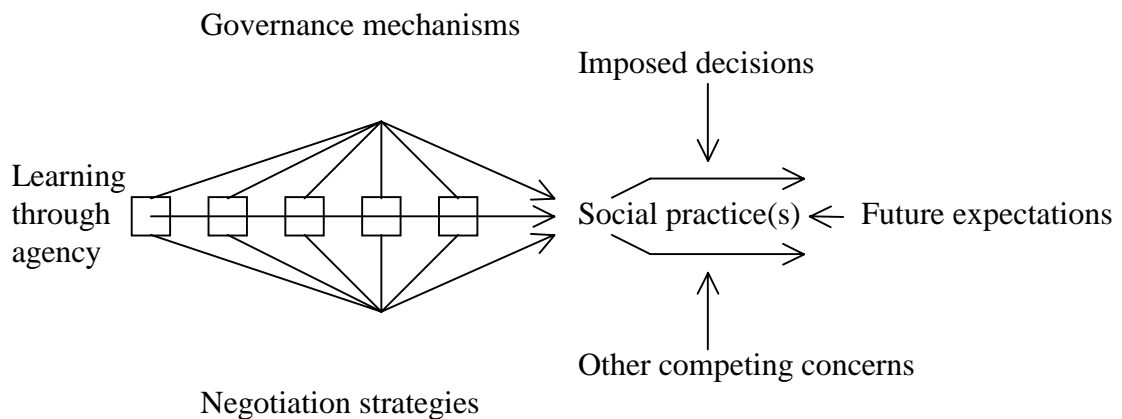


Figure 20.: The development and evolution of relationship practice

Further, the data shows that interaction processes were influenced by imposed decisions, either from higher organizational levels or from other organizational entities located laterally or in other parts of a corporate structure. Such decisions might be related to structural conditions, contractual aspects, as well as to directives and plans for implementation. When these decisions represented other concerns than those that dominated interaction, imposed decisions disturbed the practices that had developed.

Finally, empirical observations suggest that if assigned personnel responsible for the operational activities in the cooperation also are assigned to other tasks or are exposed otherwise to other and potentially conflicting concerns, established practices might be influenced or disturbed. The data suggests that when priority conflicts occurred between cooperative (long-term) and unrelated (short-term) tasks, social practices were influenced. In addition, as assigned personnel were exposed to different incentives from the cooperation and other tasks, and where measurement misrepresented their actual areas of responsibility, the social practice was affected. In turn, the evolving social practice served to reinforce and change both structural conditions and decisive orientations.

### Dominant mechanisms and strategies: interdependency and change over time

Based on the conceptual framework and the case event histories, scatterplots over time were produced in order to conduct the analysis of development and change over time. The scatterplots show how the dominant governance mechanisms and the dominant negotiation strategies evolved over time in each case.

Each scatterplot is a three by five matrix, creating a fifteen-cell quadrant. Along the vertical axis the three kinds of governance mechanisms (price, authority, trust) are placed. Along the horizontal axis the five different negotiation strategies (yielding, compromise, problem solving, inaction, contending) are placed. Thus, the fifteen cells represent the 15 different possible combinations of governance mechanisms and negotiation strategies (assuming that emphasis is placed on the *dominant* mechanism or strategy).

Based on the case event histories presented, each primary event was analyzed to identify the dominating governance mechanism and negotiation strategy and then assigned to the relevant cell in the matrix. The same was done for secondary events, and the dominant combinations were entered into the relevant cells. In some events more than one governance mechanism, or more than one negotiation strategy, were equally important. In these cases, the event was entered into the relevant cells. Each event was entered into the matrix as a number. The number refers to the event number in the different event histories. Three scatterplots were produced, one for each of the three phases. The scatterplots are displayed in the Appendix.

A summary table of the scatterplots is presented below. Table 14. shows the dominating combinations of governance mechanisms and negotiation strategies for each case over the three phases.

Table 14.: Mechanisms and strategies: Main developmental path for each case

	YIELDING	COMPROMISE	PROBLEM SOLVING	INACTION	CONTENDING
<i>P</i> <i>H</i> Price <i>A 1</i> Authority <i>S</i> Trust <i>E</i>			NKL EST SOL NKL EST SOL NKL	NKL	SOL EST EST
<i>P</i> <i>H</i> Price <i>A 2</i> Authority <i>S</i> Trust <i>E</i>			NKL EST NKL SOL NKL EST	(NKL) (NKL) (NKL)	SOL NKL EST
<i>P</i> <i>H</i> Price <i>A 3</i> Authority <i>S</i> Trust <i>E</i>	EST (EST)		NKL EST (NKL) NKL EST	SOL NKL SOL	SOL NKL EST

While the events plotted in the scatterplots in the Appendix are more dispersed, Table 14 represents the *main clusters of events*. Although the dispersion of events over the three phases developed differently in the three cases, some common trends are found when the main developmental paths are displayed.

The following analysis is based on the scatterplots shown in the Appendix (as also the summary Table 14 is). As discussed previously, the duality of structure imposes a view that governance aspects and negotiation strategies are interdependent, and that social practice develops as mechanisms and strategies change and evolve over time. Thus, the following discussion will reflect this view. If a predominantly structural view had been chosen, the discussion most likely would have focused on governance mechanisms and analyzed the use of negotiation strategies observed as a consequence. On the other hand, if a predominantly behavioral perspective had been chosen, the discussion would have focused on negotiation strategies, and analyzed the consequence for structural conditions. However, the perspective chosen attempts to integrate these views.

#### *Main interdependencies*

To some extent, negotiation strategies represented the most easily observed variability in the study as compared to governance mechanisms. Thus, in order to present the main trends, the discussion will to some extent emerge from negotiation strategies, but care will be taken to reflect the duality of structure.

An inspection of the table reveals that the dominant strategic orientation in events in terms of frequency is problem solving. This strategy is particularly interdependent on trust. Interestingly, problem-solving strategies are also frequently related to price as the dominant mechanism of governance. To some extent problem solving is also related to the authority mechanism, but not as frequently as to trust and price.

Following problem solving in terms of frequencies is contentious behavior. Contending as the dominant negotiation strategy was particularly interdependent on the mechanism of price. Compared with problem solving, domination of contending strategies was not equally interdependent on all mechanism of governance. The particular relationship between price and contending seems to relate strongly to the distribution of gains in the relationships. Thus, if price is not used in combination with (dominant) trust, interaction is likely to be contentious. However, in combination with trust, interaction seems to increase the potential joint gains and ease integrative interaction.

Many events involved strong references to *combinations* of governance mechanisms, typically involving problem-solving strategies. When trust was the only active governance mechanism in events, it was (almost) exclusively related to problem solving behavior. Similarly, when price was the only relevant mechanism in an event, it was almost exclusively related to contending behavior, but also - though rarely - to compromise and/or yielding tactics. This suggests that when price is the only relevant mechanism, interaction tends to relate to the distributive dimension. However, as many of these events related to contracts and incentive structures, the outcomes of these events represented a structural change that future integrative interaction could be based on. Thus, conflicts related to the distribution of gains were settled, and the cooperation could continue. This suggests that interaction is moving back and forth



between distributive and integrative "modes" of behavior, reflecting the mixed-motive situation IOR's often represent.

When yielding was observed, it was most typically interdependent on the mechanisms of price and trust, relatively often in combination. Further, yielding was rarely observed as the sole dominator in an event, but most often was equally dominant in combination with other strategies. This suggests that yielding typically related to a combination of strategies, and to combined use of governance mechanisms. Yielding was most often interdependent on problem solving or contending strategies. This suggests that when it was observed with contending strategies, there is power involved and that the more powerful party exploits their power to reach a particular settlement. When in combination with problem solving, trust is also typically a dominant mechanism. This suggests that yielding is possible because the norms of harmonization of conflict and preservation of the relationship, as well as a norm of reciprocity, over time are likely to secure some kind of compensation (implicit problem solving over time).

#### *Development through phases*

The main interdependencies and combinations identified above were frequently observed in all phases for all cases. However, the data suggests that while the first phase involved relatively uniform practices in the cases, events in the second and third phase involved a wider range of combinations of governance mechanisms and negotiation strategies. In particular, yielding and inaction as strategic orientations were more frequently observed, and inaction was to some extent followed by a change towards distributively oriented interaction. Also, the mechanism of authority was less frequently observed in the second and third phases.

While price and trust are frequently dominant mechanisms during all three phases, typically interdependent on problem-solving tactics, the authority mechanism is most frequently dominant in phase 1, decreasing through phase 2, and relatively seldom observed in phase 3. This suggests that the mechanism of authority is most important in the early phases of cooperation. Another characteristic is that the mechanism often relates to structural and contractual issues. This suggests that when an appropriate organization for interaction in the cooperation is established and adjusted due to learning and experience, these aspects settle and become "taken for granted" as a backdrop for interaction (as related to "organizational structure" for interaction such as project structure, standard operating procedures and routines, decision rules, formal interpersonal and intergroup relations, and such).

Yielding was rarely observed in the early part of the cooperation. This might be due to the need for trust and norms to evolve to sufficiently high levels, or the need for participating agents to become sufficiently acquainted with the operational complexities. Through learning over an initial sequence of events, the parties may learn to manage the relationship and potential "candidate issues" for yielding might emerge. Further, avoidance of yielding in the early cooperation might be a signal of "not giving in" and drive the process towards integrative settlements. However, as the cooperation moves into relatively stable periods of interaction, and uncertainty is decreasing, the parties "loosen up" and extend their behavioral range.

While inaction was rarely observed in the first phase, the second and third phases involved use of inaction as an option, and were equally interdependent on all mechanisms of

governance. Further, inaction was observed in the *project-based cases only*. Another interesting aspect related to the use of inaction as a (temporary) strategic option is that when it occurred in late phases of the cooperative relationships, it was often adopted during periods of strategic uncertainty and change. In addition, inaction often preceded use of contending strategies in key events - as some kind of "calm before the storm" history - or used as a tactic to avoid problematic areas in the cooperation or to prepare before unpleasant and/or difficult decisions by signaling uncertainty and possibly changing priorities.

*Infrequent observations and secondary events*

Contending was infrequently interdependent on the authority mechanism. Finally, contending was rarely interdependent on the mechanism of trust, and when it was, the event related equally to all three mechanisms of governance.

Inaction as a strategic option in joint decisive events was seldom observed. However, when it was observed it was during stages of (significant) transition. Observation of inaction might sound as self-contradiction, but is not entirely, as it was typically related to simultaneous use of problem solving strategies. Inaction was typically observed when several issues were brought up, and where most issues reached a decisive outcome, but on particular issues no action was taken. While inaction to some extent related to secondary issues and events, it also meant that some key issues were left unsettled, as the parties chose not to address relevant issues in the cooperation (e.g. joint marketing efforts or the "supervision rights" of working group leaders), and to some extent withdrew from interaction.

Inaction might be related to the contractual "erosion". For instance, as the specific SET contract was fulfilled in the e-commerce case, only the vague and general cooperative contract was still in effect. In addition, turnover of key personnel represented additional contractual erosion in both project-based cases, as many of the intentions resided with the project employees.

Compromising strategies were observed, and were "most typically" interdependent on the mechanism of price (quotation marks used as few events reflected this strategy). Interestingly, compromise strategies were in primary events *exclusively* observed in the perfume case, which aimed at *maintaining the exchange relation*. Further, compromise behavior was often observed in combination with other strategies (in the same events), indicating shifting tactics in order to reach some kind of settlement. However, some caution should be observed here: some events that are classified as involving shifts between, or co-occurrence of, yielding and contending strategies - and some that are classified as problem solving - might actually have been classified as compromises if the data had represented events in greater detail (or the other way around: events for instance classified as compromise might have been problem solving). As discussed earlier in this dissertation, compromise is an "in-between-all" strategic option, and this might explain the relatively few counts of this strategy.

The events displayed over the phases suggest that interaction in *secondary events* might deviate from the combinations found in primary events. Interaction in secondary events in the project-based relationships during phase one and two related to inaction and compromise strategies with no clear interdependency on particular mechanisms of governance. This added to an increased frequency of inaction in primary events in the grocery case. In late phase 2 and phase 3, inaction was a key characteristic of the developmental process in the project-based

relationships. Other particular trends between secondary and primary events are not found. Thus, interaction in secondary events is important, as it seems to add to the evolution of social practices. In particular, interaction in secondary events that *deviate* from the (established) social practices might legitimate or *make use of similar conduct easier in following primary events* as this "deviating action" becomes a part of the parties' shared experience, and thus does not represent "something new".

#### *Some simple cross-checks*

Based on the scatterplots, some additional tables (not included in the thesis) were produced during analysis. These plots related to the *dispersion of events*, *secondary events*, as well as to *non-entries*. The dispersion of events was plotted over the three phases for each case and for all cases. The dispersion of events over the three phases indicates that cooperative relationships in early phases are based on relatively uniform patterns of interaction through a sequence of events. As the cooperation becomes more stable, these patterns of behavior are continued, but also become more varied.

A plot of all events from all cases over all phases completely filled the matrix. This showed that all of the combinations of governance mechanisms and negotiation strategies the matrix represents were observed, and that no particular combination can be excluded from the "index of possibilities". However, no common patterns that could add to the analysis were observed in and between the cases.

Plots of secondary events were done for each case over the three phases, as well as plots for all cases. None of these plots revealed additional insights. However, it was observed that while the number of secondary events decreased in the two project-based relationships as they drew closer to dissolution or redefinition, the frequency of secondary events in the perfume case increased over time (as the cooperation grew).

Further, non-entries (cells with no entries) were plotted for each case over the three phases, as well as for all cases. These plots did not lead to additional insights. This should come as no surprise, as they basically are implicit in the tables presented. However, making explicit plots served as a check for the analysis done.

#### **Establishment of contracts and initial conditions**

Interaction related to the establishment of the governance mechanisms themselves was important, as initial and early interaction to some extent "anchors" behavior. Thus, I will analyze the initial *structural and contractual negotiations* that took place in the cases.

As the governance mechanisms became established, the incentive structures and authoritative mechanisms were the "issues" that were brought up in joint decisive events. As they could not impose trust by resolution, trust and norms were structural conditions that evolved through interaction in the relationship. However, at least moderate levels of trust were found in all cases *prior* to the studied temporal sequences.

The establishment of the incentive structures seems to invoke different strategies depending on whether the focus was on costs or revenues. All cases seemed to reflect tactics related to *problem solving strategies when the focus was on costs*, which was typical for the *projects*. Both projects involved "shadow incentive structures". Either the parties' role defined separate

streams of revenues, or costs and revenues were handled jointly, and the actual split of gains was not settled in detail. These solutions reflected problem-solving strategies.

When the focus was on *revenues*, typical of the *exchange* relationship, the *tactics also reflected contending strategies*. As the incentive structure related to the distribution of gains, the parties in the exchange case displayed higher degrees of opposing interests. When the distribution of gains was dealt with substantially and in a detailed manner, the case data suggests that while problem solving tactics were used to break up the incentive structure into several issues that made logrolling possible, contending (and compromise) tactics were also involved when it came to setting the values for the individual issues. Thus, the mixed motives move the interaction between the integrative and distributive dimensions as suggested by the interdependence model (Putnam 1990).

The process related to the establishment of the hierarchical authority mechanisms was different, as interaction particularly involved tactics related to problem solving strategies. The establishment of the hierarchical mechanism related strongly to the organization of the cooperation, particularly to *enhance and smoothen* the interaction, and to secure an equal presence "at the table". Additionally, the mechanism related to rules and regulations for interaction in order to *reduce the level of conflict*, and thus directly influenced the range of possible in-use tactics in joint decisive events. This seems to be *a common concern in all cases*, and interaction was characterized by high concerns for both parties' interests (avoiding unnecessary conflict). Particularly, decisive rules such as consensus rules (either by expressed or implicit consent) seemed to entail the use of compromise and problem solving tactics, and restrain the use of tactics related to contending strategies. Also, yielding was observed, basically to avoid conflicts.

Thus, interaction related to the establishment of the governance mechanisms seemed to relate mainly to problem solving and contending strategies. An important outcome of the combined use of problem solving and contending tactics seems to be an incentive structure that became desirable for both parties to transact under. Thus, the interaction in these events reinforced these structural mechanisms in the relationship.

### **Main developmental trends**

Earlier in this chapter, Figure 19 illustrated similarities and dissimilarities with regard to initial conditions, processual aspects, as well as outcomes between the cases in the study. Complimentary to Figure 19, Table 14 tracked the developmental path through the three phases for each case emphasizing governance mechanisms and negotiation strategies. Taken together, they give a more comprehensive picture of the developmental processes.

#### *Recurring structural and contractual negotiations*

Although the most important structural and contractual negotiations (at least in terms of impact on the evolving process) took place early in the relationships, such negotiations were recurring in all cases. However, there were differences between the projects and the exchange relationship.

Seen from a "formal" point of view, the structural and contractual negotiations were basically "finished" during the initial interaction in the *projects*, and subsequent negotiations basically related to tactical and operational issues for the most part. In terms of evolution of governance

mechanisms, the structural and contractual issues were often discussed in relations to other issues, and not "separated" thematically and/or sequentially. However, as these aspects were discussed as the relationships developed, some structural and contractual issues were recurring. Further, the decisions often led to adjustments of existing mechanisms (as for instance the working group structures). Thus, in the projects structural and contractual conditions were mainly established early.

In the *exchange* based relationship, important structural and contractual interaction took place early as well, but structural and contractual issues were also on a regular basis brought up for negotiations and revisions. Thus, in the exchange case the evolution of the governance mechanisms was a more "explicit issue" dealt with separately. Thus, after contractual negotiations had been completed the parties would engage in exchange and transactions and interact on the basis of the (formal) contract for a while, before they again would address these issues. Thus, the negotiations moved back and forth between strategic (structural and contractual), tactical and operational negotiations.

#### *Tactical and operational negotiations*

Common to the cases is that most of the events that occurred related to the implementation of collaborative decisions and progression of the relationship. As many of these events involved issues related to the fulfillment of their common goals, and as the established hierarchical mechanisms (e.g. decision rules and procedures) and developing norms to some extent bonded distributive elements, interaction was driven towards integrative strategies. Thus, much of the interaction was based on problem solving. In all cases this was enhanced by moderate to high levels of institutional and relational (interpersonal) trust, which in turn became reinforced.

Another common trait is that as particular strategies and tactics are used, they relate to the structural framework for interaction and serve to reinforce, legitimate, confirm the relevance, or change the same structure. This interdependence reflects the duality of structure (Giddens 1984). For instance, when the existence of trust between the parties makes it easier to adopt problem-solving tactics such as information sharing, this adaptation at the same time confirms and reinforces this mechanism as appropriate and relevant. Another example can be the avoidance of certain contending tactics in order to secure ownership to the decisions made, because of a consensus rule. As such restrained action is conducted, it confirms and reinforces that particular mechanism. And finally, when campaign choices and order sizes are discussed, mixed motives legitimize the use of contending tactics, which in turn reinforces the economic structures they are enabled by. Thus, social practices develop and evolve.

#### *Developmental trends in the projects*

The two projects developed along the same lines. As the parties engaged in joint decisive episodes on the tactical and operational level, the initial trust made it easier to adopt problem-solving orientations as trust enhanced open communication and exchange of information. Also solidarity, reciprocity norms, and appropriate authority mechanisms (organization of interaction through project teams, decision rules and so forth) added to this. Consequently, it became easier to logroll on issues, make use of unspecified compensation and accept costs based on an expectation of reciprocity, couple and break up issues, and solve underlying concerns. As the incentive structure was a "secondary concern" in the projects, the nature of the issues themselves to some extent made problem solving strategies appropriate (as some traditional opposing interests had been "removed").

Thus, conflict of interests and adjoining contending strategies were avoided through phase 1, and during most of phase 2. However, during late phase 2, disappointing economic measures affected the strategic direction of the two projects. In the grocery case, turnover added to a situation with increased adaptation of inaction and increased concerns for own outcomes (at the expense of concern for the other's outcomes) on some key issues.

In phase 3 the e-commerce case moved away from a mainly trust-based problem solving practice as the parties more or less withdrew from interaction. In the grocery case, interaction related to one part of the replenishment test (Lilleborg to NKL) went through a similar developmental process. To some extent, these processes were fuelled partly by unfavorable outcome measures and failure to identify cost savings, and ended with opposing interests, conflict, and contentious actions based on economic reasoning ("additional-costs/scarcere-resources/relative-potential-gains-losses").

The developmental processes that led up to SOL's decision to dissolve the relationship, and the decision to split the replenishment test and to stop the pilot from Lilleborg to NKL, were similar.

#### *Developmental trends in the exchange relationship*

In the exchange case the interaction more frequently concerned issues related to the economic aspects of the relationship, and more frequently involved contending tactics. Particularly in the early stages, the relationship seemed less cooperative.

The developmental processes in the perfume case followed a different path compared to the projects. It started fundamentally different as interaction was for the most part related to the incentive structures and typically involved the use of contending tactics. As suppliers had traditionally dominated the business, the increased power of the chain led them to adopt tougher tactics and challenge the position of the suppliers. However, some integrative bargaining was observed, as for instance related to rules and organization of interaction. Most of the interaction in phase 1 related to contractual issues, and to positioning of the new chain to *prepare for increased collaboration with selected suppliers*.

Interaction in phase 2 turned towards a more cooperatively oriented interaction, as the adjusted incentive structures and the developing trust in the relationship made problem-solving tactics easier to adopt. The incentive structures represented structures with potential for increased revenues for both parties, and evolving trust made it easier to exploit this potential. However, interaction in phase 2 also clearly reflected the mixed motives in cooperative relationships as compared to the other two cases. For instance, the interaction related to the corporate context of Norelor DPP (broad products), was typically characterized by opposing interests. Due to personal conflicts, the relationship with PB (selective products) was to a limited extent cooperative. However, through this period they managed to preserve the relationship to increase cooperation in the future.

During phase 3 the interaction in general became increasingly problem solving based on the evolving incentive structures and trust (restored through personnel turnover). Their economic outcomes developed positively, as did shared understanding of the future potential. The relationship with DPP, though, developed differently. Broad products (in general) accounted

for increasingly less of Esthetique's products, and DPP acted in a market characterized by fierce competition. Thus, interaction between Esthetique and Norelor's two divisions (PB and DPP) developed along different paths, reflecting the mixed motives of the relationship.

*Change: Slow, incremental, and sudden*

The data show that processes evolve slowly and incrementally, but sometimes in steps as new contracts are signed and have a specified duration (as found in the exchange relationship), and sometimes sudden changes occur. In all cases *strategic change developed* over time, and had impact on interaction both through governance mechanisms and negotiation strategies.

Strategic change is powerful because many things change with it. The data suggests that strategic change developed over time in all relationships, and was influenced by both internal and external circumstances. Internal aspects include how the parties' interests on several issues converged and diverged over time as they were temporarily settled, matured, were solved, faded and replaced by new ones. Other internal aspects were experience and available measures that influenced the perceived future potential, delayed or postponed implementation of former decisions due to unavailable resources, an issue's relations to other issues which complicated progression, and turnover, which was important for the levels of trust, harmonization of conflict and intentions to preserve the relation. Further, imposed decisions and unrelated concerns of employees could represent sources of conflict. External factors were related to trade trends, legislation, and dependencies on a wider network.

*Table 15: Observed dominant governance mechanisms (GM) and negotiation strategies (NS) in different phases for each case*

	COOPERATIVE DEVELOPMENTAL PROJECTS		MAINTENANCE OF EXCHANGE RELATION
	SOL-EUROPAY	NKL-LILLEBORG	ESTHETIQUE-NORELOR
<i>PHASE 1</i>	GM: <b>Trust</b> authority NS: <b>Problem solving</b> (contending)	<b>Trust</b> authority (price) <b>Problem solving</b> (inaction)	<b>Price</b> (authority) <b>Contending</b> (problem solving)
<i>PHASE 2</i>	GM: <b>Trust, Price</b> NS: <b>Problem solving, Contending</b>	<b>Trust, Price</b> (authority) <b>Problem solving</b> (contending, inaction)	<b>Price, Trust</b> <b>Problem solving, Contending</b>
<i>PHASE 3</i>	GM: <b>Price</b> (trust) NS: <b>Contending</b> (problem solving, inaction)	<b>Price</b> trust <b>Contending, Problem solving</b> (inaction)	<b>Price, Trust</b> <b>Problem solving Contending</b> (yielding)

Table 15 above is basically a reorganization of the main trends in the scatterplots, and *summarizes* the development of the main dominant governance mechanisms and negotiation strategies for each case over the three phases.

What becomes particularly visible in this table is the (slow) evolution of the dominant governance mechanisms and negotiation strategies. However, from the empirical data and the former discussions it is clear that to some extent the governance mechanisms were related to *hierarchical mechanisms* and the *incentive structure* changed in *steps*, while *trust* evolved more *continuously*. Further, it has been discussed how social practices developed over time and served to enable use of certain tactics and restrain others. Although deviations are documented, interaction created relatively stable patterns over time. However, as some issues reached certain states, or accumulated conflict energy over time, managerial actions could represent *sudden* changes.

### Summary

The most frequently observed combination of governance mechanism and negotiation strategy is the combination of trust and problem solving. The combination of price and contending is also frequently observed. However, price is also found relatively frequently in combination with problem solving. Interestingly, events often involved the combination of governance mechanisms and negotiation strategies. While the cooperative development projects evolved from basically trust-based problem-solving in phase one (through a more mixed second phase) towards a more incentive-based contending and problem-solving, the exchange relationship moved from an incentive-based contentious interaction towards a combined incentive- and trust-based collaboration mainly involving problem-solving, but with a "contentious edge" to it.

Some observations of negotiation strategies are interesting. For instance, yielding was always found to be interdependent on *combinations* of governance mechanisms (particularly combinations involving trust), as well as the simultaneous or combined use of alternative negotiation strategies (particularly problem solving). Also inaction was interdependent on combinations of governance mechanisms and involved alternative strategies. In addition, inaction as a strategic option seemed to occur in the projects *only*. On the other hand, compromise as the dominant strategy was *only* found in the exchange case.

Over the phases, all cases seemed to develop similarly. Interactions during phase 1 were relatively *uniform* (although differing between the projects that were "integrative", and the exchange case that was "distributive"). During phase 2 interaction became more *varied* and reflected the mixed motives involved better, while during phase 3 interaction became to some extent more *focused* as strategic continuance or change took place. While structural and contractual negotiations were carried out (and completed) relatively early in the projects, structural and contractual issues were recurring in the exchange relationship.

Common to the cases was that initial structural and contractual negotiations served to "anchor" subsequent interaction. Further, all cases to some extent drew on authority mechanisms in order to reduce levels and sources of conflicts, establishing procedural justice, and directing interaction towards integrative efforts. Additionally, as these mechanisms settled, they were rarely brought up again. Further, trust evolved in all cases and contributed positively to the development and the achieved outcomes. However, although the economic mechanisms differed in importance initially between the projects and the exchange case, the mechanisms over time became relatively dominating in all cases.



## **GENERAL DEVELOPMENTAL ASPECTS: EVENTS, ISSUES, LEVELS, AND OUTCOME ASSESSMENTS**

As addressed in the previous section, the conceptual framework assumed interdependency between governance mechanisms and negotiation strategies in joint decisive events. In addition, the framework assumed *interdependency between issues*, and *dependence between events*. In addition, the empirical data revealed a theme insufficiently addressed in the conceptual framework: interdependency between levels. Finally, this section will address the evaluation of outcomes. These issues are analyzed in a separate section, as they represent aspects that were common to the cases.

### **Dependence between events**

#### **(Development and recursiveness of social practice)**

Dependence between events is due to the dimension of time, and is a key aspect of this study. The *event clusters* revealed in the scatterplots not only reflect the main interdependencies as discussed previously, but also *reflect the dependency between events* quite nicely (see the Appendix for Chapter 9, e.g. Phase 1, Events 1 through 8 for the exchange relation Esthetique-Norelor, indicated as E:1, 2, ...,8 in the Price/Contending cell). The observed clusters to some extent display *sequences of events* (as for instance the above mentioned cluster from phase 1 in the perfume case). These sequences show how closely related interaction in an event is to former interaction, and mirror the fact that *social practices evolve* over time.

Most of the issues that occurred in *all three* cases had a "track history" that interaction was dependent on. For instance, almost all issues developed through a series of events. However, they were not necessarily brought up in every event (of the sequence), but often as part of shifting agendas. As many issues were interdependent, interaction was also dependent on former events where an issue was not explicitly discussed. Thus, certain practices evolved and changed in each case over time. As early interaction served to "anchor" behavior, interaction in an event at T1 influenced interaction in a following event at T2. As many issues evolved through ongoing processes, the parties seemed to pick up on an issue along the same tracks that former interaction had laid out.

Over the three phases, interaction in *all three cases* seemed to be relatively stable. However, the overall spread of events suggests that interaction draws on rich combinations of mechanisms and strategies. As interaction over time took place, some structural aspects seemed to be more important than others. The relative importance of different governance mechanisms also seemed to change incrementally over time, suggesting that once a structure has "settled" it is not easily changed. Similarly, use of decisive strategies seemed to settle during sequences of events as the parties experienced what kind of tactics were effective. Thus, learning how to manage the particular relationship seemed to have influence on the interaction strategies adopted by the parties. As trust evolved from personal contact, experience, and learning in the relationships, relational norms, such as preservation of the relation and harmonization of conflict and role integrity, co-evolved with trust. These developments were partly related to information sharing, and in turn reinforced this key tactic of problem solving. Thus, all cases seemed to in part develop along self-reinforcing (positive) spirals.

Similar findings are presented in Doz (1996), who found that early steps taken by partners in new alliances, often in small events, had significant consequences. Doz (1996 p.77) reasoned from his empirical findings that early "small" events had a "disproportionate importance in establishing, or not, a self-reinforcing cycle of heightened efficiency expectations, greater institutional and personal trust and commitment, joint sense-making and learning, and greater flexibility and adaptability. Put differently, what is accomplished early in building quality into a cooperation process may be more important than the outputs the process actually achieves early". The case data support this finding. Also Ariño and de la Torre (1998 p.306) concluded from their empirical study, "procedural issues are critical from the start in fostering a climate for positive reinforcement and the building of trust and confidence in the relationship".

However, key events in all cases involved deviation from the established practice. Interestingly, the basic *change points* in all cases might be labeled "*moderately discrete events*", following from and followed by "ongoing" processes (Glick *et al.* 1990). As some issues are continuously discussed or frequently brought up (as for instance the issue of resource availability in the NKL-Lilleborg case) they are considered continuous. A moderately discrete event is, according to Glick *et al.* (1990), for instance found as an accelerating change process where "an ongoing change may reach a specific threshold level that triggers a decision point for a top manager" (p.306). While ongoing processes often involved recurrent references to mechanisms and contagion of strategies between events, moderately discrete events were more likely to represent *deviation* from established practices, sometimes resulting in a discontinuation of these spirals setting off new ones.

### **Relationships between issues**

Just as dependency between events was common to all cases, the relationship between issues provides *another general aspect* of the cases: The number and nature of issues were important in order to understand how organizational agents interacted. All cases document that relational development involves a high degree of *interdependent* issues in joint decisive events. However, the data also provides evidence that some issues that occurred were *dependent* on the solution of others, and that some issues that were brought up were *independent* of other issues. Further, some issues were "exported" from the cooperative context of the relationships, and dealt with in separate decisive forums. Thus, the existing governance structure is not the only factor influencing the use of negotiation strategies and associated tactics.

#### *Interdependence*

Being able to trade on issues to increase joint value and exploit the integrative potential was important in all cases. Most events in all cases involved a set of related issues. In terms of issue structure, the existence of several related issues enabled various problem-solving tactics to arrive at outcomes (decisions) that were desirable for both parties. However, it also meant that several problems had to be settled, thus adding complexity. An example of interdependence between issues might be the issues related to platform choice, testing, and conversion of certificates between SOL and Europay.

#### *Dependence*

The decisions on some issues were to a large extent dependent on the resolution of others. That is, some issues had to be settled before others could be dealt with, or a change decision on an issue had impact on other issues. For instance, in the SOL-Europay case, decisions related to change of technical platform for the project had consequences for decisions related

to introduction date estimates that in turn decisions on joint marketing were depending on. Further, a change in the incentive structure in the Esthetique-Norelor dyad was dependent on the inclusion of a new brand in the basic assortment.

Dependence between issues is important, as it has consequences for the sequencing of issues in joint decisive events. Unfortunately, the data collected is not specific enough to investigate this aspect. Additionally, dependence between issues might restrict logrolling, as it becomes difficult to deal with several issues simultaneously, but on the other hand it might represent an opportunity to trade over time.

### *Independence*

Complicating the picture was the occurrence of independent issues. "Independent" means that they were loosely connected to, or disconnected from, the other issues in the relationship. Independent issues were found in all cases, and often were "discrete" (Glick *et al.* 1990). Discrete means that the issues occurred at specific time points in the cooperation, and were not a part of the ongoing dynamic processes. Sometimes independent issues were dealt with together with other issues, and sometimes they were dealt with in separate meetings (as the KK-card issue between Esthetique and Norelor). However, sometimes the issue was "exported" to other decisive forums such as the POS-data issue between NKL and Lilleborg, and the marketing discussions between SOL and Europay.

Independent issues were more "free-standing" (sometimes dealt with in separate forums inside or outside the context of cooperation), and they represented issues that more frequently involved opposing interests, and thus more often involved tactics related to the distributive dimension. Because they were no central part of the ongoing cooperative process, the agents were able to act more independently of the established practice of conduct. This meant that they were free to deviate from some of the relational norms, as for instance harmonization of conflict. Thus, contending tactics were relatively more often found in independent events.

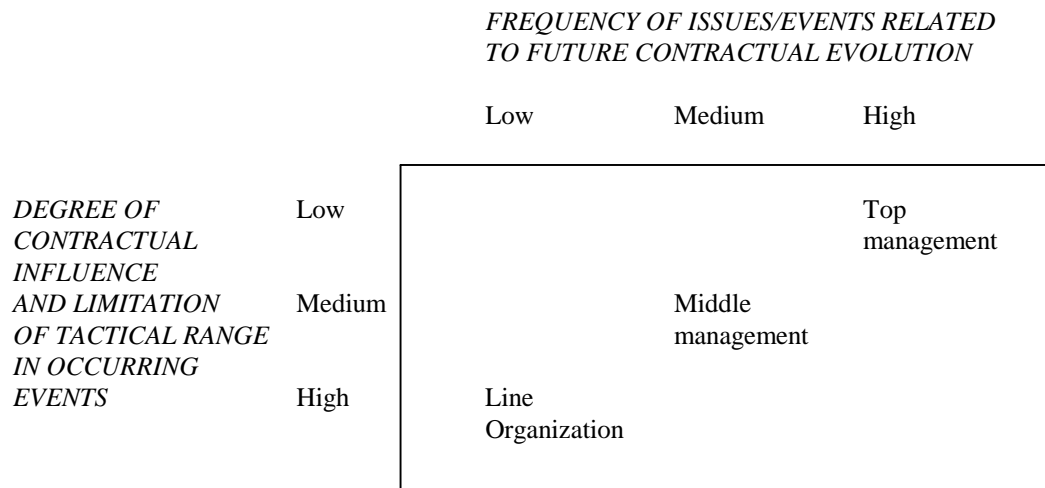
### **Interdependence between levels of cooperation**

An interesting aspect of the three cases not properly accounted for in the initial conceptual framework was the interdependence between the different levels of cooperation. Although it may seem a naïve point to make, *all cases* involved multiple levels of cooperative interaction.

The conceptual framework addressed levels in terms of structural, contractual, and transactional negotiations (Arndt 1979). This might implicitly be understood as involving at least two levels, where the top management deals with structural and contractual negotiations and lower organizational levels deal with transactional negotiations. The empirical data partly reflect these implicit assumptions, but also suggest a more complicated picture.

Interestingly, the different levels of interaction seemed to be operating under different contractual realities. While the top management were in a freer position in relation to the contract, lower levels were more tied up by the governance mechanisms *and* decisions related to implementation taken by higher level in the cooperation. As a consequence, lower levels in the cooperation were in part managed with regard to what kind of decisive strategies they could adopt (as for instance working groups in the project cases and the Market council in the perfume case). In all cases the top management and higher levels of middle management played a key role in the structural and contractual negotiations, but were *also* involved in

transactional negotiations on the operative level. On the other hand, personnel assigned to tactical and operational work tasks in the cooperation were *initiating* structural and contractual issues, as accumulated incidents on the tactical/operational level influenced structural and contractual negotiations. Thus, during a sequence of events, multiple organizational levels were involved in structural, contractual, and transactional negotiations. To understand developmental processes different levels should be considered in relation to each other.



*Figure 21: Interaction in different levels of cooperation*

These findings are summarized in the figure above. Interaction between top management was less restrained than on lower levels, as the frequency of issues and events related to future contractual evolution was high, and the degree of contractual influence and limitations on negotiation strategies was low. Interaction between operative personnel was substantially more restrained than on higher levels. On the operational level, interaction related to future contractual evolution was low and the degree of contractual influence and limitations on adaptation of negotiation strategies was relatively high (as compared to higher levels). In between these was the middle management. Thus, different levels seemed to interact under different contractual realities, and with different restrictions, or possibilities, for action. Thus, the social practices on different levels developed slightly differently.

An example can be taken from the grocery case, where interaction on the top level was reported to be more "political" than on the working group level. Interaction in working groups was more a-political and characterized by strong problem solving orientations, as they implemented higher level decisions and sorted out related problems. An interesting finding was that priorities on the working group level (in the grocery case) became a particular problem, as employees also were responsible for and measured on other non-cooperative organizational tasks. This put participants in working groups in a difficult position, where they often chose to give priority to internal short-term tasks not related to the project. Over time this became recognized on the managerial level, and the problem was addressed. In principle, the problem was related to the governance structure and in particular to the hierarchical mechanisms. However, the issue was not addressed *as* a structural issue *per se*, and the hierarchical mechanisms remained unchanged, leaving the problem intact. Thus, the evolving social practice was different on these two levels.

### **Evaluation and assessment of outcomes**

The relationships between issues, the dependence between events, and the interdependence between levels of the cooperation all made assessments of outcomes difficult, as outcomes on a given (set of) issue(s) were closely related and influenced by outcomes related to other issues. Further, many issues were related to ongoing processes that were difficult to evaluate before they had reached some kind of end, or transition, point. Even then, evaluation could be difficult because of their interdependencies on other issues. Further, evaluation of outcomes in relation to *events* became unnatural for the same reasons.

Assessment of outcomes occurred frequently and informally, and was typically related to progression particularly in the two projects. Formal evaluations were conducted after more clearly defined sequences, or phases, had been concluded in the two projects such as after the two introductions of SET software, and the status report after phase 1 and the end report after the test had been completed in the grocery case. These *evaluations related more to the sequence and relationship level* (Holmlund 1997) rather than to individual actions or specific events. In the exchange case, evaluations were also related to sequences of events, rather than to the outcomes of specific events. While evaluations in the two *projects* were more typically carried out *jointly*, evaluations in the *exchange* case were more related to the *individual* company's performance (e.g. sale statistics for months and years). However, the management *discussed* these jointly, and some sales information was shared, but joint evaluations were more typically related to campaigns and joint marketing activities.

As evaluations were often conducted *informally* in meetings, it was difficult to investigate in detail how the parties perceived their outcomes over time. However, the data indicate that as milestones and phases were passed, assessments made during the process were adjusted according to what the parties were able to observe and measure as the relationship went from one phase to the next. Thus, with hindsight assessments were to some extent adjusted as the parties took learning, experience, and observed realities into account.

Common to all cases was that *multiple dimensions* were assessed as evaluations took place. Material value was an important dimension in all cases, but the data indicate that symbolic and emotional values were considered important dimensions as the relationships evolved. Finally, future expectation was highly influential on the evaluations.

All cases had economic goals for the cooperation, although not necessarily specified prior to, or during, interaction. However, the emerging economic realities were an important dimension in all cases. Interestingly, the *material* (economic) value the cooperation represented, and was likely to represent in the future, was an *increasingly important* evaluative dimension over time. This characteristic seems to emerge parallel to an increasing dominance of the price mechanism and contending strategies in the projects. Further, *future expectations* influenced the evaluations significantly. In particular, future expectations were very important for the assessment and judgment of the material value of the cooperation. Thus, the material value was not exclusively related to former interaction and realized outcomes. The data suggest that the "feel-good-factor" influenced the evaluation positively (resulting in overestimated gains potential and/or led to expectations for these to occur sooner than they actually did). In addition, not experienced future problems were overlooked, reducing the expected cost of future cooperation. Thus, the state of affairs in a broad sense as

well as uncertain (future) "measures and figures" influenced evaluation of material values (likely to come) from the cooperation.

With regard to the *symbolic* values, particularly the roles in each of the relationships developed continuously and positively. Thus, this was seen as a positive and important contribution of the relationship, which in turn had an economic potential.

Finally, *emotional* values were assessed, but the data suggest that these concerns are *secondary*. However, being able to develop a confidence relationship involving sufficient levels of trust, being comfortable in the interaction, and avoiding the emergence of distrust is important both to the individual actor and in turn to the "systems" they represent. To some extent, these conditions can serve to reduce costs and increase the potential of business opportunities. However, the data suggest two things: 1) if the material value of a cooperative relationship is failing to reach sufficiently high levels, high emotional value will not be given decisive weight; 2) if the material value from a relationship is sufficiently high, emotional value can be "close to zero" unless distrust between key personnel develops.

### Summary

The scatterplots revealed relatively stable *clusters* of events, reflecting the evolving social practices in the cases. In all cases, the mechanisms and strategies reflected in an event most likely were the same as those reflected in the preceding one. However, the spread of events in terms of mechanisms and strategies indicates to some extent a rich behavioral repertoire. In particular, the most important change points could be described as moderately discrete events (as opposed to ongoing processes) and were more likely to deviate from the established social practices. Typically, they more frequently displayed the mixed motives of the situation.

The case data provide evidence of the assumed interdependency between issues. Basically, the relatively high interdependency between issues made possible problem-solving tactics, but also added complexity. In addition, some issues were found to be dependent on others. This has consequences for the sequencing of issues, and might restrict the use some problem solving tactics. Also, some issues were independent of the other issues in the relationships. To some extent, these were discrete issues where behavior tended to be more contentious.

An important aspect that became more evident in the empirical data was the interdependency between levels in the relationships. Typically, the different levels seemed to operate under different contractual realities. As opposed to the higher levels, lower levels were more constrained in their approach to decisive situations. As higher-level interaction more often related to structural and contractual negotiations, higher levels were less restricted, but the interaction and the issues that emerged on lower levels also influenced them. Basically, lower level interaction was more integrative and involved less conflict.

Finally, evaluation of outcomes was typically conducted after sequences of events had been completed, and was related to the relationship level (as opposed to single events). Most of the evaluations were conducted informally and more or less frequently, but as the relationships changed or went through transitions, formal assessments were conducted. To some extent these were done jointly. Over time, the material value was the single most important evaluative dimension. Judgment of material value was highly influenced by the perceived future potential of the relationships. In addition, symbolic value was considered. Finally,

emotional value was over time secondary. However, the data suggest that emotional value was more important during the early phases of the relationships, as it was important to develop trust and confidence at this stage.

### **DEVELOPMENTAL PROCESSES AND CHANGE: SEEKING ADDITIONAL EXPLANATIONS FOR ALLIANCE DYNAMICS**

As shown in the first section of this chapter, the three cases represent a data set with promising potential for comparisons. So far, comparisons have identified some key similarities and dissimilarities, analyzed in relative detail how governance mechanisms and negotiation strategies changed over time through sequences of events, and more general findings related to events, issues, levels, and evaluation of outcomes have been discussed. However, in order to develop a more comprehensive analysis, I will explore from a different angle how the cases evolved. The following analysis is thus an extension of, and is complementary to, the former discussions.

#### **Developmental processes:**

##### **Beyond governance mechanisms and negotiation strategies**

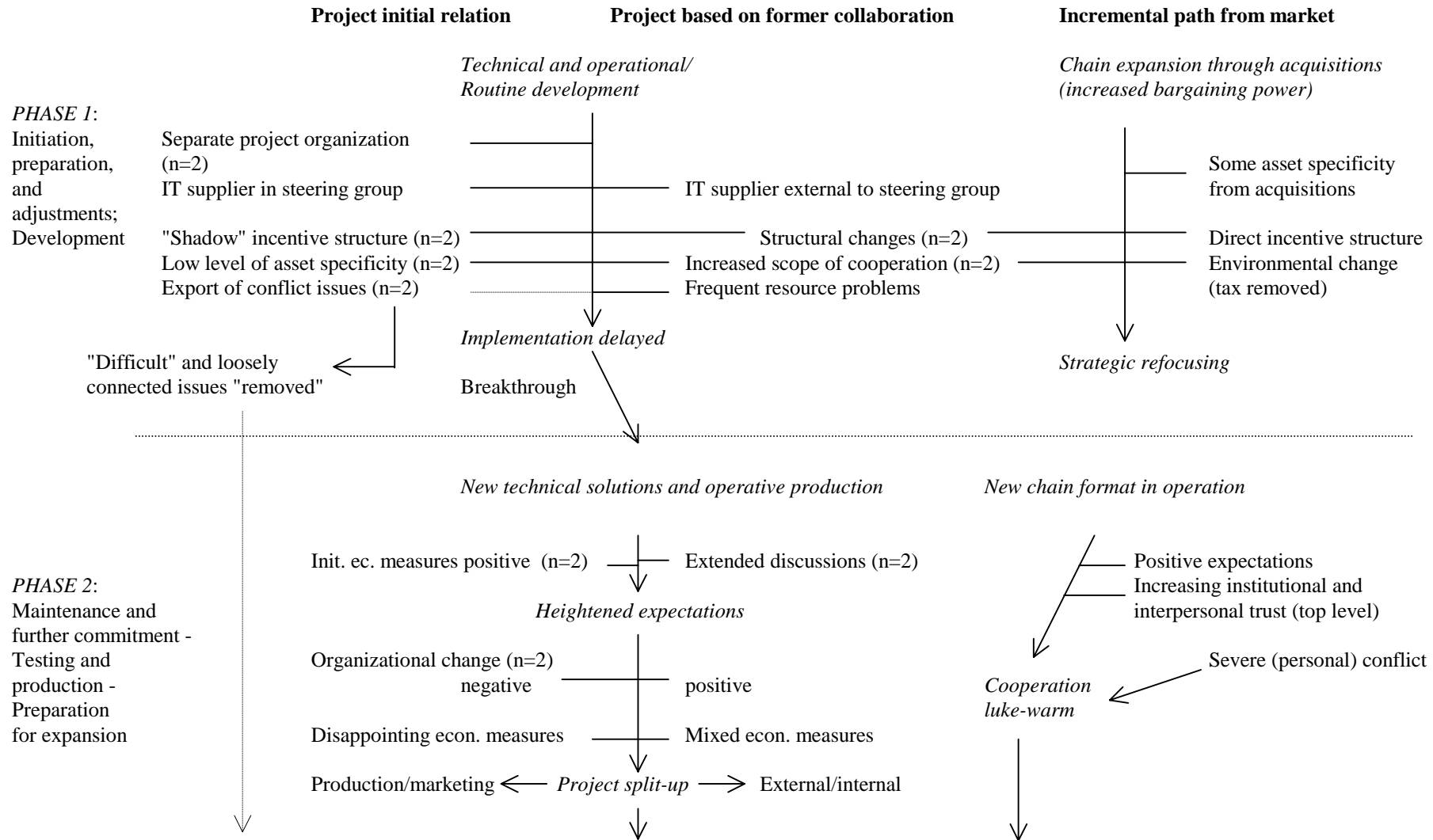
The initial discussion related to similarities and dissimilarities seemed to reveal interesting aspects of the three cases. Further, the analysis of the evolution of governance mechanisms and negotiation strategies over sequences of events opens for further explanations as the data do not fully accommodate a recursiveness logic and nor fits the games-based reasoning offered by Larsson *et al.* (1998). In order to better understand why the observed changes in the use of dominant governance mechanisms and negotiation strategies occurred, a broader perspective is taken. Below, attempts are made to provide an additional analysis that reflects evolving "states" in the relationships, and identify the causes and consequences of these states.

Figure 22. on the following pages represents a *composite sequence analysis* of the three cases. The figure describes how the three cases developed over the three phases. It is possible to identify each case in the figure, although the main idea is not to track each case. The main point is rather to identify developmental paths found in the cases. I suggest that it is useful to understand this figure particularly in combination with Figure 19 and Table 15, as they compliment each other well. The notation (n=2) in the following figure indicates relevance for both associated (see lines) cases/projects.

Following from the earlier discussions, two main starting points for the relationships are identified: Two cases started as cooperative development projects (where one represented a new relationship and the other was based on former collaboration), and one case was related to the maintenance of an existing business relationship that had evolved incrementally from market contracting to recurrent contracting. The three phases are labeled: 1) Initiation, preparations and adjustments, 2) Maintenance and further commitment – Preparation for expansion, and 3) Increasing visibility of mixed motives and new directions. From the two starting points, initial interactions were different but converged towards each other during phase 2. The figure identifies two main developmental paths through phase 1 and 2 that basically leads to an approximately similar state in early phase 3. However, from this state, three developmental paths are identified, leading basically to dissolution and/or continuation of the cooperative relationship.

**COOPERATIVE DEVELOPMENT PROJECT**

**MAINTAINING BUSINESS RELATION**





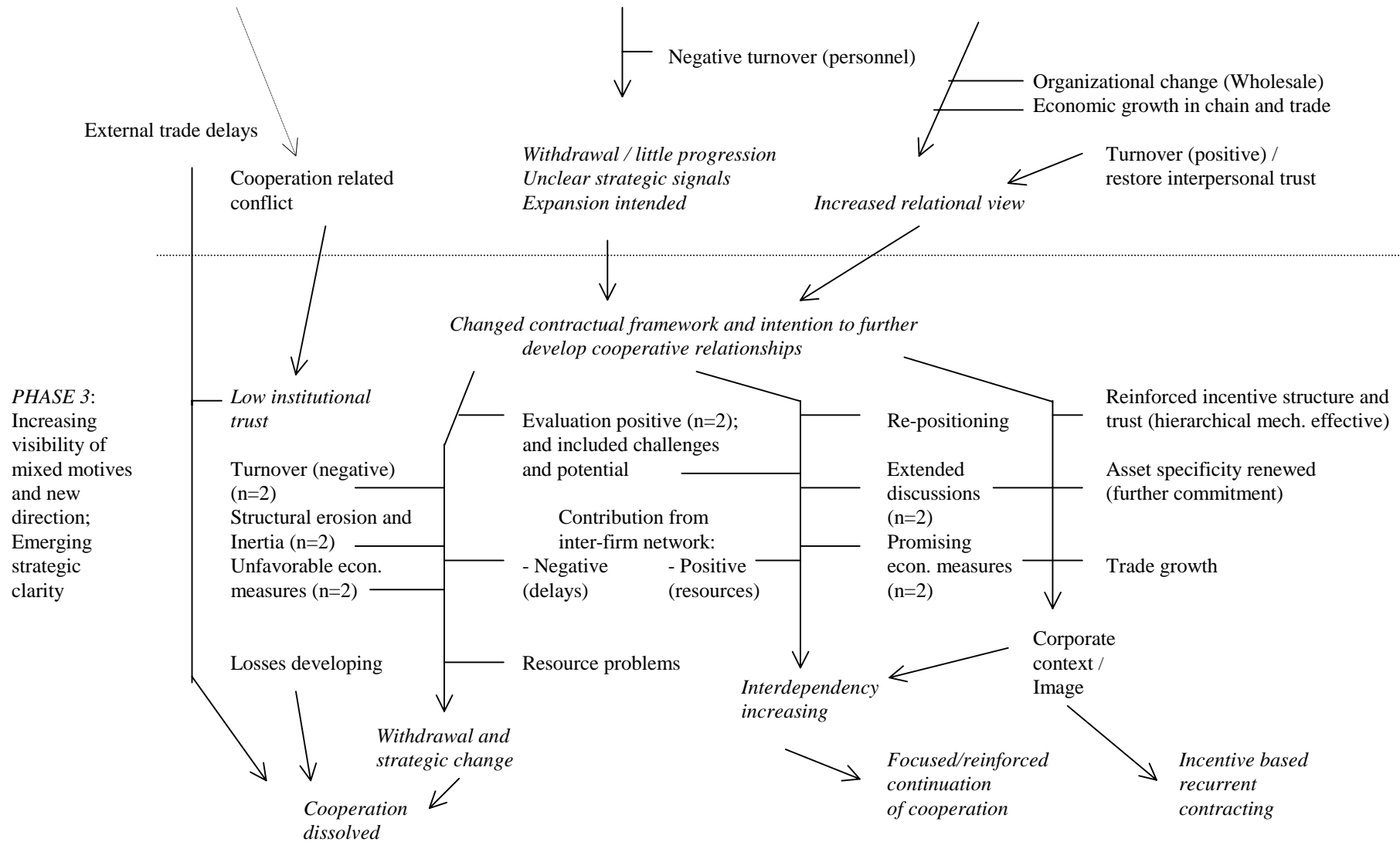


Figure 22: Composite sequence analysis: Developmental processes of three long-term cooperative interorganizational relationships

*Cooperative development project*

In the two projects interaction in phase 1 related extensively to technological and operational development, where establishment and change of routines for interaction (transactions) were a key element. The unfolding events related very much to progression and implementation of their shared goals, and issues that were brought up in the events were basically addressed as joint problems they needed to solve, and not as bargaining issues. Both cases experienced that implementation was delayed due to technical complexity and related problems, but as technological breakthroughs were reached, they both entered phase 2 with new technological solutions ready for operational testing and production.

The shared challenges during phase 1, as well as the need to anchor their mutual goals in a shared contractual framework required a problem solving approach to the situation. As the levels of trust were high, and personal chemistry was good, this mode of early interaction became dominant during the phase as discussed earlier. Common to their interaction was the establishment of a "separate" project organization, low levels of (physical) idiosyncratic investments, a "shadow incentive structure", and an early practice to deal with perceived conflict issues in separate meetings that were not regarded as "cooperative" forums. Particularly three of these aspects enabled trust-based problem solving. The project organizations particularly secured a shared understanding of procedural justice, and a common understanding of decision rules (consensus) made use of tactics reflecting low concerns for the partner's interests difficult and inappropriate to use. Further, the distribution of gains in the cooperation was not brought up as an issue. In one case, the technology and the parties' clearly defined roles implicitly defined each party's revenues, as separate streams of revenues were produced from the production of a transaction. In addition, the pricing of each party's services to the market was not an issue in the project. In the other case, cost savings and possible gains were handled jointly, and it was agreed that the final distribution of gains was to be settled at a later stage. Finally, as both cases experienced conflicts on issues related to, but not at the core of, the cooperation, they chose to "export" such issues from the agenda of the projects, and dealt with them in separate meetings. This way "difficult" issues involving opposing interests were removed from the interaction, which in turn became increasingly "cooperative" in nature with shared interests dominating interaction. However, relatively few "export" events were identified.

Although it was the intention in both cases to collaborate closely with software suppliers in the project (as information technology was of crucial importance to both projects), only one relationship included their key supplier in the project on a formal basis. This case experienced fewer problems related to progression. Moreover, having key competencies available in meetings made problem-solving attempts productive. In addition, this cooperative project also had more clearly defined boundaries.

The second dyad had intentions to collaborate more closely with their software supplier, but chose not to "include" them (directly) in the project. Further, availability of resources was frequently discussed, and an extension of the cooperative project led to implementation delays. The second project more frequently made adjustments related to the governance mechanisms (expansion of budgets and changes of group structures) in order to enhance interaction and implementation.

Phase 2 started as the new technological solutions were applied and test "production" started. After a short period of time the test production showed positive measures in both cases, which in turn heightened expectations. However, as measures after a while developed unfavorably, both projects were to some extent split up (for instance marketing of SET was separated from test production and further development, and the flow between producer and wholesale, and from wholesale to store was increasingly viewed as separate initiatives). As phase 2 came to a conclusion, interaction was decreasing in terms of frequency of events, little progression took place, and unclear strategic signals were given. However, in both dyads the intention was to *expand* the cooperation.

Following from practice in phase 1, both dyads dealt with some "conflict" issues in separate forums. Export of (some) conflict issues was positive in terms of trust building, and made it easier to reach settlements. However, theoretically it restricts logrolling potential, and might remove issues that otherwise could have been driving forces (such as incentives). By means of extended discussions their cooperative efforts were placed in context, and by sharing information regarding views, underlying concerns, and strategic intentions, the parties were able to identify the areas and issues that were likely to involve conflicts of interest. This knowledge was then used to avoid or channel issues to other forums in order to avoid unnecessary conflict that in turn could have contagious effects and impede problem-solving behavior. Having experienced initial success, and being able to maintain a (mainly) positive and enthusiastic working climate, expectations were high.

Both dyads experienced organizational change: one was negative (the establishment of SOL System), the other positive (chain/store involvement in project). Also, new measures in both dyads were not as promising as the initial measures. In the grocery case personnel turnover affected the levels of (relational) trust and enthusiasm in the project groups negatively. In addition, informal understanding between participants from the two organizations was not formalized and disappeared with the personnel they rested with. In the e-commerce case, conflict occurred related to the intended co-branding of a card. As the decision came from other parts of the SOL organization, and not from the personnel that was taking part in the cooperative efforts, the levels of interpersonal trust were not particularly affected, but coupled with emerging ambiguous strategic signals, the levels of institutional and calculatively based trust deteriorated.

#### *Maintenance of exchange relations*

The last relationship was initiated differently, as it emerged out of recurrent contracting. The chain expanded through a series of acquisitions, which in turn strengthened the chain *image* and *bargaining power* versus the (formerly dominant) suppliers. As interaction formerly had involved opposing interests, much of the interaction in the first phase represented a continuance of this "incentive-based contending" practice. However, to get rid of problems (sources of conflicts), some initiatives were taken as the contract supplement was introduced. This addition to the contractual framework *reduced "noise"* in the interaction on all levels, as typically small and recurring conflicts were dealt with once and for all. Further, initiatives were taken during phase 1 to increase the scope of the cooperation. This was made possible, as the chain had become better suited for carrying high-end product lines. Further, the acquisition of two magazine stores increased the levels of idiosyncratic investments in the dyad (through stand investments and wage support). Contributing to a continued contentious interaction was a direct and dominating incentive structure, where the distribution of gains

was settled. As the actors in this dyad were focused on the flow of money between the organizations (as opposed to the grocery case where also money flowed, but the focus was on implementing new solutions for improving the efficiency of the flow of goods), a focus on opposing interests "came naturally". As institutional change occurred when taxes on the trade's products was removed, this added to both cooperative and non-cooperative areas of interaction. As expectations in the chain assumed a polarization of the market, and the chain intended to go for the high end, these aspects together led to a strategic refocusing that required a more cooperative mode of interaction. This led to the establishment of a new chain format in early phase 2.

As the new chain was presented and introduced, expectations rose. Signals indicated closer relationship with suppliers, and the introduction of a basic assortment led to a more cooperatively oriented mode of interaction. Changes implemented through phase 1 had to some extent balanced the power of the supplier, and removed some areas of potential conflict in the relationship. As initial experiences were good, this had a positive effect on subsequent interaction. As a consequence, the levels of trust in the relationship were increasing. However, some interaction had been dominated by threats and use of (unnecessary) tough tactics, as well as direct interference with store operations in the chain. Conflict was unavoidable. As institutional trust and other interpersonal relationships on higher levels were still good, the cooperative efforts were continued. However, little progress was made until the director was replaced. As turnover on the director level occurred, some of the interpersonal trust was reconstituted. As phase 2 ended, an increased relational and cooperative view was developing. Organizational change (establishment of Narvesen Wholesale), also contributed to reduce the conflict level as interaction became more related to shared interests. Economic measures developed favorably, and steadily so, adding further commitment to the cooperative efforts.

*Crossroads: Dead ends and shortcuts*

Thus, as phase 3 was entered, all cases were undergoing contractual change, but with an initial intention to further develop their cooperative relations. In the e-commerce case, the transition from a development project to a production and marketing relationship meant that the general and vague cooperative contract became the main contractual document, and the dissolution of the project groups had negative impacts on the levels of trust, as new personnel was assigned. Moreover, the former sense of direction and informal understanding were lost. In addition, users in the market did not adopt the introduced software, so the economic measures were not good. This added to a general constrained financial situation in SOL. To this was added further delays in other SET projects and related marketing activities, and low levels of trust (in general). As SOL's new strategic direction emerged with new priorities, the cooperation was dissolved.

The VMI-part of the grocery case shared these developmental aspects. Personnel that left in late phase 2 was not properly replaced as they entered phase 3, and the new agreements for continued cooperation were more focused on the flow from NKL to the stores and a clear commitment to the VMI part was delayed. The measures for the VMI part of the project had been developing unfavorably as compared to the flow between NKL and the store. In addition, other internal projects were emerging and competing for scarce resources. This led partly to a withdrawal (as one part of the pilot was initiated immediately after the test), and new personnel entered the decisive arena. The levels of trust and commitment were good, but to a lesser extent than formerly. In addition, new priorities emerged as a consequence. Conflicts of

interest were related to the VMI part of the project, which maybe should have been dealt with earlier, finally surfaced and dissolution was unavoidable.

*Different from these were the EPOS2000 initiative that was implemented, and the evolving relationship between Esthetique and Norelor.* The pilot focusing on the flow between NKL and the stores was re-positioned and extended, and the main structure of the former test project was continued in the pilot. The economic measures for the pilot were promising, and the involvement of other suppliers was positive. Additionally, the unique position of Lilleborg in the steering committee signaled concerns for their interests and secured further commitment. Lilleborg had become a close working partner with NKL, and possessed competencies NKL viewed as necessary for the project.

The perfume case entered phase 3 with new cooperative contracts that reinforced the incentive structure and trust. The authority mechanisms had proven effective, and remained unchanged. However, as a new brand was included in the basic assortment, interaction in the Market Council increased. Asset specificity was renewed through new stand contracts exceeding the duration of the other contracts, and reflected further commitment. The *gains* realized through the cooperation were *positive for both parties*, and better than average growth in the chain and in the trade generally. In both cases the top management participated in extended discussion concerning their current and future cooperation, a practice that was considered positive for the common understanding and for interaction in general, as it became easier to focus on shared interests and to understand the *mixed motives* involved. In the perfume case, these mixed motives were in particular related to *corporate context*, as interaction related to selectively distributed products was generally more cooperative than interaction related to broad products, as selectively distributed products better suited Esthetique's image. However, as broad products accounted for a small part of the transactions and interaction in general, this did not cause problems for the cooperative orientation.

Thus, both these developmental paths led to *increased interdependency* between the transacting partners. In turn, the cooperation continued, became reinforced, and was increasingly focused. However, interaction related to broad products in the perfume case became more separated from the interaction related to selective products, and was increasingly managed as recurrent contracting based on incentives.

## SUMMARY

This chapter has presented a cross-case analysis based on the conceptual framework, the case descriptions, and the within-case analyses that were presented in earlier chapters. The analysis has offered some suggestions for how long-term incomplete contracts are managed as a sequence of events unfold over time in cooperative interorganizational relationships.

The initial analysis identified some key similarities and differences found in the cases. Particularly, two cases could be labeled *cooperative developmental projects*, while the last one was labeled *maintenance of exchange relation*. Compared to the exchange relation, the two developmental projects shared a set of important characteristics with regard to initial conditions and the developmental process. However, the outcomes achieved are only in part shared. On the other hand, one of the projects and the exchange relations share the basic

outcome of continuance. Interestingly, the continued cases were both *buyer-supplier* relationships (the dissolved case was not). Thus, two kinds of relation were identified:

- Cooperative development project
- Maintenance of exchange relation

where

- The continued relationships were buyer-supplier relationships with favorable performance measures

With regard to initial conditions and early interaction,

- The projects seemed to rely more extensively on *trust* and *authority* mechanisms, where interaction was extensively based on *trust and integrative approaches* in joint decisive events,

applying what I have referred to as a "*shadow*" *incentive system*. On the other hand, the

- Exchange case was more governed through use of traditional *incentive structures and distributive approaches*.

Frequent interactions, particularly early in the projects, served to establish relatively stable patterns of interaction. However, over time the observed *performance measures* (reflecting the price mechanism) in the projects became *increasingly important*, while *trust* became increasingly important in the exchange relation. These structural changes seemed to be interdependent on behavioral change, as interaction in the projects moved towards a distributive mode, while the exchange case evolved towards a more integrative orientation. Thus,

- Over time the combinations of governance mechanisms to some extent converged between the cases

and the

- Behavioral range increased in all cases and reflected well the tension created by the existence of mixed motives in interfirm relationships.

This suggests that structural variables only in part explain processes, and that understanding interaction in joint events is important to enhance our understanding of cooperative evolution.

The most frequently observed combination of governance mechanism and negotiation strategy is the *combination of trust and problem solving*. The combination of *price and contending* is also frequently observed. However, *price* is also found relatively frequently in combination with *problem solving*. Interestingly, events often involved a combination of several governance mechanisms and/or negotiation strategies. While the cooperative developmental projects developed from being basically trust-based and problem-solving in phase one (through a more mixed second phase) towards a more incentive-based contending and problem-solving, the exchange relation moved from an incentive-based contentious interaction towards a combined incentive and trust based collaboration mainly based on problem solving, but with a "contentious edge" to it. Further, yielding and inaction were always found to be interdependent on *combinations* of governance mechanisms (trust), and the use of alternative negotiation strategies (problem solving). While inaction seemed to occur in the projects only, compromise as the dominant strategy was only found in the exchange case.

Across the phases, all cases seemed to develop along some common lines. Interactions during phase 1 were relatively *uniform* (although differing between the projects that were "integrative", and the exchange case that was "distributive"). During phase 2 interaction became more *varied* and reflected the mixed motives involved better, while during phase 3 it became to some extent more *focused* as strategic continuance of change took place. While structural and contractual negotiations were carried out (and completed) relatively early in the projects, structural and contractual issues were recurring in the exchange relation.

Common to the cases was that initial structural and contractual negotiations served to "anchor" subsequent interaction. Further, all cases to some extent drew on authority mechanisms in order to reduce levels and sources of conflicts, establish procedural justice, and direct interaction towards integrative efforts. Additionally, as these mechanisms settled, they were rarely brought up again. Further, trust evolved in all cases and contributed positively to the development and the achieved outcomes. However, although the economic mechanisms differed in importance initially between the projects and the exchange case, over time the mechanisms became relatively dominating in all cases. In short:

- Trust made it easier to adopt problem-solving strategies,
- Trust was not an issue itself, but evolved through recurring interactions
- Authority and hierarchical mechanisms enabled interaction by securing a sense of procedural justice through project organizations and shared routines and decision rules
- Rules were used to restrain certain contending tactics
- Incentive structures seemed to relate to different strategic orientations (in case of resource contributions (costs) trust secured integrative interaction, while distribution of incomes relatively often involved distributive tactics)
- Incentives became dominating in all cases over time

The scatterplots revealed relatively stable clusters of events, reflecting a

- Strong dependence between events

in ongoing processes and evolving social practices. In all cases, the mechanisms and strategies reflected in an event most likely were the same as those reflected in the preceding one. However, the spread of events in terms of mechanisms and strategies indicate to some extent a rich behavioral repertoire. In particular, the most

- Important change points could be described as moderately discrete events (as opposed to ongoing processes) and were more likely to deviate from the established social practices. Typically, they more frequently displayed the mixed motives of the situation.

The case data provide evidence for the assumed interdependency between issues. Basically, the relative

- High interdependency between issues enabled problem-solving tactics, but also added complexity.

In addition, some issues were found to be dependent on others. This has consequences for the sequencing of issues, and might restrict the use of some problem solving tactics. Also, some issues were independent of the other issues in the relationships. To some extent, these were discrete issues where behavior tended to more contentious.

An important aspect that became more evident in the empirical data was the *interdependency between levels* in the relationships. Typically, the

- Different levels seemed to operate under different contractual realities.

As opposed to the higher levels, lower levels were more constrained in their approach to decisive situations. As higher-level interaction more often related to structural and contractual negotiations higher levels were less restricted, but the interaction and the issues that emerged on lower levels also influenced them. Basically, lower level interaction was more integrative and involved less conflict. However, other and competing concerns might influence interaction and actions taken on the operational level where hands-on implementation takes place.

Finally, evaluation of outcomes was typically conducted after sequences of events had been completed, and was related to the relationship level. Typically, evaluations were conducted informally and frequently, but were more formal as the relationships changed or went through transition stages. Over time,

- The material value was the single most important evaluative dimension and was highly influenced by the perceived future potential of the relationships. In addition, symbolic and emotional value was considered. The data suggest that emotional value was important during the early phases of the relationships, as it was important to develop trust and confidence, but over time it became secondary.

The last section took a broader view to identify developmental patterns, focusing less on the cases *per se*. While the previous sections were more "specific and detailed", the last section offers an account of the context, or the "more general" situation. Based on the former analysis, the "cooperative development project" and the "maintaining business relation" were the two headings used. These represented two *distinct and different paths during the first two phases*. The projects had clearly defined goals, and involved technological development as well as development and change of operations and routines. The projects worked out technological solutions for their future business during phase 1. Implementation was delayed, but eventually new technical solutions were introduced and production became operative as phase 2 started. After initial production, expectations were heightened. However, as performance measures turned bad, the projects were to some extent split up. This led to withdrawal and strategic signals were unclear. However, expansion was intended. The exchange relation developed more slowly from the market, where growth led to a strategic repositioning. As a new chain format was in operation, intentions were to increase collaboration. However, conflicts kept the relationship from developing, but personnel turnover meant a more relational view. Although *all cases went into phase 3 with intentions to develop their relationships further*, only the *buyer-supplier* relations represented *continuance*.



## **10: CONTINUOUS NEGOTIATED AGREEMENTS: GOVERNANCE MECHANISMS, NEGOTIATION STRATEGIES, AND DEVELOPMENTAL PROCESSES IN COOPERATIVE INTERORGANIZATIONAL RELATIONSHIPS**

*The purpose of this chapter is to draw together the findings from the study, and discuss them in relation to other conceptual and empirical contributions in the area in order to develop explanations of why the observed changes occurred. This discussion will be sprinkled with some additional models of developmental processes in cooperative IORs. Based on these modifications the conceptual framework is extended and revised, accounting for the empirical evidence offered.*

### **THE STUDY AND THE STATE OF RESEARCH**

The presented cases, the within-case analysis, and the cross-case analysis in the preceding chapters to some extent provide empirical illustrations of the general *perspectives* adopted in conceptual articles by Dwyer, Schurr and Oh (1987), Greenhalgh (1987), Ring and Van de Ven (1994), Heide (1994), Sheppard (1995), Larsson et al. (1998), and Kumar and Nti (1998). The study also complements the empirical findings offered in studies by Larson (1992), Mohr and Spekman (1994), Zaheer and Venkatraman (1995), Zaheer, McEvily and Perrone (1998), Doz (1996), Ariño and de la Torre (1998), and Jap (1999). Although these studies to some extent emerged from different perspectives on interorganizational relationships, their propositions, findings, explanations, and discussions should rather be understood as complementary rather than competing. Each adds to the emerging understanding of developmental processes in long-term interorganizational relationships, and creates a context for interpretation of the present study. However, the literature focusing on developmental processes in IOR's is still limited.

The purpose of this chapter is to discuss the findings from the cross-case analysis in order to develop explanations of the developmental processes that were observed. As mentioned above, other articles will also be actively drawn into the discussion, as they offer both support and contradicting views of interfirm developmental processes. Thus, the differing views constitute a "pool of opinions" that is important to consider.

Initially, the conceptual framework was primarily aimed at understanding the ex-post conduct in long-term (ongoing) interfirm relationships. However, the cases represent an opportunity to extend the framework to include the establishment of the contracts, as well as to develop an understanding of why some relationships are dissolved. Thus, the main section of this chapter will reflect these different phases or stages in evolving relationships.

In addition to this introduction and a summary section, the main body of this chapter is divided in two main sections. In the next section, I will first briefly situate the present study within the conceptual and empirical context it relates to. Then I will discuss some key issues of the perspective taken in this study, and provide an overall framework for the following discussion. The main section will address the proposed conceptual framework for

understanding developmental processes in IOR's, and is divided into four sub-sections focusing on: 1) the initial conditions, the establishment of the contracts and early interaction, 2) early developmental processes, interdependency and stabilization, 3) subsequent aspects of developmental processes, emerging change, and impact of performance, and 4) potentially late or critical stages in developmental processes, experience, changing concerns, and development of "new" understandings. Finally, a summary section concludes the chapter.

## **STRUCTURAL AND BEHAVIORAL CHANGE**

### **The evolution of governance mechanisms and interaction strategies**

This study has been concerned with structural and behavioral change over time. Structural conditions, in terms of governance mechanisms, were assumed to co-evolve from an initial state interdependent on actions taken by individuals and their use of negotiation strategies through unfolding sequences of events. This perspective is new and consistent with recent developments in the academic discourse.

Gulati recently (1998) concluded that previous research in this area has important shortcomings. Gulati raises a critique against previous approaches to governance structures in alliances, as there has been an "implicit treatment of each transaction as a discrete independent event" (p.302), and that the perspectives adopted remain static. With regard to the dynamic evolution of alliances, he observed that an increasing interest in these aspects in recent years has advanced our understanding of the role of initial conditions, early interactions, and adaptive processes on the performance of alliances. However, he observes that behavioral processes remain to be explored. This study adds to an increased understanding of the dynamic evolution of alliances.

Although the approaches taken previously have been largely static, former research has provided some insight of importance from a processual point of view. Particularly, Mohr and Spekman (1994) found that aspects related to attributes of the partnership (commitment, coordination, trust), communication behavior (quality, participation), and conflict resolution techniques (joint problem solving) were found to significantly predict the success of partnerships measured by satisfaction and dyadic sales. Zaheer and Venkatraman (1995) developed a model of relational governance (in terms of quasi-integration and *joint action*) based on a combination of transaction cost economics and sociological exchange literature, and found that including trust significantly improved the explanatory power of the model. However, their findings suggest that "merely adopting an appropriate governance structure may not lead to the required process outcomes" (p.388) and that *evolving trust* over time might be important. Several researchers address this issue, still few empirical accounts of evolving trust have been offered. Haugland and Reve (1994) found support for the view that contractual mechanisms could be understood as *vectors* (i.e. particular combinations of mechanisms applied in alliances) that might change over time. However, we know little about how these governance mechanisms are combined empirically, how they complement each other, and most importantly how they evolve over time in relation to each other.

Research on negotiations has also been criticized for being non-relational and static (Greenhalgh 1987, 1995, Sheppard 1995). Although negotiation research is concerned with process, process often refers to explanations of causal relationships in a variance theory, to concepts reflecting behavior, or to how interaction took place in one particular negotiation

event (typically in the laboratory). In a business context, few longitudinal studies of negotiations are found. In interfirm settings, some cross-sectional research has been done, as discussed earlier. Perdue and Summers (1991) found that contextual variables such as formal planning, cost sensitivity, and cooperative orientation demonstrated an ability to predict the emphasis placed on individual strategies in negotiations. Summing up their findings, they state that "bargaining behavior may be more complex, at least in an industrial purchasing context, than a bipolar integrative/distributive perspective would suggest. Both integrative (problem solving) and distributive (aggressive bargaining) strategies can be used to a greater or lesser extent within any given set of negotiations" (p.186). Thus, their findings provide some support for the interdependence view (Putnam 1990) as discussed previously.

This study offers an empirical description of these phenomena. The three cases provide an empirical account of how different elements of the discussed governance mechanisms are combined, and how they complement each other in order to provide a suitable framework for exchange. Furthermore, the cases show how the governance mechanisms changed over time, how governance mechanisms evolved over time *interdependent* on negotiation strategies used in decisive events, and how their relative importance evolved.

Some studies (Ring and Van de Ven 1994, Doz 1996, Ariño and de la Torre 1998) suggest that initial conditions and contractual aspects are revised, re-negotiated, and/or evolve inside agents' minds over time. However, they also suggest that other factors have impact on outcomes, such as learning, understanding of and adjustments to success requirements, evolution of commitment, relationship quality, and external change. Thus, the following discussion will reflect these views.

### **Evolving IORs through sequences of negotiating events**

As discussed in the previous chapter, the basic ideas put forward in the conceptual framework are meaningful in an empirical sense. However, the cases revealed some additional themes and relations not accounted for in the framework. These findings do not represent contradictions to the proposed framework, and by including these findings, the framework can be refined, specified, and extended.

Figure 23. below is intended to show a chain of unfolding events over time. As change does not (typically) occur spontaneously from one event to the next, the boxes intend to depict *sequences* of events. Each "sequence box" is meant to contain a series of events as shown in Figure 10. in Chapter 4. As the presented conceptual framework did not particularly consider the *establishment* of the contractual framework, nor the eventual *dissolution* of relationships, these stages/phases of relationship development are extensions of the model. These are included because they represented significant events in the relationships that make it easier to understand the "developmental part in the middle". Interaction related to the establishment of the contractual frameworks was important for the subsequent events in all cases. Further, as the cases to some extent offer a description of where things ended up, it becomes easier to make sense of the interaction that took place (or did not take place) before the relationships changed or continued.

The proposed framework also suggested that each event had an outcome in terms of a decision that represented a further specification of the initial agreement. Although the framework assumed interdependence between different issues, the cases suggest that the

complex "web of issues" - ongoing and overlapping - makes it difficult and even on the verge of being nonsensical to assess outcomes of individual events. Furthermore, although clear decisions were taken in events so that it became possible to predict outcomes for each party on an issue, possible problems related to implementation, delays, unintended consequences, and changing presuppositions would typically cause deviation from the expected eventual outcomes.

Thus, individual events will not be evaluated. In some cases, however, evaluations could be conducted in relation to specific events and issues (e.g. events related to independent issues handled in discrete events, such as the second card history in the e-commerce case, or the ExWorks agreement in the grocery case, or the Movida issue in the perfume case). In the study, these were exceptions. Typically, evaluations would be conducted in a more formal manner after sequences of events, and evaluations would rather be referring to a relationship level than to actions, issues, or events. Although none of the cases reflect frequent formal evaluations of outcomes, all cases indicate that informal assessments take place more frequently on an individual level, or in working groups. This suggests that although formal evaluations are made to make status after sequences of events are concluded, frequent informal assessments are conducted during the process to secure "a hand at the steering wheel", often to secure the intended progression. The case data also support the view that several dimensions are important and considered in evaluations. Material values are an important dimension in evaluations, but also symbolic values and emotional values are important, as well as the influence of future expectations.

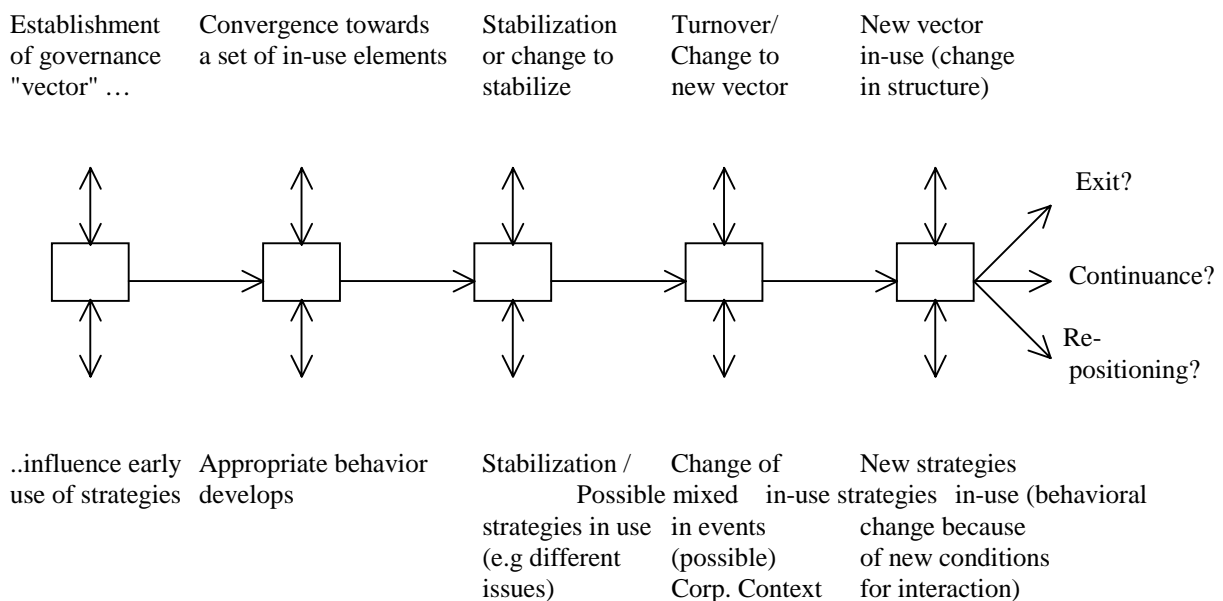


Figure 23: Evolving IORs through sequences of negotiating events

As evaluations typically reflected a relational orientation, rather than an episodic orientation, the mechanisms of governance generally supported such a practice. Incentive structures were designed with a long-term perspective, although their formal duration can be shorter. Elements of hierarchy were introduced in order to establish procedures and decision rules to

smoothen interaction and secure procedural justice, as well as to remove/settle typical conflict issues. These aspects enhanced the development of trust and relational norms, which in turn made it easier to adopt problem-solving strategies that integrated the parties' concerns. This suggests that the actions taken by each party were not typically "instrumental" and aiming at realizing (own) short-term goals. Thus, the intentions to continue to do business in the future placed the focus on "making it work", and restrained more strictly calculative actions.

However, mixed motives were an important characteristic of the relationships, particularly as performance was observed over time. Thus, shifting concerns were reflected through the use of different negotiation strategies. Dominant mechanisms of governance and dominant negotiation strategies changed over time in all cases (see Table 15 in the previous chapter). After the relationships were formed, initial structural and contractual outcomes as well as the negotiation strategies used, influenced the decisive orientation in transactional (operational) negotiations. During the early sequence of events, interaction reflected a convergence towards a specific set of in-use elements of the governance mechanisms (typically elements of authority in combination with elements of trust and norms or, on the other hand, price). This convergence was interdependent on an emerging understanding of appropriate conduct. After some time the relationships seemed to stabilize. As measures of performance became available, a wider range of in use elements of the contractual framework was observed, as well as a wider range of tactics. In addition, authoritative elements seemed to settle and become taken-for-granted aspects of the relationships.

As performance was observed over time, implementation problems and delays were experienced, working groups changed, personnel turnover occurred, decisions were imposed by others or taken independently at different levels, learning, commitment levels, future expectations, and external influences evolved, concerns and goals in the relationships changed. This in turn initiated new aspects of the contractual framework, interdependent on a changed use of negotiation tactics. Typically, contending tactics and withdrawal (inaction) were more frequently observed, coupled with increasing importance of the incentive systems and decreasing importance of trust. Also a clearer combination of trust and incentives coupled with problem solving and contending was observed, often dependent on the relevant corporate/relational context, as multiple levels and entities were involved.

Although the established trust and norms in the relationships could cause delays in terms of dealing with "unavoidable" conflicts to settle or solve the issues, all cases went through change and arrived at a "new understanding" based on the economic potential for future interaction, and often involving contending actions as concerns had changed. However, also problem-solving approaches were observed as related to the economic elements in the relationships. To some extent, trust and norms supported this integrative orientation. When trust and the expectation for future gains were low, the relationship was dissolved although one party seemed to have high expectations for the future (the e-commerce case). In the cases where the economic outlooks were perceived as good, and trust was involved, the interaction basically reflected integrative actions with continuance of the relationships as the final outcome. In case of fading expectations for future gains and ambiguous performance measures, the established trust and norms in the relationship could not save continued cooperation, as price-based contentious behavior was adopted to end the cooperation.

On the basis of this, the following section will discuss the evolution of cooperative IORs with regard to the establishment of the contractual relationship, stabilization, emerging change, and the formation of new strategic directions.

## CONTINUOUS NEGOTIATED AGREEMENTS

### **Initial conditions – The establishment of a framework for exchange**

When relationships are established, they build on an agreement that represents a set of governance mechanisms. Agreements can be informal (non-written), but have often some kind of written documentation in addition. Formal or not, cooperative agreements typically require some coordination often found as shared structural elements. And any exchange is likely to involve compensation and consumption of resources. Hence, most agreements combine different mechanisms of governance. This study, as well as former research, suggests that their actual combinations, relative importance, and the process related to the establishment of the contract are important.

Dwyer, Schurr and Oh (1987) suggested that after initial search for possible exchange partners, an exploration phase followed. During this phase communication and bargaining took place, norms and trust started to develop, and expectations for the future started to emerge. Larson (1992) found that the incentive structures involved were an important and necessary, but not sufficient, rationale for entering a relationship. The economic value of the "annualized transaction was the most obvious incentive" (p.87), and particularly the (assumed) *growth* and *expectations* for increasing returns. As the relationships grew closer, the "administrative coordination" was upgraded, the potential economic rewards from increased future exchanges was "dwarfing" the immediate economic gain from the primary and initial economic transaction, and reliance on trust reduced costs related to safeguarding. Ultimately, as the dyads had become established, she found that they were governed by "social control". Also Ring and Van de Ven (1994) suggest (strongly) that the examination of informal and implicit social contracts is critical in order to understand developmental processes. They proposed that congruent sense-making and psychological contracts among parties increased the likelihood of establishing cooperative IORs.

Discussing her findings, Larson (1992 p.98) writes: "Formal contracts, which might be expected to provide control, were only rarely discussed by the informants. Only four paired firms (out of seven, *my comment*) had formal agreements, and these varied considerably in length, complexity, content, and function. Uniformly, those firms that had written contracts discounted their relevance. In interviews, when asked about why and how these alliances functioned effectively, informants did not place emphasis on contracts, administrative controls, economic incentives, or market data; these were not in the forefront of their minds. It became clear that to understand fully how the structures functioned on a daily and weekly basis required examination of informal and implicit social contracts".

This study provides support for the importance of trust and relational norms as aspects of relational governance. This finding does not represent something new *per se*, as numerous studies have provided support for this view. However, the study also offers an account of how trust changed over time, and the implications of this, which I will return to. Although Larson (1992) suggests that it is particularly important to understand the consequences of social control, this study suggests that understanding social control as *the* primary mechanism of

governance might be misleading. Larson points to the fact that the economic reality was important and that administrative coordination was established and upgraded. This study describes these in detail, emphasizing their importance as *complementary* mechanisms that need to be combined, and also how they evolved over time in relation to each other. Thus, the study suggests that relational governance is a mechanism that is interdependent on other mechanisms as well as interdependent on the actions taken in joint decisive events.

In all cases trust was an enabling condition to establish the relationships, and it made initial interaction easy-going with a reduced probability of dissolution. The interactions related to the establishment of the contracts were eased by the existence of trust as this enhanced information sharing and other problem solving tactics. Furthermore, some potentially difficult issues involving opposing interests could be left for settlement at a later stage. Problem-solving interaction, however, was not only related to existence of trust, but also to the need to find a suitable way to coordinate interaction. In all cases (particularly the project-based cases) hierarchical elements were important. Through these the parties agreed on a set of procedures in order to smoothen and regulate interaction. This brought a sense of procedural justice into the cooperation, an important aspect influencing early interaction. Through establishing joint decisive forums and working groups, the parties shared a common structure in which interaction took place. Through applying expressed and/or implicit decision rules (e.g. consensus) a sense of shared and common concerns for their respective interests developed. As interaction related to the establishment of these hierarchical mechanisms was based on problem solving interaction and involved low levels of conflict, they served to positively affect the levels of trust.

The economic conditions and incentive structures in alliances have been viewed as a key aspect of governance, and in cooperative relationships incentive structures are often related to the distribution of rewards between the partners. As commitment and expectations of long-run equity are important characteristics in many IORs, incentive systems are inherently long-term in nature (Bradach and Eccles 1989, Heide 1994). As many of the empirical studies have been concerned with revenues, gains, and rewards (see Heide 1994 p.77-78), the cases presented here seem to draw attention to an additional issue: the sharing of costs. The sharing of costs seemed to be an important part of the economic realities in all cases, and should be considered. Ariño and de la Torre (1998) also drew attention to the sharing of costs as an explicit and important part of the incentive system.

The cases revealed two important aspects related to the establishment of the economic structure for exchange: the two project-based relationships dealt differently with the incentive systems compared to the perfume case, and interaction to some extent differed between the issues of covering costs and distributing gains. The two projects avoided dealing with the distribution issue. In one case the parties' clearly defined roles also defined separate streams of revenues. In the other one the parties decided to settle the issue at a later point in time when they had (more) experience, as economic information was unavailable and unpredictable at the time of the establishment. In both cases the remaining economic issue involved was the sharing of costs. Both cases provide evidence that traditional, or typical, internal costs in one or the other organization were covered internally. Costs related to "joint" activities and development were covered in turns based on the principle of reciprocity, as they shared costs by "taking turns". Thus, interaction related to costs was typically based on problem solving (and/or compromise) solutions (see figure below).

In the third case, the incentive structure was a much more central aspect of the contractual relation, than in the other two. This relationship became established more incrementally than the other two, but also involved the introduction of hierarchical elements and trust. However, interaction related to the formal contracts dealt primarily with distribution of gains, and involved more frequent use of contending tactics. The introduction of formal (written) rules to regulate interaction on lower levels removed some conflict in the relation and helped in developing trust. Also in this case issues related to the organization of interaction reflected problem-solving behavior aimed at enhancing the coordination.

These initial incidents related to the establishment of the (contractual) framework were important for early interaction, as the behavioral orientation adopted was transmitted to more operational interaction that took place at the same time and after the agreements had been established. Further, these early events had impact on later events.

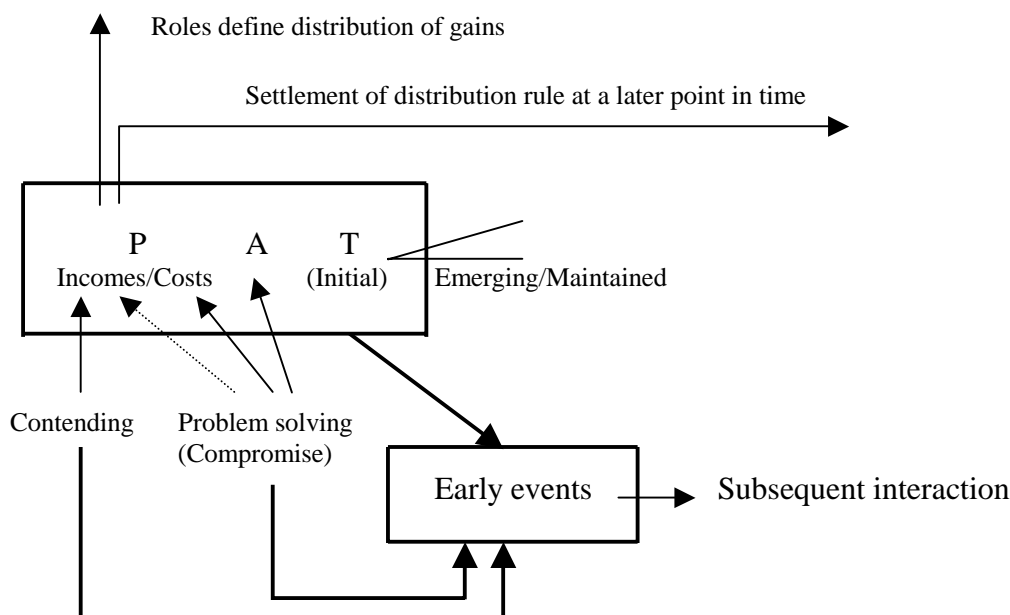


Figure 24: Establishment of contractual framework and contagion to events

Doz (1996) offers some analogous support for the importance of early interaction. He studied learning processes in long-term relations and identified task definition, the partners' organizational routines, the inter-partner interface design, and the partners' expectations as four important initial conditions that facilitated or hampered the partners' learning processes. Initial conditions played "a key role in fostering or blocking learning, and in at least some alliances in allowing cognitive learning (what the managers understand of how the relationship should be handled) but in stifling behavioral learning (what managers can do to better manage the relationship)" (p.75).

Doz (1996), and later Ariño and de la Torre (1998), found that initial agreements and conditions were changed as relationships evolved. Doz (1996) found that as learning took place in relationships and was fed into periodic re-evaluations of the relationship, the partners made adjustments that moved away from initial conditions with regard to task definitions,



routines, interface structure, and expectations. Working from this assumption, Ariño and de la Torre (1998) found that contracts and governance mechanisms were changed as a result of learning, evaluations, and perceived quality of the relationship. Readjustments were made with regard to (financial and resource) contributions and distribution rules, which led to revised conditions (and a new equilibrium). Thus, I will now turn to the developmental processes following the initial events.

#### **Developmental processes: Interdependency and stabilization**

Dwyer, Schurr and Oh (1987) suggested that when relationships had reached a *committed* stage, shared values and/or contractual mechanisms supported joint investments in the relationship, and ensured sustained interdependence where the partners resolved conflicts and adapted. Ring and Van de Ven (1994), assuming transaction-specific investments, proposed that as relationships evolve, informal agreements would increasingly compensate or substitute for formal contractual safeguards as reliance on trust increases over time. Similarly, Kumar and Nti (1998) suggested that during interaction the partners will develop attitudes towards the governing mechanisms and that over time implicit contracts would in part guide the relationship. As actual interaction deviates from expectations, Kumar and Nti reason that the partners might be required to change behavior or modify the implicit contracts. They state that they "observe that the partners will develop various attitudes towards the managerial mechanism governing the alliance" (p. 359), and that commitment, trust and social harmony are attitudes that are "stimulated by perceptions about procedural justice; namely the use of a fair process or mechanism to arrive at decision outcomes and the interpersonal conduct of the individuals responsible for decision implementation" (p 360).

#### *The importance of complementary mechanisms*

This study provides support for these views. However, Dwyer, Schurr and Oh expected that shared values in combination with contractual mechanisms would ensure a sustained interdependence, where the partners resolved conflicts and adapted. This view is only partly supported. While the perfume case provides some support for this view, it is also clear from this case that many issues are not *resolved* (in the sense that conflicts are solved once and for all), but typically *settled* (in the sense that a temporary solution is found that places the issue lower on the agenda for a while). Furthermore, the partners in the case only partly adapted to each other. As they understood the mixed motives of the relationship and each other's private goals, they also to some extent accepted and respected this fact, and therefore did not adapt. Furthermore, the study suggests that the *combination* of governance mechanisms ensured sustained interdependence. In addition to trust and shared goals and values, the hierarchical mechanisms in terms of joint decision forums and working groups, as well as decision rules, were important in the early phases to create sustained interdependence. Also, the expectations for future economic performance were important.

#### *The interdependency on action: Social practice and the limitation of appropriate conduct*

As discussed, interaction in early events was very much influenced by the negotiation strategies used in order to arrive at agreements to cooperate. In turn, these particular modes of behavior were also found in subsequent events (still relatively early in the relationships). In the two projects, problem solving was enabled by the relatively high levels of trust between the parties as well as from existing procedures and decision rules, and as this behavioral mode was to a large extent adopted it served to reinforce these mechanisms. This finding adds to the

findings in Boyle *et al.* (1992), who found that relationalism was positively associated with use of promises and information exchange.

In the perfume case, where the cooperative relationship emerged more slowly and incrementally, the contentious interaction that complemented problem-solving efforts in early events was found in subsequent events as well. As new intentions and a moderate shift in strategic direction was initiated, future expectations rose with regard to business possibilities, and a more problem-solving approach was adopted (both in order to make a closer working relationship possible in the first place, and then to prepare for the implementation of it). This was possible, as trust co-evolved with expectations, information sharing and considerate behavior. As discussed earlier in this thesis, Perdue and Summers (1991) found that engaging in problem solving did not preclude the use of aggressive strategies. For instance, they found that formal planning had a positive effect on both problem solving and tough tactics. Ganesan (1993) found that when the exchange partners had a long-term orientation, conflicts on major issues were resolved through the use of problem-solving and passive aggressive strategies. This behavior also led to higher outcomes and greater satisfaction. The data presented here suggest that satisfaction with outcomes in the early stages and satisfaction with the decision processes that were based on problem-solving and to some extent passive aggressive strategies, reinforced the long-term orientation and further use of these tactics. Although the data distinguishes between the project-based cases and the perfume case, the cases suggest that use of tough tactics are reserved for extraordinary issues and circumstances in cooperative IOR's. Similarly, Perdue and Summers (1991) found evidence for the view that direct and indirect effects of material costs sensitivity provided a strong total effect on tough tactics, and that relationships with a high cooperative orientation tended to avoid tough tactics. This complements the arguments in this study that the use of contending strategies is often related to the incentive structure (the price mechanism), and particularly to the distribution issue.

As shown in the previous chapter, the event-plots revealed a relatively uniform mode of interaction in the first phase of the cases. The relationships were at an early, still not very fragile stage, and the parties interacted in a very predictable and stable manner as the structural aspects settled and a comfortable way of cooperation emerged. Adding to trust and expectations, authority mechanisms removed some possible conflicts through shared procedures and understanding. Over time these elements were adjusted and "tuned" to correct disharmonies and streamline coordination.

#### *Extended discussions*

Interestingly, the case data suggests that a practice related to information exchange also included use of extended discussions. Extended discussions placed the cooperative relationship in context, and through discussions the "surrounding territory" was mapped. Potential major conflicts were avoided in the first place, as they better understood the limits and boundaries for their shared interests. These discussions could take place as the levels of trust were high, and served to reinforce such trust based information sharing. It seems reasonable to assume that an additional consequence of the learning associated with this information sharing was that the parties more easily accepted (and expected) the use of contending tactics, as the parties understood each other's underlying concerns.

*Transaction-specific investments (asset specificity)*

Contrary to much contemporary theorizing on interorganizational relations, the cases studied involved relatively low levels of transaction-specific investments as most technological solutions and knowledge could be transferred to other relations. When physical investments were present, they followed from industry practice (the perfume case). Interestingly, this case also represented the most "competitive" in terms of the parties' concerns and interests. However, some adaptation of wage systems took place.

*Contractual elements as backdrops and sidewings ("taken for granted")*

In the two project-based cases, most of the structural and contractual adjustments occurred relatively early, and the interaction was primarily based on problem-solving strategies. Adjustments were largely related to the hierarchical mechanisms, and to contribution of (new) resources. As the incentive structure in these cases played a "minor" role during interaction in the first phase, and the distribution of gains was not an issue, the structural and contractual aspects were settled. Thus, after some time the mechanisms of governance were rarely addressed as such. Particularly, as the hierarchical elements had been adjusted to the parties' satisfaction, they were not brought up again, and as interaction evolved over a series of events, these aspects seemed to become taken for granted as "sidewings", or "backdrops". As relational norms developed, they became important as change decisions occurred.

In the perfume case, the hierarchical elements were also adjusted slightly due to experience, but soon disappeared as an issue. However, in all cases these mechanisms were important as they secured procedural justice, predictability regarding the process, and stabilized the relationship. In the perfume case, the incentive structure was recurrently brought up for changes and adjustments. Interaction was related to this combined contending and problem-solving tactics in order to reach desirable agreements for future exchange. However, after some time this interaction too became predictable and to some extent based on routine.

In the perfume case mistrust was expressed and threatened to end the relation. As high levels of trust existed in other interpersonal relations on the top level, the issue was settled. The economic expectations related to future transactions were so important that both parties intended to solve the issue. In addition, both parties shared feelings regarding the problem. Thus, this provides support for Ring and Van de Ven's (1994) proposition that when the temporal duration of a relationship increases, the likelihood of termination decreases if a breach of commitment occurs. Furthermore, it suggests that existing trust and future expectations for a prosperous business have the same effect.

*Early experiences: delays and heightened expectations*

Doz (1996 p.77) found that early 'small' events had a "disproportionate importance in establishing, or not, a self-reinforcing cycle of heightened efficiency expectations, greater institutional and personal trust and commitment, joint sense-making and learning, and greater flexibility and adaptability". Somewhat similar findings are offered by Ariño and de la Torre (1998 p.321), who observed that "changes in the relative value-to-contribution ratios for both partners are small but positive, and serve to strengthen mutual bonds at this early stage in the venture's life".

As discussed, early events in all cases had significant impact in subsequent interaction and served to anchor certain modes of behavior and reinforce the mechanisms they related to. In

all cases early events served to heighten efficiency expectations and the mutual bonds between the parties. Although both project-based relationships experienced delays, partly due to unexpected problems, insufficient commitment of resources, and extensions of the project, these delays did not affect future expectations negatively. Rather, the cases seem to provide support that the ability of the parties to overcome these obstacles served to positively affect future expectations and mutual bonds. This seemed to be important for the emergence of social practice.

*Corporate contexts and "export" of issues*

An interesting finding was the practice related to export of (conflict) issues. Furthermore, which corporate context an issue was perceived as belonging to seemed to be important (see figure below). In the two project-based cases, issues that were perceived as (potential) conflict issues occurred relatively early in the cooperation. As the parties feared that the cooperative climate could become disturbed and that (contentious) interaction related to the particular issue could influence the behavior related to other issues, they chose to deal with the issues in separate meetings. These meetings would often take place after cooperative meetings, and often involved the same people.

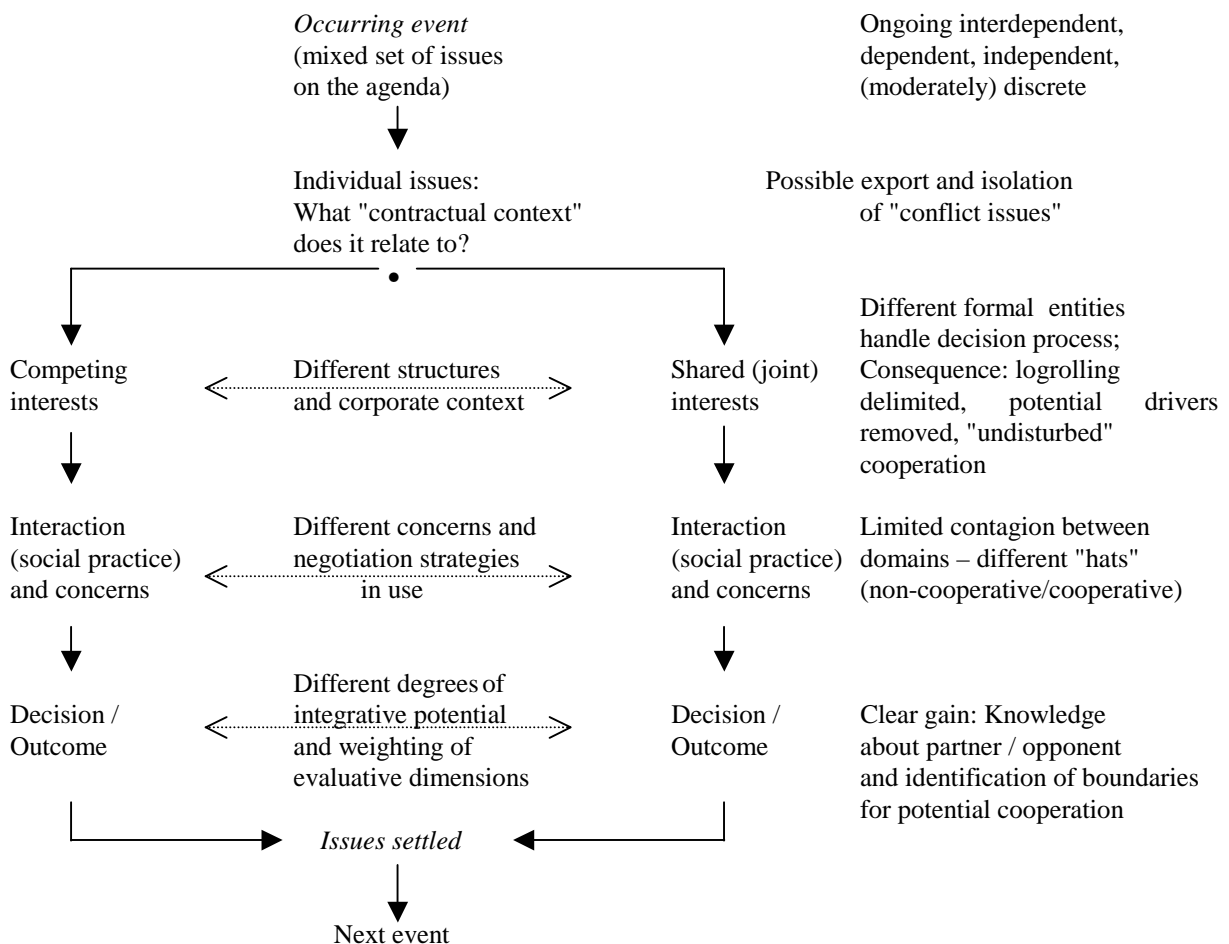


Figure 25.: Decision making and varying degrees of mixed motives

However, as the formal setting had changed, the participants "changed hats" and dealt with the issue independent from the others. These issues would more often involve opposing interests,

and interaction would typically be perceived as "traditional negotiations" (a more distributive approach). In this way, they managed to keep the cooperative efforts separate from more "commercial" exchange issues (a term used by the informants in the grocery case).

In the e-commerce case, the possible card agreement was discussed in other corporate settings, and not in the project group. However, as discussed earlier, a consequence of this might be that some potential "driving forces" are removed from the cooperative agenda, and also limit the potential for logrolling.

Also in the perfume case, the corporate context in which an issue occurred seemed to matter, although this aspect emerged more slowly and in relation to the increasingly specialized growing chain. Whether an issue occurred between the chain and the supplier division dealing with selective products, or between the chain and the supplier division dealing with broad products, mattered. A similar development occurred in the grocery case in the second half of phase 2 and in phase 3, as the two flows were increasingly viewed as separate projects, and behavior (or social practice) related to the two tests developed differently.

All cases exemplify that cooperative relationships are very complex, as interaction takes place in multiple (or different) corporate contexts (e.g. divisions), over several levels, and in multiple entities (e.g. working groups). As these also to a great extent involved different individuals, different norms, approaches and social practices were allowed to emerge.

#### *Cooperation and the issue of levels*

Moore and Moore (1990) suggested that cooperation was likely to occur and persist at higher managerial levels between organizations, than on lower managerial levels, as they supposed that higher levels involve fewer "players" that are easier to identify, obtain information about, and track in order to determine patterns of behavior and consistency between announced intentions and behavior. This study questions this view, as the studied organizations typically organized their interaction into smaller groups on several levels, basically in order to enhance cooperation. Thus, the findings suggest that cooperation occurs and persists on multiple levels between organizations. Furthermore, the cases show that expressed cooperative intentions and decisions are often left to implementation on lower levels. Thus, it is not necessarily sufficient to track consistency between expressed intentions and behavior at higher levels, because implementation efforts are spread over several levels. Although consistency is found at higher levels, there might be inconsistencies between levels, as personnel responsible for implementation on lower levels might be exposed to conflicting goals or dysfunctional incentive structures. With limited time and many responsibilities, lower level employees might be forced to act inconsistently with expressed intentions at higher levels. This makes tracking of consistency difficult and possibly misleading if all relevant levels are not included.

Landeros *et al.* (1995) discussed maintenance of buyer-supplier partnerships, and suggested that over time different kinds of corrective action would occur in order to sustain relationships. Doing so, they suggested that corrective action could occur on the operational level, or at the managerial level. They also provided some examples to illustrate how problems not solved on the operational level could initiate interaction on the managerial level. The empirical data provided here also suggests that top-down sequences are equally important.

As discussed in the previous chapter, individuals at different organizational levels might be exposed to different contractual realities, as their interaction is influenced by and given direction from not only the agreements per se, but also decisions and behavioral orientations at higher levels. In addition, they might be exposed to several tasks following from several agreements, which might even be conflicting. Thus, understanding the issue of levels in terms of interdependency, dependency, and independence seems to be important. Figure 26 (below) is an initial attempt to model this. I am primarily interested in the dotted lines in the figure. The solid lines (filled with gray) represent the initial conceptual framework.

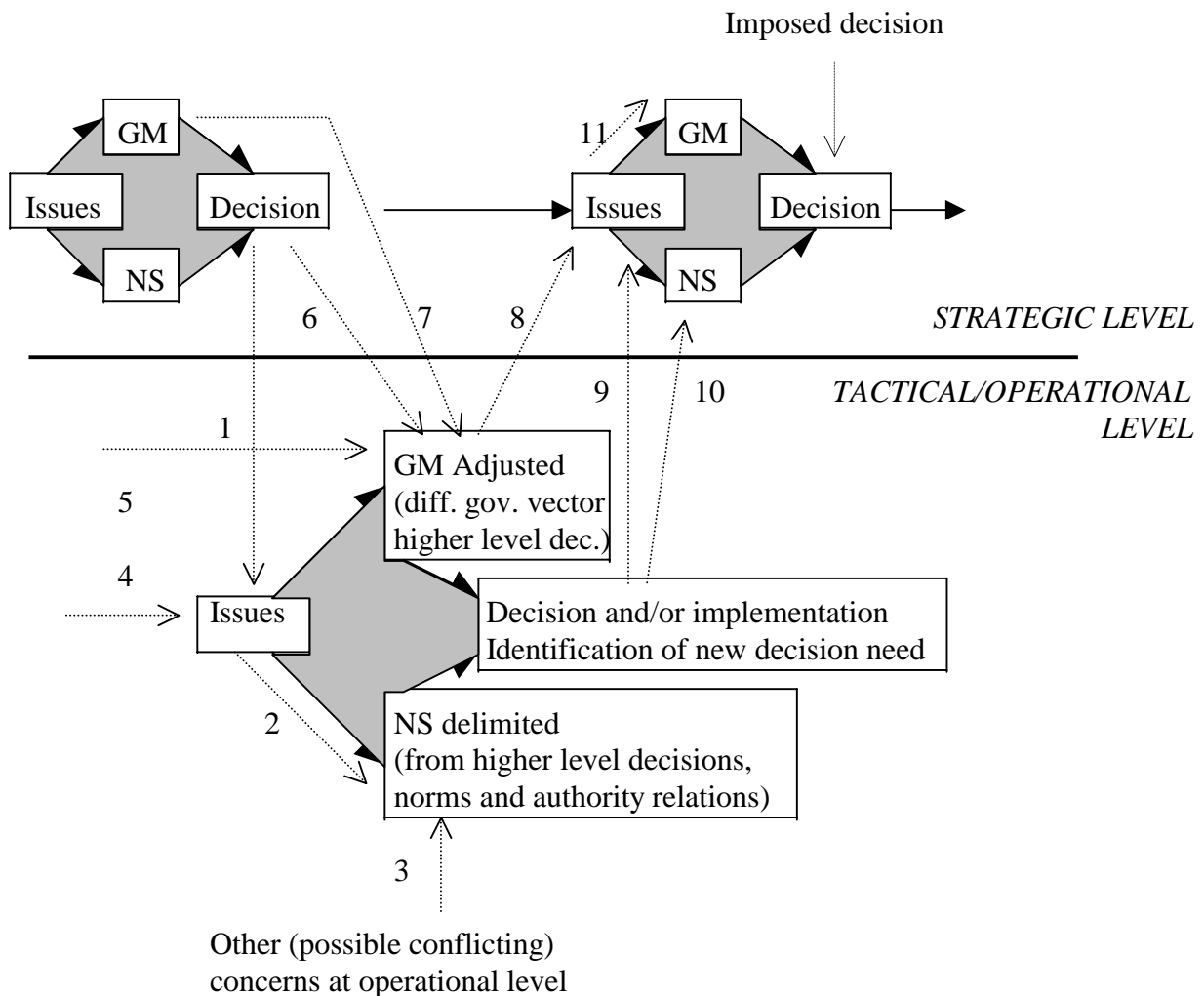


Figure 26: Different levels, contractual frameworks, and orientations in decisive events and subsequent implementation (relative dependence)

The data suggests that after a decision has occurred at a higher (strategic) level, the details and implementation are often left to lower levels (tactical and/or operational) for further specification of details and/or implementation, and thus gives rise to issues on lower levels (1). However, the model recognizes that issues might be raised on lower levels as well (4). As an issue is handled, the former decisions at higher levels are likely to influence the chosen orientation by individual agents (2), but these agents might also be under influence of other

concerns (3) such as their other operational tasks, and how the actual issue relates to other cooperative and non-cooperative realities. As the decision process related to the issue(s) starts, the relevant mechanisms of governance might be slightly different from the ones that are relevant at higher levels. This might be due to the fact that other contract documents might be relevant or practice might have established a different combination of mechanisms-in-use (5), the range of appropriate mechanisms might be affected by the former decision and the process behind it (6), or the mechanisms' existence per se might be important (7). As a decision is reached at a lower level, and implementation initiated and/or completed, further issues and/or problems might arise and be returned to the strategic level (9). As these are, in turn, handled at a higher (strategic) level, appropriate use or reference to mechanisms of governance might be affected by the mechanisms put to use on the lower level (11 by way of 8), as well as the outcomes (decisions) achieved (reached) on the lower level (11 by way of 9). In addition, experiences from use of negotiation strategies on lower levels might influence choice of negotiation (decision) strategy on higher levels (10).

Possible and additional paths, which are left out and most likely to raise questions, are the influence of strategies-in-use at the strategic level on strategies-in-use at lower levels, as well as the other way around. The data indicates that negotiation strategies are more fluid than structural properties, as well as more easily changed and influenced by more subtle factors (other daily problems, personal dispositions, etc.). It thus seems harder to argue for these relationships. However, explicit indirect paths are indicated (by way of 1, 2 and 10).

This recognition of multiple levels and multiple entities, acting under different contractual realities, and the possible use of different negotiation strategies in cooperative relations is rarely discussed in the literature. In addition, such negotiation/decision entities are not closed or separate systems, but include secondary ties that might add further complexity to the situation. However, the above discussion provides some ideas for further investigation.

The discussion above implies that although relationships are likely to go through phases that are relatively predictable and stable, the seeds for change are inherent in any (joint) activity. I will now turn to discussing developmental and emerging change.

#### **Developmental processes: Emerging change and the impact of observed performance**

The within- and cross-case analysis showed that although the cases passed through event sequences that were relatively stable, emerging change occurred in all cases. Change was brought about for several reasons, and had different consequences. Although interactions in later sequences in all cases also to some extent were stable for periods, they typically represented different practices, rather than earlier interaction.

As shown in the previous chapter, mechanisms and strategies in-use changed over time. Interestingly, the cross-case analysis revealed that after the relationships had settled onto relative stable tracks, interaction involved a wider set of combinations of governance mechanisms and negotiation tactics. This might be explained as a consequence of emerging trust, and reduced uncertainty for possible dissolution of the relations. As the parties felt more certain of future interaction, and the established personal relations represented experience and learning about each other that was not questioned on the basis of single incidents, they started to make use of new tactics and relate to other aspects of the agreement (as opposed to formerly).

Particularly, authority mechanisms became less "important" over time as an issue or as directly referred to, while trust and incentives became increasingly important, often in combination. The cases that started out basically with a problem-solving approach, over time increasingly made use of integrative strategies with less value-creating potential (inaction and compromise) and contending tactics. On the other hand, the case that made substantial use of distributive (contending) tactics in the early phase, over time increasingly made use of problem-solving tactics. Furthermore, these behavioral modes were also found in combination.

*Contractual stability and change*

One of the most important sources of stability in the contractual frameworks was probably the hierarchical authority mechanism. Over time, these contractual elements were more stable than the actual levels of trust and the relative importance of incentives. Also, the hierarchical mechanisms defined a set of procedures that represented a sense of continuity and predictability in itself.

Larson (1992) suggested that hierarchical and authority-related mechanisms changed over time as administrative coordination was upgraded and organizations gradually became "more closely integrated through the increasingly structured exchange process" (Larson 1992 p.89). Doz (1996) found that task definition and the interface design were changed, while it was harder to adjust "the partners action routines they borrowed from their organizational ... contexts" (p.76). As relationships had become established, Larson (1992) argued that formal contracts, administrative controls, and incentives and market data were relatively unimportant in her "informants minds" as compared to informal and implicit social contracts.

The findings offered here partly support Larson's and Doz' findings, as the hierarchical mechanisms in the perfume case and to some extent in the grocery case evolved gradually. In the two project-based relationships most of the "administrative coordination" took place very early in the exchange/development process, and gradual changes occurred as adjustment needs occurred over time. However, the basic elements were established early, major corrections were made early, and as the relationship developed, these mechanisms settled. This was also to some extent what happened in the perfume case as well, but here, the shared forums for interaction and decision-making (the Market Council and the top management meetings) became increasingly important as their relationship grew closer and the transaction volume increased.

Although not frequently brought up as the relationships had passed the initial stages, some adjustments of the authority mechanisms took place as the relationships went through transition phases. In the e-commerce case, an additional decision forum was established to handle emerging marketing issues in the relationship, and some forums were dissolved as the *technical* development was completed (the increasing need to plan and implement joint marketing activities related to the introduction of SET 1.0, which failed, and the dissolution of the steering and project groups as SET 1.0 was introduced). Furthermore, the dissolution of the steering group added to the difficult situation, and it is hard to say if things would have turned out differently if the group had continued (probably not). In the grocery case, some group structures were adjusted as a new phase was entered. Also, the administrative coordination was brought up as the pilot project was initiated, and interestingly, the main elements from the test were continued in the pilot.



As hierarchical elements had been appropriately adjusted, they seemingly evolved into becoming "taken for granted" aspects of the contractual framework, and served more as a backdrop for interaction. However, the mechanism was important in terms of defining how interaction took place.

*The breakup of recursiveness of practice*

The cross-case analysis revealed that not only did the contractual realities change over time. At the same time the participating individuals changed their approach and tactics in negotiations (events). Thus, the established social practices were changed.

The idea of recursiveness of social practice assumes that interaction between purposive and knowledgeable agents become routinized and recursive and that reciprocity between agents (social integration) and organizations (system integration) over time are involved. Although the empirical data suggest that interaction to some extent is stable and that routines become established over sequences of events (as interaction in events created dominant clusters), an explanation strictly building on recursiveness does not capture the evolution for several reasons. First, some events represent deviations from the established routines. Secondly, contractual change often seems to come as "steps", as mechanisms are stable for a period of time and then suddenly change, before they again remain unchanged for a time. In addition, contractual change to some extent could change routines directly. Thirdly, over the three phases the routines and established "rules" for interaction changed, typically slowly yet in all phases. Furthermore, deviating interaction in key events could involve surprising conduct that broke or changed routines. And finally, the data indicate that multiple practices develop related to different corporate contexts, different issues, or different persons. Thus, recursiveness of social practices to some extent explains developmental processes, but a mere reliance on recursiveness does not appear to be sufficient. These findings are interesting.

An alternative perspective for explaining behavior is the Prisoners dilemma (see Axelrod 1984). Although this perspective represents classical game-theoretic reasoning, Heide and Miner (1992) successfully applied the Prisoners dilemma framework in studying buyer-supplier cooperation. Also Larsson *et al.* (1998) applied a somewhat similar reasoning. Hence, it is reasonable to consider a game-theoretical explanation.

Larsson *et al.* (1998) developed a conceptual "negotiation strategy" framework for interorganizational learning in strategic alliances. They suggested that successful learning in alliances was dependent on each party's transparency (ability to "teach") and receptivity (ability to "learn"). On the other hand, organizations are not likely to unveil all secrets, and often do not possess sufficient or suitable competencies for receiving and understanding the knowledge offered. Furthermore, interorganizational learning is complicated by the following dilemma: "1) being a good partner invites exploitation by partners attempting to maximize their individual appropriation of the joint learning, and 2) such opportunistic learning strategies undercut the collective knowledge development in the strategic alliance". Thus, two fallacies must be avoided: the good partner fallacy and the learning race fallacy. Based on this view, they created a typology of five learning strategies in IORs.

Through applying game theory, they suggest that each party's adoption of negotiation strategies in a sequence of events is shifting as a (direct) consequence of the strategies used in

the previous event. Consider for instance their first proposition (p.293): "If one organization adopts Collaboration in t1, then the other organization that adopts: (a) Collaboration or Compromise in t1, will tend to adopt Competition in t2; (b) Accommodation in t1, will tend to adopt Avoidance in t2". Their initial set of propositions represent negative spirals, due to decreasing (or low) transparency and receptivity for learning. However, if the learning dynamics are empowered by high learning stakes, prior relations, long time horizon, and trust, they suggest that positive spirals based on collaboration can develop. The data presented in this study offer no support for Larsson *et al.*'s (1998) propositions based on game-theoretical reasoning, but to some extent provide empirical support for their propositions that account for the above mentioned empowering situational factors. However, while the negative spiral basically evolves into matched avoidance, their positive spiral seems to be predestined for integration where both organizations adopt collaboration strategies. Thus, the empirical data in this study suggests that other developmental paths are possible under the same conditions.

In the prisoner's dilemma, interaction will be stable in case of mutual cooperation and if the expected duration of the relationship is long (infinite). Two of the cases started out with mutual cooperation, but interaction over time was not stable, but mixed. Nor did the relationships develop along clearly negative spirals into situations of mutual adaptation of competitive behavior (defection). Based on this, classical game-theoretical reasoning does not represent a good explanation for the developmental processes, even when situational factors are included. However, the continued relationships share some of the characteristics related to empowering situational factors as described by Larsson *et al.* (1998).

As discussed earlier, social practices developed and became recursive. Furthermore, different practices developed on different levels and established practices could be disturbed by imposed decisions and competing concerns (priority problems) during implementation. It seems that social practices are to some extent "fragile". Based on the cross-case analysis, I will discuss the impact of market development and performance measures, relational quality and states, impact of personnel turnover, problem generation, emerging split-ups, and the impact of relational norms.

#### *Impact of measures and corrective economic information*

Opposed to Larson (1992), Ariño and de la Torre's (1998) study suggests that the evolution of the incentive systems, both in terms of costs and incomes, is important in order to understand the evolution of relationships. The event history of their case indicates that the incentive systems were brought up for revision several times as a result of (new) economic information and adjustments in expected future return. Also the cases presented here suggest that the incentive structure, observed financial performance, and future expectations are key issues in long-term relations. A similar view is offered by Ring and Van de Ven (1994), who placed efficiency and equity concerns in the hub of their "evolutionary wheel", and proposed that economically unfavorable alliances over time might lead to dissolution. However, such a decision might take time to reach due to the social aspects of relationships, and might require external interventions (Van de Ven, Venkataraman, Polley, and Garud 1989).

As discussed earlier, the economic incentives involved in the cooperation are not only important in terms of expectations for future rewards, but are frequently brought up as relationships evolve. Of particular importance are available measures of economic performance, as transactions take place over time, and expectations are corrected for *observed*

performance. These measures have impact on the strategic direction of relationships, and for the parties' further commitment to their joint efforts. Particularly in buyer-seller relationships, the incentive structures are regulated in formal contracts, at least in terms of distribution of rewards, as the data suggest that acceptance of costs is relatively more related to informal agreements. Although informants in this study also stated that the formal contracts were not used actively in joint events, the data suggest that they are still important, as some interaction related directly to the evolution of the formal contracts, but maybe more importantly, the formal aspects to a large extent informed, influenced and added to the informal and implicit understanding.

Although the incentive structures and available measures of economic performance were important and had important impacts on relational development in all cases, this is not to suggest that informal and implicit understanding and agreements were unimportant. In the two project-based relationships, informal agreements and trust were important elements during the establishment of the relationships, and were important conditions for the subsequent interaction and implementation success in the early phases. In the third case, trust co-evolved with shared strategic intentions and the positive development of economic measures over time. The data suggests (strongly) that unfavorable economic measures affected future expectations, and had consequences for the strategic redirection of the relationships. Even under conditions involving moderate to high levels of trust and strong relational norms, these conditions did not secure continued cooperation when the bottom line failed to meet expectations.

Evaluation of outcomes was typically conducted after sequences of events had been completed, and the data suggests that several dimensions are considered. However, when the observed material value and adjusted future potential failed in meeting expectations, these criteria dominated symbolic and emotional dimensions. Clear and complementary roles and having "enjoyed" the cooperation became second to "business". Similarly, when business was doing well, it served to secure continuation even if serious conflicts occurred.

*States and relationship quality: "How is it really going?"*

"Relationship quality", write Ariño and de la Torre (1998, p.307), "is an elusive but important concept. It depends partly on the personal bonds between key executives on both sides, on their trust in each other, and on the broader reputation the partners have for fair dealing. ... But is also affected by more objective assessments of previous contributions made by the partners in the relationship". Relationship quality might be influenced by external events, as well as by initial (contractual) conditions such as appropriate use of hierarchical mechanisms such as definitions of tasks and decision rules, and rules for distribution of created value that provide incentives to both parties to behave as intended. Over a sequence of events evolving initial conditions, issues, and external change accumulate and influence assessments of relationship quality. Ariño and de la Torre's study indicates that relationship quality is evaluated in addition to efficiency and equity assessments, and that relationship quality has impact on the developmental process. Thus, relationship quality is both an outcome and a mediating variable (Ariño and de la Torre 1998).

Kumar and Nti (1998) suggested that the state of a relationship is defined by a combined measure of process and outcome discrepancies, and that observed discrepancies could be related to shifts in strategic direction of one or both parties.

Jap (1999) suggested that interpersonal states represented the micro conditions that could impinge on or facilitate (positive) developmental processes. She found that interpersonal trustworthiness had a significant positive effect on coordination efforts, but did not find the expected positive effect on idiosyncratic investments. She also found support for coordination efforts having a significant positive effect on profit performance at time 2 (measured one year later).

The empirical observations provided here suggest that the perceived quality, or state, of the relationship has impact on relational developmental processes. It has previously been discussed how rules and procedures had positive impact on the perceived quality of the relationships, as it helped to reduce the level of conflict. Furthermore, trust and relational norms both on an individual and organizational level contributed to (good) relationship quality. As some of the micro conditions discussed by Jap (1999) eroded in the project-based cases, the perceived quality of the relationship was negatively affected. As discussed above, observed performance had an impact. In the two project-based cases, negative results affected the perceived quality negatively. Similarly, the continued relationships showed good results that affected the perceived quality positively.

In the grocery case, the continuing resource problems in the early stages of the relationship did not effect the perceived quality negatively, at least not in a significant way. However, as the issue was addressed continuously, negative impact developed. In addition, the substantial turnover in late phase 2 of the grocery case was reported to have a negative impact on the perceived relational quality. In turn, the perceived relational state had effect on the subsequent decisions to continue, change, or dissolve the relationship.

Although it was SOL's decision to dissolve the relationship (the e-commerce case), the negative impact on trust and perceived relationship quality that followed from this second turn-down of a co-branded card, contributed to a passive Europay organization. This was certainly not positive for the relationship.

In the perfume case, the positive sales development, the well-functioning Market Council, the positive effects of the contract supplement, as well as the increasing trust between the partners positively affected the perceived quality of the relationship.

Whether positive or negative, perceived quality seemed to have consequences for which contractual elements were emphasized, and for the use of negotiation tactics in decisive events. An interesting similarity between the two project-based cases was the withdrawal and inaction found in the last stages of both relationships. In both cases, the perceived quality of the relationships seemed to contribute to this particular mode of behavior.

#### *Impact of personnel turnover*

Ring and Van de Ven (1994) proposed that as reliance on trust among parties increase over time, psychological contracts will increasingly compensate for or substitute formal contractual safeguards. This thesis supports this proposition. However, they further proposed that these informal understandings and commitments would be formalized when the temporal duration of IORs is expected to exceed the tenure of agents. The data in this study suggests that such formalization does not take place, and that personnel turnover might have negative impacts as

routines, priorities, and strategic orientations might change. The explanation for this seems to be threefold: 1) the parties have not reflected over the possibility that informal agreements might be lost in case of turnover, and therefore do not take action to formalize the intention and content in psychological contracts, 2) the parties rely on "the system" and believe that whatever is agreed will be followed up as the relationship continues, and 3) turnover is more likely to occur in situations when the relationship quality is deteriorating, as participants do not find it sufficiently interesting to be part of it any longer and quit, or middle managers in key positions and with sufficient control over their own time give priority to other (pressing) tasks. Of these, the third is the more speculative. With regard to the first, one informant expressed this reason. The second is related to the first: the "taken for granted" aspects of hierarchical mechanisms seem to cause an inability of the participants to address structural issues. In both the two project-based relationships, turnover of key personnel occurred at critical stages in the relationships, and despite this turnover being expected, no attempts were made to secure the implicit agreements that rested with those who left. Thus, the findings in this study are similar to the findings by Ariño and de la Torre (1998).

Also the findings presented by Ariño and de la Torre (1998), suggest that such formalization does not occur. In their case study an important finding was that turnover occurred in both organizations. This had impact on the developmental process, particularly because it occurred in-between contractual, strategic and tactical changes. As performance was evaluated during the cooperation, and related to the evolving strategic direction of the parties, these coupled events seemed critical. They write: "A series of heavy blows follow, chief among which is the departure of the two founding fathers (Event 6). Agreements and understandings that may have been implicit in their thinking, or that could have been articulated in an informal telephone call, are now easily misinterpreted by those not involved in the original design and negotiations. Thus, unaided by this earlier sense of purpose, the partners' relationship and their perceptions of equity begin to diverge in an escalating manner" (Ariño and de la Torre 1998 p.321).

The findings in this study also suggest that when new key personnel are assigned to the cooperative relations, they bring with them their own views, priorities, and long-term goals. These are not necessarily the same as their predecessors. Furthermore, the governance mechanisms change as a consequence of turnover as new personal relations are established, the level of trust is likely to be affected as new personnel do not share the relational history and do not possess the same understanding of the relational norms that has developed over time. As a consequence they have to come to terms with the situation. As interpersonal trust takes some time to develop, although institutional trust and the web of personal relations already in place can potentially speed this process up, the incentive systems and performance measures, as well as the established hierarchical mechanisms become important sources of information. Consequently, the relative importance of these mechanisms of governance might increase. The data suggests that institutional trust and the organization of interaction provide the successor with a sense of what the cooperation is like, while performance measures provide input for what to do. The "new leader/new agenda"-relationship is classical, and seems relevant here.

The perfume case represents another perspective on the consequences of personnel turnover. Sometimes the personal relations in cooperative IOR's are bad, trust might be low, and even mistrust might be expressed (as was the case). In this situation, the relational development

was impinged on and "put on hold". When eventually personnel turnover occurred, the problematic situation was corrected, and a more cooperative agenda was established. Thus, depending on the former situation, turnover can be positive for relational development.

*Problem solving and problem generation*

The cases also suggest that extensive use of problem solving could become a source of problems in itself. In the grocery case, the cooperative project "grew" as they got going, and external change added new issues to the relationship. Their intentions were ambitious, and through integrating both parties' concerns they made decisions that became difficult to implement. Resources were frequently discussed, and personnel responsible for implementation were exposed to priority conflicts. Thus, as decisions based on problem-solving strategies accumulated, implementation problems occurred and became a source for new problems over time. This situation seemed to have (negative) consequences for the perceived relationship quality, and for the performance of the test.

*Emerging split-up of relationships*

All cases went through a transformation of the relationships that led to an emerging split-up of the relationships. In the e-commerce case, marketing issues initially discussed in the project group was after the first phase placed with a separate marketing group that for the most part remained passive. In the grocery case, the two parts of the test became increasingly separated in order to become more focused. This initial separation was reported to have positive effects, but over time it led to further separation when the respective measures were available, and ultimately the two parts of the test were viewed as separate initiatives of which one was terminated. In the perfume case, the division between selectively and broadly distributed products became more and more visible. For some time, purchasing of broad products was moved from Esthetique, and supply was channeled through Narvesen Perfume Wholesale. Then the Esthetique management handled broad products again, but the two corporate contexts were increasingly separated. Broad products continuously accounted for smaller shares of Esthetique's revenues, and both the contractual realities and negotiation strategies departed from the ones observed in the high-end context.

Except for the e-commerce case, which lasted for only about 18 months and when most things happened fast, the split-up emerged slowly and incrementally. The data do not support the suggestion that there was a plan behind it. Rather, it just "seemed to happen" that way. The initial decisions seemed to involve trust-based problem-solving. However, as the issues occurred over time, the interaction was increasingly based on the price mechanism, to some extent in combination with trust and relational norms (in particular preservation of the relationship). Furthermore, the decision processes were increasingly based on distributive tactics. The costs associated with further implementation and the accumulating financial measures seem to be an important explanatory factor.

As the cooperative relations had in fact been split up, the developmental processes in the project-based cases were characterized by withdrawal, before the behavioral orientations parted into distributive and integrative efforts that led to dissolution and/or continuance. In the perfume case the two domains (selective/broad) involved different dominant governance mechanisms and negotiation strategies.

*Trust as "glue"*

Van de Ven *et al.* (1989) and Ring and Van de Ven (1994) suggested that decisions related to dissolution might take time to reach due to the social aspects of relationships, and might require external intervention. The present cases did not involve direct external intervention, but were under the influence of external circumstances. However, the grocery case provides evidence that trust and personal relations can delay such decisions. It seemed to be the case that the close personal relationships in the grocery case caused the parties to withhold from open conflict with regard to the continuance of both flows, and that the decision to terminate one part of the test was for some time avoided. When the decision finally was taken, the decision-maker was new to the cooperation and not restrained by the social aspects of the relationship.

**Developmental processes: Experience, changing concerns,  
and the formation of new strategic directions**

Ring and Van de Ven (1994 p. 107) proposed that "as the temporal duration of a cooperative IOR increases, the likelihood decreases that parties will terminate the relationship when a breach of commitment occurs". In this study, only the new and relatively short relationship represented (final) termination. Furthermore, they propose that "when significant imbalances between formal and informal processes arise in repetitive sequences of negotiation, commitment, and execution stages over time, the likelihood of dissolving the cooperative IOR increases" (Ring and Van de Ven 1994 p.108). This implies that when a balance between informal and formal processes is obtained, continuance of the relationships is enhanced. They discuss how excessive legal structuring and monitoring of the relationship causing mistrust, the conflicts between role and interpersonal behaviors of organizational parties, the conditions for violation of trust, and escalating commitments to failing transactions, might explain dissolution.

It seems that we know more about the formation of IOR's than their termination. Although the issue is discussed in some papers, few studies provide an account of how and why relationships actually become terminated. If we stick to Larsson *et al.* (1998), termination could be understood as a result of *negative learning spirals* (in the context of low or no empowering conditions). Kumar and Nti (1998 p.364) proposed that while (a combination of) favorable process and outcome discrepancies lead to a stable alliance, *unfavorable discrepancies* lead to a contested or unstable alliance.

Empirical studies have provided some accounts. Larson (1992) reports (although she did not study dissolution) that after data collection, two relationships were dissolved: One because a large bureaucratic partner could not *respond quickly enough* to changing needs, and the other due to *deregulation* of the industry and new legislation. Niederkofler (1991) found that *sustained operating misfit coupled with dependency* between the parties over time led to a strategic misfit. This situation was dealt with through a re-negotiation and repositioning of the alliances or the relationship was dissolved. Doz (1996) compared successful and unsuccessful alliances and found that alliances that failed were highly *inertial*, represented *little or divergent learning* between cognitive understanding and behavioral adjustments, or involved *frustrated expectations*. On the contrary, successful alliances were highly evolutionary and went through a sequence of interactive cycles of learning, reevaluation and readjustment, and achieved a favorable process from the outset. These projects learned effectively, understood and adjusted to success requirements, developed higher levels of trust,

higher expectations, and higher levels of commitment. Ariño and de la Torre found that "the partners assessments cause them to either engage in renegotiation of the terms of the contract, or to modify their behavior unilaterally, in an attempt to restore balance to the relationship" (1998 p.306). Over time, as no mutual understanding of equity was restored, their *interests diverged* and the relationship was dissolved.

This suggests that the changing importance of governance mechanisms and negotiation strategies should be closely related to the dynamics of their contexts in which they change. As discussed, initial states and early interaction is important. Social practices develop, but over time they change. The use of mechanisms and strategies has impact on the outcomes achieved in cooperative IORs and these also in part define "states" or "relationship quality" in the relationship. These are frequently evaluated informally, and typically more formally after a series of events that define a sequence or phase in the cooperation. Such assessments in turn influence the evolution of social practice in the relationship, as an understanding is established that gives rise to changes and reinforcements of particular modes of conduct.

Several sources for, and consequences of change have been discussed. All of these might be forceful enough to bring about strategic change, but it is reasonable to assume that several of these developmental characteristics will co-occur, that they to some extent represent mutual constitution, and that they have impact on the context within which they take place. Based on the empirical observations (and to some extent the studies discussed), I have attempted to model the process related to emerging strategic change and the establishment of new or revised contractual frameworks (see figure on next page).

Emerging strategic change can be triggered by external as well as internal (organizational and dyadic) conditions. Four important external influences are identified: Industry practice, economic trends, impacts from network relations, and changing legislation. Internal conditions are defined by previous interaction and outcomes, but might also be influenced by external conditions. Internal conditions are grouped into relationship quality and states, and contractual and behavioral change. Relationship quality and states are defined by the evolution of expectations and commitment, learning, implementation achievements, imposed decisions, and changing presuppositions for the cooperative relationship. Contractual and behavioral change is defined by the impact of performance measures, or personnel turnover, changes in decision and implementation entities, emerging split-up of cooperative domains and discontinuation of practices.

The data suggest that as these circumstances evolve and accumulate over time, they have a direct effect on emerging strategic change. These circumstances also bring increased uncertainty and turbulence into a relationship. New personal relations need to be established, new managers focus on internal matters to get a hold on the situation, and former experiences might have impact on the priorities given. These aspects are not necessarily addressed in the dyad *per se*, but are assumed to limit or initiate interaction and information sharing, together



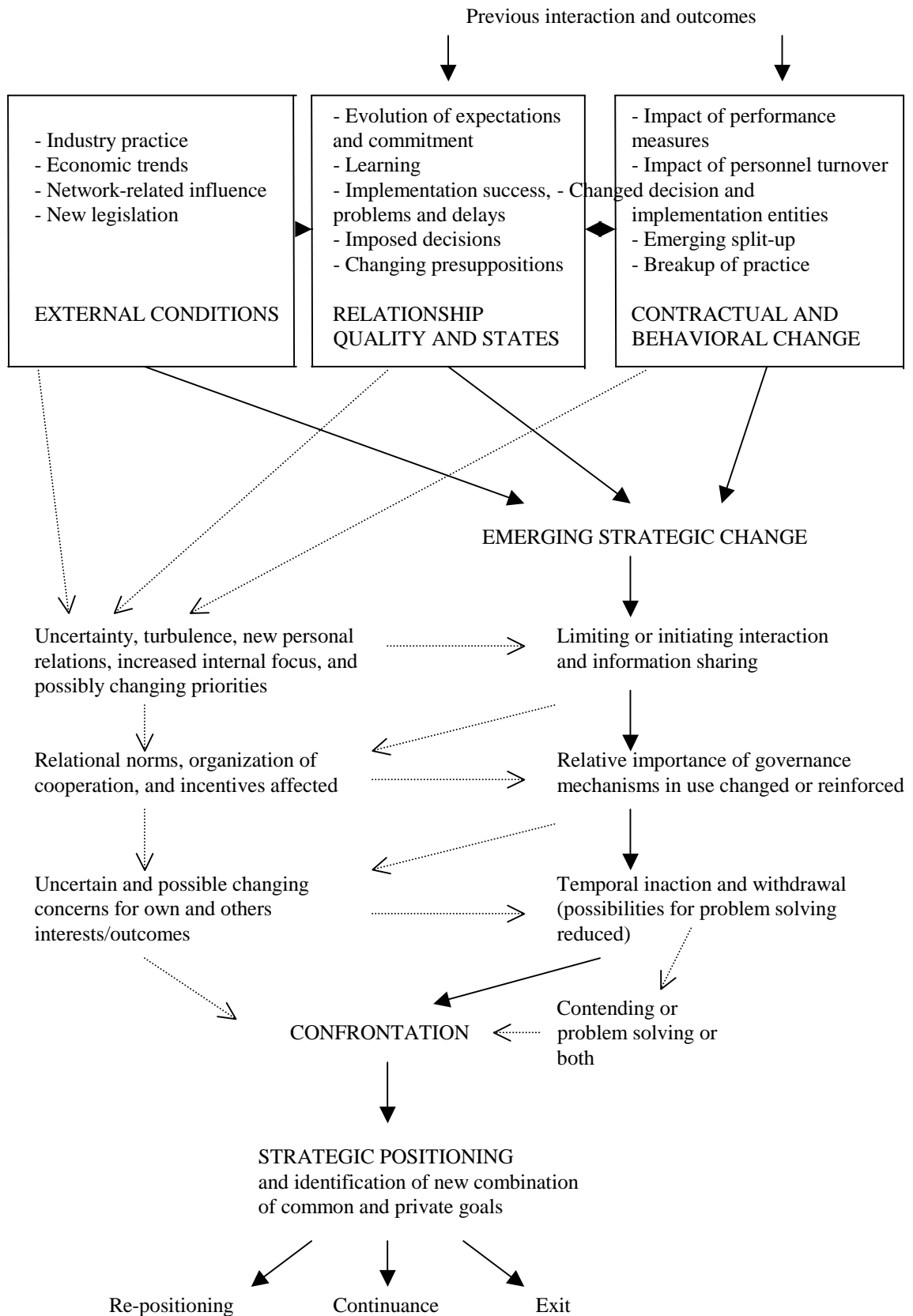


Figure 27: Emerging strategic change and subsequent repositioning

with the emerging strategic change. Whether interaction and information sharing are delimited or initiated, depends on the nature of the situation, and whichever effect, the situation is likely to cause changes for how the relational norms, organization of interaction, and incentive situation are perceived. Uncertainty, turbulence, personal relations, changing focus and priorities also influence these perceptions.

Interaction and information sharing regarding the situation, as well as perceptions of appropriate governance mechanisms suited to manage the situation, together have an impact on the relative importance of in-use mechanisms, which might be changed or reinforced. The actual use of governance mechanisms as well as their perceived appropriateness in turn cause uncertainty and possible change with regard to the concerns for own and the partner's interests and outcomes. This situation seemed to result in a temporary withdrawal, where the parties sought to clarify their views on the future relationship. However, as inaction is likely to take relationships nowhere, and the situation calls for action, a confrontation has to be taken sooner or later. As the parties have identified the options, and decided on their priorities, active negotiation strategies (contending/problem solving) will be used.

From this "confrontation" a new or sustained strategic position for the relationship emerges. If the former "mode of interaction" is sustained, a continuance of the cooperative relationship is most likely, possibly with some adjustments. If the parties arrive at a new understanding of their common and private goals, this will lead to a changed or partly continuance of the relationship (re-positioning), or if the common goals are insufficiently important, the parties most likely choose to dissolve the cooperative relationship. However, this does not preclude continued exchange, but suggests that it will most likely be of a more discrete nature.

Neither the data nor the model precludes positive spirals, but the model suggests that the process related to emerging strategic change is related to certain causes, and that some general processual characteristics lead up to the subsequent re/positioning of the relationship. What the outcomes eventually will be, depends on what "values" the discussed conditions take on.

The proposed model also fits the description of the dissolution process provided by Ariño and de la Torre (1998). They found that as perceived efficiency, equity, and relationship quality deteriorated, and readjustments and unilateral reactions did not restore balance, strategic uncertainty evolved. In the mixed motive situation, the parties adopted contending tactics. However, as attempts to restore balance remained unsuccessful, the relationship went into a standstill, and thus lacked resolution on several issues. In addition, the "owners" or "project champions" were gone. Finally, the parties chose to dissolve the relationship, as it became "increasingly obvious" that the parties had diverging interests (Ariño and de la Torre 1998, see pages 321-322).

Similar main developmental trends have been described in this thesis (the e-commerce case and the terminated part of the grocery case). Also the continued part of the grocery case went through similar processes, but in this relational context, the parties managed through active problem-solving to find integrative solutions. Based on the achieved performance (price mechanism) and relational norms, they decided to pursue their shared goals. Most of the hierarchical mechanisms from the test project were applied with small adjustments in the pilot project. These findings provide support for Gulati (1998) and Argyres and Liebeskind (1999) who suggested that prior contractual relations affect not only the creation of new ties but also

their design. An additional argument for continuing the cooperation was their complementary competencies, and the belief that the combination of these would pay off in the future. Findings offered by Jap (1999) support such a belief.

The perfume case represents a substantially more positive developmental "spiral", but also in this case interaction reflected the mixed motive situation. Particularly, the increasingly separated domains of broad and selective products serve to illustrate how different "values" for external and internal conditions initiate different strategic processes.

## SUMMARY

In this chapter, I have discussed the conceptual framework and the findings from the case analysis in relation to relevant contemporary interorganizational research, in order to develop explanations for the developmental paths observed in the empirical data. The explanations offered are empirically grounded, and partly draw on the other empirical and conceptual works discussed.

The chapter started with a short positioning of the study in relation to relevant research in order to provide a context for interpretation. As the body of empirical studies of developmental processes in IOR's is relatively small, the present study should be considered complementary. Then I turned to discussing structural and behavioral change. It was argued that the present study contributes to previous research in this area, as previous research has been dominated by static approaches and behavioral aspects have to a large extent remained unexplored. The present study has attempted to meet these challenges. In addition, this study represents a rare attempt to understand how negotiations evolve in a sequence of events, and why negotiation behavior changes over time in established relationships. Basing myself on the previously developed conceptual framework and the empirical findings, it was suggested that interorganizational relationships evolve through sequences of negotiating events. It was suggested that sequences of events are related to different phases of developmental processes. Six "phases" were proposed in order to understand the evolution of interorganizational relationships and to provide a structure for the following discussion. The phases included 1) the establishment of a governance vector and early use of strategies, 2) convergence towards a set of in-use elements and emergence of appropriate behavior, 3) stabilization and a wider range of tactics, 4) (emerging) contractual and behavioral change, 5) the change to a new set of in-use mechanisms and an adjoining set of in-use negotiation tactics, and finally 6) positioning of the future relationship.

I then discussed developmental processes in interorganizational relations. The conceptual framework served as a starting point. Based on the empirical findings and relevant studies the framework was revised (extended and specified). First, initial conditions were discussed, focusing on the establishment of the cooperative contracts, the negotiation strategies used, and the impact of these on early events. Then I discussed the early developmental processes. The discussion focused on the importance of complementary governance mechanisms, the interdependency between structure and action, emerging social practice, the constraints of appropriate conduct, the use of extended discussions to place the cooperative efforts in a wider business context, the relative low levels of physical asset specificity, how contractual elements (particularly hierarchical elements) settled and became taken for granted, the early

experiences and developing expectations, the consequences of exporting issues and an emerging importance of corporate context, and finally how different levels related over time. Many of these issues have not been much discussed and studied in evolving IOR's, and are consequently not very well understood. However, the discussion presented here provides some ideas.

Although the studied relationships went through phases of relatively stable periods, the unfolding sequence of events also carried seeds for change. The discussion continued with a focus on emerging change and the impact of observed performance. Contractual evolution, the breakup of social practice, impact of measures and corrective economic information, relationship states and quality, impact of personnel turnover, problem solving and problem generation, emerging split-up of relationships, and the impeding effects of trust and norms for change were discussed. Some of these themes have been addressed in other papers, but are still not properly understood. Furthermore, the findings in this study to some extent contradict some of the theoretical propositions offered in the literature. As change emerged in the cases, and new strategic directions were implemented (or about to be), the discussion ended with a focus on the impact of the emerging change on contractual realities, the concerns for the parties' respective interests and the reflection and constitution of this through negotiation strategies and tactical behavior. It was further discussed how a confrontation was "forced to surface" and result in a continuance, re-positioning, or dissolution of the relationship.

## 11: CONCLUSIONS

*The purpose of this chapter is to conclude and discuss implications of the study. The chapter is divided into four sections. First, I will sum up the main contributions of the study. Then I will discuss relevant and important limitations of the study. Thirdly, I will discuss some practical implications of the findings. Finally, implications for further research will be discussed.*

### THE CONTRIBUTION OF THE STUDY

A basic goal of any research effort is to be able to contribute to the research field the study belongs to. As emphasized throughout the thesis, few empirical studies of developmental processes in long-term cooperative interorganizational relations have been published, few studies have been concerned with the evolution of governance mechanisms, and few studies have investigated sequences of negotiating events in relationships. Thus, what has been gained from this study is manifold. Below, I will discuss the key contributions offered in this thesis.

#### **Investigating interorganizational developmental processes**

Interorganizational research has been considered a field for more than three decades. For different reasons, such as dominant theoretical perspectives, methodological development and trends, perceived potential for publication, available time and resources for research, and perceived personal risk for the researcher, much of the existing research on IOR's has been static, structurally oriented, and typically cross-sectional. As a result, our knowledge of developmental processes in long-term cooperative relationships is limited. Although a few studies have been published, there is still a need for (much) more research into this particular area of research.

This study has tried to pick up some of the challenges that have been identified in previous research. In particular three challenges have been pursued. First, an increasing number of authors have called for more *processual research* on IOR's, and particularly research focusing on unfolding sequences of events in IOR's. Having raised such a point of view, most of these have also suggested that *longitudinal studies* are particularly needed. In addition, many authors (regardless of whether they suggest experimental lab studies, cross-sectional surveys, or longitudinal approaches) have argued for application of *multiple theoretical perspectives*. As this study has investigated developmental processes by means of a longitudinal design, applying multiple theories, it represents an answer to these calls. Further, the study offers an empirical account of the combination and evolution of governance mechanisms in long-term relationships, as well as an investigation of how negotiations evolve through a chain of events over time in established relationships. Finally, I have developed explanations for why the observed changes occurred as the relationships evolved. This is a contribution in itself.

Throughout the thesis the study has been related to current research in this specific area. Although the perspective developed in this study to some extent differs from previous perspectives that have been adopted, it is clearly shown how (closely) these pieces of work are connected. Further, this particular area of research is still so meager that dominant

perspectives are yet to emerge. However, differing views are more likely to increase the understanding of this particular phenomenon, to keep our knowledge growing, and offer a potential for synthesis. Anyway, I tend to believe that most research represents small steps (hopefully) forward, and that few (rare) contributions are long leaps forward. In these terms I belong to the masses, and consider the thesis as one step of a long walk.

### **Combination of theoretical perspectives**

Several theoretical perspectives are applied in this thesis in order to offer a "new" perspective on developmental processes in IOR's. In order to understand the structural conditions in IOR's (a major interest in the research field) contract theory was chosen as particularly relevant. Further, understanding the actual behavior of firms and their representatives was equally important. Negotiation theory represents a well-developed tool for such an aim, and is particularly relevant as it basically is concerned with joint decision processes. Finally, structuration theory was chosen as it offers a potential to understand the interdependency between structure and action over time, and provides some basic and powerful ideas as to how and why relationships evolve as they do. I will discuss these below.

#### *Structuration theory*

Structuration theory (Giddens 1984) is used as a meta-theoretical framework in this thesis. The framework has helped me not only to understand the evolution of structural conditions or behavior in decisive events, but also to understand that structure and action are in a state of interdependence and that they evolve in relation to each other. Stated differently, structuration theory has put more "realism" into the study as opposed to more limited and partial explanations of the phenomena. This has been useful both during the research process, and for the analysis and the explanations developed.

Structuration theory views agents as knowledgeable and purposive yet unable to fully control the outcomes of their actions. Thus, it offers a realistic view of organizational representatives as they engage in joint decision events. Further, structuration theory offers two particularly useful theoretical ideas for understanding developmental processes, namely the duality of structure and the recursiveness of social practice. These ideas have contributed significantly to the framework that has been used in the thesis, as well as to the subsequent analysis, and for the development of the explanations offered in the previous chapter.

The idea of structure and action as interdependent and in a state of mutual constitution has been fertile as it explicitly addresses multiple levels, which have been called for in the literature. This has also eased the use of a multiple-theory approach as structuration theory represents a unifying framework. As essentially a by-product, the thesis has shown how application of meta-theoretical frameworks can enhance knowledge generation in this kind of study. I believe that by using structuration theory in order to study interfirm developmental process, I have been able to offer descriptions and developing explanations that otherwise would not have been achieved. Finally, I think the framework has the potential to integrate findings from different studies, as it emphasizes the need to integrate different theoretical traditions and perspectives in order to generate "sound" accounts of reality.

#### *Contract theory*

The main contribution, I believe, for contract theory is twofold. First, I have provided a relatively detailed description of the actual contracts, and how different governance

mechanisms might be combined in cooperative relations. Second, I have described how governance mechanisms (might) evolve over time, how their relative importance (might) change over time, and provided an explanation for why they changed as they did.

Basically, the study suggests that in order to understand development in IOR's it is necessary to apply a dynamic perspective of contracts and structural conditions. The suggested framework in this dissertation represents an attempt to understand how and why structural conditions evolve in IOR's, and how structural change relates to events on higher and lower levels. As much of the current knowledge of governance mechanisms is related to static perspectives and variance theories, the suggested framework provides a dynamic view of contracts. The findings suggest that applying dynamic views of contracts can significantly increase our knowledge of interfirm developmental processes.

Much of the literature related to contract theory has focused particularly on interpersonal and interorganizational trust and relational norms as important mechanisms in IOR's. The findings in this study suggest that hierarchical mechanisms and incentive structures are at least as important as trust and norms. First, through relying in part on a shared (organizational) structure for interaction in terms of joint decision forums and working groups, as well as expressed or implicit decision rules, sustained interdependence was achieved. Second, the incentives and financial performance of the cases were a key driving force for sustained interdependence. The case that displayed the highest level of sustained interdependence, the perfume case, was also the best performing alliance in economic terms. The informants also explicitly addressed the importance of economic measures for the continuing relationship in this case. Similarly, in the other relationship that was continued the informants explicitly addressed the importance of the financial performance and expectations. The part of their project that was continued represented the most financially promising relationship, and the one that was dissolved had not been able to produce measures that were promising enough to secure continuation (at least not at that particular point in time). It should be noted that this relationship had over time developed substantial levels of trust and shared views and values.

The study also suggests that some aspects of the contractual mechanisms over time become taken for granted, and serve as a backdrop for interaction. However, the realities related to the mechanisms are still important, as they to some extent define social practices. Further, the study suggests that although important, informal agreements are fragile and can be lost as a consequence of personnel turnover due to the problem, or limited ability, of addressing structural issues per se in relationships when structures have settled.

It is shown how different governance mechanisms complement each other over time, and that each kind of mechanism offers unique managerial "tools". It is discussed how incentive structures can be driving forces for value creation, how hierarchical mechanisms might reduce the levels of conflict and enhance cooperation, and how trust and relational norms ease problem solving strategies. To some extent, the combination of "price" and "trust" secures distributive justice, while the combination of "authority" and "trust" secures procedural justice; both important in order to sustain value creation in cooperative relations.

Finally, as all cases went through phases that represented some kind of transition in the relationships, the data suggests that different phases where cooperative relations change with regard to their basic nature (test preparations/operative testing/pilot; technological

development/production and marketing), different contractual frameworks for exchange might be needed. The study suggests that a potential inability to address such structural issues might have a negative impact.

### *Negotiation theory*

Both from traditional IOR research and from negotiation research, we have little knowledge about how negotiations unfold over a sequence of negotiating events in established relationships. Further, we have little knowledge about how contractual aspects in part shape the negotiation process both in and between events. Thus, the thesis contributes to developing such an understanding. What this thesis contributes to is understanding how the use of negotiation strategies and tactics change over time in long-term cooperative IOR's. The study also offers some (theoretical) explanations of why they changed as they did in the cases. Further, the thesis also contributes to developing an understanding of the importance of context, and other developmental aspects of IOR's, such as evolving states, influence from higher levels able to impose decisions, and consequences of personnel exposed to conflicting interests at lower levels.

As most of the contributions focusing (at least in part) on negotiations in relationships are either conceptual or cross-sectional, this study offers an empirical account of how negotiations evolve over time. Thus, studying the use of negotiation strategies in relationships is not new, but the thesis to some extent explores new territory as a dynamic processual view is adopted. Further, although interdependence models are well supported in the empirical literature, the present study offers an account of how different strategies and tactics are intertwined in negotiation episodes, and how they evolve over time, and it further provides some initial explanations. In particular, the study suggests that even though interaction in early phases is relatively uniform (either reflecting distributive or integrative processes), the interaction over time becomes more varied where several strategies might be in operation, and that over time the dominating strategies are likely to change. Further, the study suggests that compromise and yielding strategies often depend on the simultaneous operation of other strategies. The empirical evidence also suggests that if inaction is recurrently used in events, this is likely due to strategic uncertainty and change. And last but not least, choice of negotiation strategies in relationships is interdependent on structural conditions. Thus, in order to improve our understanding of negotiation behavior in relationships, dynamic models should be explored in "natural" contexts and attention should be directed to both static and processual aspects, and not only to decision, but also to implementation, levels.

The study also exemplifies the potential gains from combining negotiation theory with other complementary perspectives. By combining traditional negotiation theory with other theoretical perspectives, a more contextual and extended view of negotiation behavior might be allowed to develop. Although not discussed earlier in the thesis, some of the findings in this thesis might contribute to a better understanding of alternative perspectives on negotiations, as for instance offered by Morley (1992). Morley rejects the view that negotiations can be "adequately understood as a sequence of tactics employed by the two parties on the road to an agreement" (Pruitt and Carnevale 1993 p.202). In Morley's view, negotiations should be understood as an event in ongoing relationships in which the parties decide whether, and in what direction, to change their relationship. Morley primarily sketches some key elements of an alternative approach based on case examples from intra-organizational negotiations, but he is also concerned with the relationship between internal



and external negotiations. He writes (1992 p.205-206): "negotiations, whether internal or external, cannot be understood apart from the historical contexts of which they form a part, and which they help to produce. From a historical perspective, what is important about the external negotiations is not that the negotiators reach agreements but that the agreements can be justified as rules, defining the terms on which the parties will do business in the future. The negotiations are conducted in the context of existing rules. The effect of the negotiation is to add some new rules or to change some of the old ones. ... internal negotiations functions to provide the participants with a collective rationale, linking what is happening now to what has happened in the past and what needs to happen in the future".

### *Outcomes*

Outcomes in IOR and negotiation research have been a key variable. However, both traditions have to some extent employed a limited set of outcome indicators, although recent research seems to have changed this situation (see discussion in the theoretical part of the thesis).

In this study, I have chosen to focus on three outcome dimensions: material value, symbolic value, and emotional value, as suggested by Tripp *et al.* (1995). The findings suggest that these are relevant outcome dimensions, and support the view that other outcomes than realized profit (and satisfaction) are relevant. However, when push come to shove, material values tended to dominate. In addition, the findings in this thesis also address another aspect: future expectations. In all cases, evaluation of outcomes, which basically is a retrospectively oriented activity, was heavily influenced by expectation for the future business potential.

The data suggest that the outcomes in alliances are influence by strategies and mechanisms in use, but that outcomes are not entirely determined by these as other factors have to be taken into account such as dependencies on a wider network of organizations and changes in trade practices. The study also suggests that the belief that the more collaborative strategies that are adopted the more economic value is created, is not unconditionally true. The case data suggest that when the incentive structure is under contention (a distributive process), the outcome can be a foundation for the creation of "more" economic value as well (have integrative consequences). Particularly, the case data suggest that when cooperative collaborative strategies are used in combination with contending strategies, "more" economic value could be created. The reason seems to be that through releasing conflict energy through contending tactics. When the parties are using contending in combination with problem solving tactics, they are able to understand each other's "true" concerns, and thus avoid potential costly cooperative efforts when expected future value is in fact questioned.

As discussed, there is a growing interest in outcomes from interfirm cooperation (Human and Provan 1997). However, we have scant knowledge of what kinds of outcomes are expected in different kinds of cooperative relations, and we know little about how different outcome dimensions are assessed as relationships unfold. This study suggests that during different phases, different outcomes are expected, and that the dominating outcome dimension might change over time. However, after a "sufficiently" long period the perceived gains become critical for the evaluation.

The study also suggests that single events are relatively rarely evaluated in established relationships. Although some informal assessments are made internally or jointly during the course of action, more formal and thorough evaluations are most typically carried out after

"natural" sequences of events have been concluded. When these evaluations are made, they typically relate to a sequence or relationship level, where the accumulated outcomes of the chain of events are considered all together. However, on some issues evaluations might be conducted more frequently, as well as evaluations of more independent and/or discrete issues (that might not be a part of the ongoing process and the "collaborative core").

### **Comparative empirical study**

A very basic, but still relevant, contribution of this thesis is to provide an empirical account of long-term cooperative relationships in the Norwegian retail sector (emphasis on Norwegian and retail).

The study describes changing realities and business practice in the Norwegian trade for consumer goods. As the trade has changed dramatically during the last decade, the study offers a detailed empirical description of the interorganizational processes involved. Also in different segments of the Norwegian professional and specialist trades, retail chains and franchising formats have over the last decade taken substantial market shares. Similarly, the study offers a detailed empirical description of the interorganizational processes involved. Finally, as the media, investors, and the society in general are increasingly more concerned with "the new economy", the study provides a "peek" into the practical hands-on business operations behind this phenomenon. Although not primary, these are contributions in their own right.

As the data presented represents variation related to several key dimensions of interorganizational developmental processes, it has been possible to develop explanations for different developmental paths. Thus, the data might contribute to an emerging understanding of the similarities and differences in processes leading to continuance, re-positioning, and dissolution. The study has also shown how different kinds of cooperation might have different developmental paths.

Finally, the study represents an early empirical contribution in an emerging and expanding research area. The study provides a practical example of how longitudinal studies of interfirm developmental processes might be conducted. Care has been taken to describe the main methodological choices, and how these choices have been implemented in the research process. My own choices can be compared to the ones found in related empirical works, and learning can be derived from it. Any study represents strengths and weaknesses, and as research accumulates, some methodological approaches, considerations, and choices might emerge as more fertile than others. The study also illustrates how new software (as HyperResearch) for qualitative (non-numerical unstructured) data might be applied in practical empirical research.

I will now turn to discussing the weaknesses and limitations of the study, followed by some potential practical implications, before I (re)turn to suggesting some implications for further research.

## WEAKNESSES AND LIMITATIONS

### Weaknesses

Most studies involve tension between goals that are not easily reconciled, or even mutually exclusive, and the theoretical and methodological choices that are made typically involve some kind of trading between concerns. So does the study presented here. As argued in previous chapters, the phenomenon I have chosen to study is currently not well understood. The literature is limited and largely conceptual, and longitudinal and in-depth case studies have been called for. Thus, I have "given my best shot" to take this challenge/opportunity.

Referring to the research traditions the study has emerged from, interorganizational research focusing on contracts and governance mechanisms and negotiation research, most empirical studies have been cross-sectional or experimental respectively. These approaches have some obvious strengths such as generalizability as a consequence of large samples and advanced statistical techniques, and strong internal validity from very controlled situations in a laboratory setting. With the experiment as a "preferred" mode of inquiry (if possible), this study "deviates" from co-called "strong designs". However, the above-mentioned approaches to empirical investigations are often related and well-suited for theory testing (testing of hypotheses).

This study, on the other hand, has rather attempted to develop theory. Due to the state of research in the field(s), different theoretical and methodological choices have emerged as potentially/especially useful/needed. Thus, the approach chosen is argued to be particularly appropriate. The potential gains from such an effort, such as increased understanding of developmental processes and having the opportunity to let themes emerge during data collection, are expected to outweigh the flip-side of less control over the research situation and a limited ability to generalize from the findings. As I have been faced by "a choice between evils", I have chosen some and avoided others. However, care has been taken to address and discuss these. Thus, I have attempted to design the "best possible way" of answering my research questions, but at a cost. The most obvious cost has been the inability to observe interactions in negotiating events, a key strength in experimental studies and extensively used in negotiation studies. Although I planned to do some observing in the first place, this option was dismissed because of financial and time constraints. However, although not a weakness, I might add to my defense that the longitudinal design chosen is a (truly) *causal* design, where the causes are allowed to occur before the effect "in real time".

Although views are changing, there have been discussions related to the "weakness" of case research, and the problems related to publication (see for instance Bengtsson, Elg and Lind 1997). One of the reasons for this has been the lack of "standard procedures" as compared to more traditional quantitative, statistical, approaches. I will leave this discussion here, but not without making a point.

Pettigrew (1997 p.345-346) discusses the matter, and writes from a reviewer point-of-view: "I can see the other side of the story. The problems of presenting case studies as atheoretical, descriptive case histories. The failure to locate case studies in existing conceptual frameworks and to interrogate the data against comparable empirical findings. The limited attempt to specify research objectives and research questions. The sketchy explanation and justification of data sources and the almost complete neglect of how the data were analyzed. The inability

to locate either the case findings or the conceptual framework in the paper against more general arguments and debates in this field. The failure to argue why and how this paper makes a distinctive and additive contribution to either theory, method, and empirical findings in this or that area of knowledge". The challenges related to dealing with these issues in the limited format of a paper are great, and the reason why "much memorable case study work often appears in research monograph form" (Pettigrew 1997 p.346).

I believe that in this monograph, the important weaknesses often related to case study research are properly met, as care has been taken to deal explicitly with these issues throughout the text. Thus, I conclude that the potential weaknesses of the study are not threatening.

### **Limitations**

On the other hand, I think that the limitations of the study is the more central issue here. "One aim of studying multiple cases", writes Miles and Huberman (1994 p.172), "is to increase generalizability, reassuring yourself that the events and processes in one well-described setting are not wholly idiosyncratic". Having quoted this view, I do not hesitate to emphasize that the chosen methodological approach has important limitations. In particular, four basic choices in this study have implications for the understanding of the findings: choice of phenomena, limitations following from the research design, sampling, and data collection. I will address these below.

#### *Choice of phenomena*

I have chosen to study interorganizational *developmental processes* in *long-term cooperative* relationships. Further, I have chosen to do this from a combined *contract* and *negotiations* perspective. Thus, the first limitations follow from these choices, and great caution should be taken if the findings are interpreted in relation to other governance modes. Thus, the findings do not apply to relationships with *ex ante* fixed temporal duration, or to relationships that are not considered cooperative. As I have chosen to study relationships between free and equal firms, the findings do not necessarily translate to a joint venture context, or other distinct and different forms of interfirm relationships. The phenomena have also been related to vertical coordination in supply chains, and the findings should be applied to horizontal coordination with great caution.

The study has focused on contractual aspects in terms of governance mechanisms, and to behavioral aspects in terms of negotiation strategies and tactics. This has implications for the potential contributions of the study. As discussed, several related studies have been concerned with learning in cooperative interfirm relationships. Although they have been discussed in relation to this study, I cannot claim that the findings from the present study apply equally to this particular area of interfirm research. What is possible though, is to inspect the presented data from a learning perspective, and possibly conduct a new analysis. However, the data presented, the analysis, discussion, and conclusions drawn would have been different if I had been especially interested in interfirm learning. Thus, the findings should primarily be related to contractual and negotiation perspectives.

#### *Research design*

Apart from the phenomena under study, the most important limitations follow from the chosen research design. I have chosen to carry out a comparative longitudinal case study. The design was argued to be particularly suitable for the phenomena under study, but there is always a trade involved.

The longitudinal nature of the design restricted the number of dyads that could possibly be studied. Here only three dyadic relationships (cases) are studied. Thus, I cannot be sure that the chosen cases are typical, and that they do not represent idiosyncrasies that make general statements inappropriate and wrong. Although a population was defined for the study, this does not mean that the findings presented are always applicable to the population as a whole. The number of observed dyadic relationships is too limited.

Much quantitative research has the strength of large numbers (i.e. large enough samples drawn from the population in order to make relatively certain statements about the population as a whole based on statistical analysis and significance). This study lacks this strength, and generalization to the population as a whole should be made with caution, as several important aspects might differ such as legislation, economic growth/decline in the trade, contractual practice in the business, professional norms, technological development, and a number of other conditions that might have an impact on developmental processes. However, where external and internal conditions have a sufficient number of similarities, some generalizations could possibly be made.

Although generalization to the defined population (as well as to other possible long-term cooperative relationships) should be considered with care, the findings are probably more relevant for "generalization" in a more theoretical sense. A potential and important output of the thesis is, when it is related to other empirical and conceptual works in this research area, that more general statements, or propositions, could be formulated, and specific hypotheses could be exposed to empirical testing with larger samples.

### *Sampling*

Many important choices that were made in this study relate to the sampling decisions taken. I will discuss the limitations of the sampling frame and the actual cases that were selected, the temporal duration of the study, and the selection of respondents.

The choice of dimensions for the sampling frame has implications, because if other dimensions had been chosen, other cases would probably have been selected, and the study would have been different. Thus, focusing on the degree of formality of contracts and the degree of development and maintenance in relationships has consequences. If these dimensions do not fit other long-term cooperative relationships, there are probably problems related to transferring the findings in this study to others. Further, the selected cases might neither be typical or polar. I have argued that there are reasons to believe that the cases are representative of emerging practices in Norwegian retailing, but the important message is: do not make generalizations to dyads, trades, circumstances, and for that matter firms that differ from the ones studied on important dimensions as they are defined and discussed in the study.

The cases I have studied vary with regard to temporal duration (from counting in months to counting in years). However, two important aspects are present. The cases studied account for the establishment of the particular relationships, although two of the dyads had an exchange history. All cases, including the short-lived one, also had intentions for long-term cooperation. Further, the cases seemed to share several developmental aspects although events were spread over different time frames. Thus, I believe that the limitations following from the temporal dimension are minor.

Due to the most obvious limitation for all research, money (time and money, time is money), I was forced to carefully choose who to talk to and when. Further, due to access restrictions (which were not particularly problematic in this project, although one organization wanted a limited participation in the study), some potential informants were "out of reach". Given the research question, the study represents a managerial point of view, and care was taken to include the most important and relevant managerial levels. The chosen (and partly given) informants in all cases had first-hand knowledge of the relationships. However, with additional resources available, more respondents could have been added to get a better understanding of the details (particularly on the lower levels). All things considered, I believe that the limitations following from the selection of respondents are few.

#### *Data collection*

Regarding data collection, several sources of information were included in each case in order to avoid a one-eyed view of the cases and the developmental processes. However, one important limitation follows from the sad fact that I did not find it possible to engage in direct observation of negotiating events, due to the financial restraints of the project.

Having been able to observe interaction directly as it took place would have added an important strength to the study. As this was not possible, I had to rely on secondary sources as minutes of meetings, agendas, status reports for meetings, business correspondence, and the respondents versions of what had happened. However, as these sources of information together represented what I believe to be a fair account of what happened, direct observation would have added credibility and useful information for understanding the dynamics involved in (each) event(s), in addition to the dynamics over a series of events.

### **MANAGERIAL IMPLICATIONS**

Eager readers skimming through summary sections, then "jumping" right to this section might be disappointed, as the advice offered might be a bit more "gris-gris" or "impossible gray" than the black and white form found in W. S. Burroughs' "Words of Advice for Young People" (1993; "If you have done business with a religious son-of-a-bitch: Get It In Writing. His word isn't worth shit. He talks with the good Lord who's telling him how to fuck you on the deal. ... Avoid the fuck-ups. You all know the type. Anything they have anything to do with, no matter how good it sounds, turns into a disaster").

In an introductory meeting with one of the participating organizations, the "gatekeeper" who was to decide whether I was going to get access or not, quoted the Norwegian author André Bjerke. I am not able to recall the complete verse, but I very well remember the punchline: it was about this man who wrote and wrote, and everything he wrote was worth its weight in spiderweb. Then he asked me what I thought of that. My response was that I hoped that the outcome of the project would be of practical relevance.

Being a relatively young scholar having seen the efforts made by the organizations to deal with complex cooperative projects, their achievements with limited resources, and their struggle towards realizing their visions, I must admit that I am to some extent humble. This project has been a learning process for me "all the way" into the "craftsmanship" of being a researcher, but also in terms of understanding practical "hands-on" business management. I

believe my strength is the research part, but I still hope that this thesis has practical value. It was no aim of this study to be able to "prescribe" actions for cooperative relationships, neither was it to derive normative implications from the data and the findings. This section will reflect this fact. Although the "practical implications" will be to some extent theoretical and abstract, I hope that the thesis as a whole, or specific parts of it, might be of value to potential readers dealing with the practical business world.

The main practical implication if this thesis is to bring attention to, and provide a framework for conscious management of, some key aspects of developmental processes in cooperative relationships. A key view applied in this thesis is the interdependence between structure and action, termed the duality of structure. I believe that developing such an understanding, and being aware of this process of mutual constitution might be important to practitioners. The study shows how contracts can be understood as more than written documents, and that formal and informal agreements complement each other into what might be understood as contractual frameworks for interaction. Another key view offered is that social practices are recurrent, but also likely to change for different reasons. Thus, being consciously aware of these aspects might be of practical value.

It is shown how mechanisms of governance might be combined, and each mechanism's unique contribution to a framework for exchange over time. It is shown how the design of the incentive structure can create driving forces in the relationship, but also how "shadow incentive systems" can remove conflict issues. Important to all cases was the hierarchical elements involved, and particularly how joint decisive forums on different levels, decision rules, routines and procedures can secure procedural justice, support commitment, delimit potential misuse of power, and contribute to creating trust. Although trust is difficult to "contract for", it is an important mechanism, as the existence of trust enhances problem solving strategies in a number of ways. Trust is important on different levels, and the study suggests that if interpersonal trust exists cooperation is enhanced. Thus, who is assigned to manage cooperative relationships, matters.

In this study, early events had impact on the development in the early phase, which in turn affected later interaction. Thus, management of, and actions taken in, early events related to the establishment of the relationship and subsequent events should be dealt with consciously. How agents behave on behalf of their respective organizations have an impact on both the decision process and on the outcomes of the decisions, and it also serves to anchor behavioral modes and defines the range of appropriate and expected behavior. Thus, managers should pay attention to the way they behave in joint decisive situations, and not only reflect over their partner's behavior. The study also provides examples of how to keep the relationship climate cooperative, as for instance by exporting difficult conflict issues to separate formal decisive forums. However, managers should also be aware of the consequences of this, as it potentially removes issues that could be driving forces, and it restricts the potential of logrolling.

Over time contracts change formally or informally, and the findings suggests that contractual aspects over time become taken for granted, and that organizations have difficulties in addressing structural issues *per se*. In an attempt to deal with these issues more explicitly, the contractual evolution could be managed more hands-on. This could be of great importance, particularly when the relationship encounters transition stages. The findings have shown that

different phases of relationships might require different contractual frameworks for interaction/exchange.

The study has been concerned with unfolding sequences of events, and it is suggested that change emerges through a series of events. What might seem to be small issues at one point in time, could over time become important for the future direction of the relationship. Then, it becomes a challenge to identify key issues among the many. For instance, small and seemingly "innocent" issues represented emerging split-ups of the relationships, where they accumulated over time and the question of corporate context became important.

Also levels of cooperation are discussed, and it is shown that when multiple-levels are involved it might be important to design internal organizational incentive systems to reflect the intended priority of cooperation. Relationships, projects, decisive forums, individuals, are all tied up in a web of connections, and if these are not properly managed and given priority, dysfunctional practices and processes might be initiated.

As discussed, practical advice was never the primary aim of this study. This section, I admit, is both unstructured and sketchy. However, I still hope the thesis as a whole represents an opportunity for practitioners to reflect over the way in which they deal with relationships on a daily basis. I do not believe an improvement of practice comes from short and "cocky" advice, but from emerging understanding and increased knowledge. I only hope that the thesis can contribute to this.

#### **FURTHER RESEARCH: NEW WAYS INTO THE GREAT DESERT**

An important output of research is new research questions. This study has been an early attempt to understand developmental processes in long-term cooperative relations. I have focused on an unfolding chain of events, and been particularly interested in governance mechanisms and negotiation strategies. This choice is not obvious, as other aspects are not very well understood either. Thus, many aspects of developing relationships might be studied. For instance, further studies could pay more attention to how learning in alliances affect developmental processes in different ways.

The present study is but one attempt to study developmental processes empirically through focusing on unfolding sequences of events. However, resources made direct observation difficult. Thus, an important task for further research is to develop a better understanding of the dynamics of events, and how this affects later events.

The framework applied here has made use of multiple perspectives. In future studies, other aspects of structuration theory could have been focused more extensively (such as power relations). Future studies could also seek to explore alternative meta-theoretical frameworks in order to develop complementary perspectives on IOR developmental processes.

Three cases have been studied. They are argued to be relatively representative cases for the defined population. Further research could attempt to study more atypical or extreme cases in order to develop an understanding of other possible developmental paths.



A natural continuance of more "inductive" inquiries is to follow-up with more "deductive" research, involving larger samples and often cross-sectional approaches. I think that some themes discussed in this study could be developed into hypotheses and tested more critically.

An interesting aspect offered by the data is that interaction seems to be more contentious the more it is directly related to the flow of money between the parties. It is, in isolation, not necessarily unexpected that the parties bargain over the distribution of gains, but why is it so that the parties behave differently (yield, log-roll over time, make compromises) when it comes to accepting costs (as they both affect "the bottom line")? Is it a question of "framing"? The discussion has suggested that incentive systems are (more) long-term (as opposed to lesser-committed modes of exchange), and that well-adapted ("optimal"?) price structures might provide incentives to create additional gains for both parties. Well, it could be a network-related explanation, as the parties are not willing to share their full information due to other external ties (networks of suppliers and retailers).

This study involved two cases that were organized as projects. Are projects a typical way to organize cooperation, or are other forms of cooperation more frequently used? Further, the project based cases developed differently in the early phases compared to the cooperative relationship that developed from "recurrent" contracting. Are these paths representative of these forms of cooperation, or is the developmental path found in the perfume case more typical of relationships than the path found in the project-based cases?

Interesting aspects of the relationships studied are that multiple levels and multiple entities were involved, and that over time corporate context became more and more important. These aspects of developmental processes are rarely discussed in the literature, and further research should address these issues.

One of the cases, the e-commerce case, operated in a new and fast-changing business context, whereas the other two cases related to more stable environments. Is the developmental path found in the e-commerce case typical of similar relationships in fast-changing trades? In all cases, external changes had impact on the developmental process and the decisions taken. It would have been interesting to see more research on the impact of external changes on developmental processes both related to initiation, development, and dissolution of IOR's.

On the other hand, IOR's are also related to internal contexts (other projects, other relationships, and so forth). Also internal circumstances might have consequences for initiation, development, and dissolution of IOR's, and future research could focus on these aspects.

This thesis has applied an alternative view of outcomes in IOR's. However, more research related to outcomes of cooperative efforts is needed. For instance, our knowledge regarding the sharing of costs and incomes and their subsequent evaluation is limited, and further empirical research is needed. For instance, how does it change over time? Further, are the suggestions that different outcome dimensions are weighted differently over time, and that while symbolic and emotional values are relatively more important during the early stages of cooperation, while material value becomes increasingly more important and dominant over time, true? Are roles and well being important during early phases because they help develop trust and increase efficiency early on, while impact of gains is expected later? Further, outcomes from cooperative relations can be related to several dimensions, as for instance

changes in competencies, network position, new market opportunities, just to name three potential outcomes not addressed in this thesis and where more research is needed.

Finally, I have suggested that we need more knowledge about how negotiations evolve over a series of events in cooperative relationships. It would also be useful to compare this with how negotiation evolves in other durable relationships, like for instance recurrent contracting or between firms that organize their interaction in the form of joint ventures. How does it differ from traditional market based (discrete) negotiations? The data suggested that some issues were lifted out from the cooperative context and transferred to separate forums. Is this a common practice? How can a combination of tactics related to different negotiation strategies enhance integrative solutions and value creation over time? Is it so that supposedly integrative settlements over time actually "destroy" value over time due to implementation problems? What are the impacts of internal and external change on the use of tactics over time? Why do problem-solving strategies seem to have a potential for problem generation?

This list of potential research directions might be a consequence of being snow-blind. Perhaps the most important ideas for further research are the ones that come to the reader's mind. Thus, my hope is that this thesis is able to inspire others to initiate further research on the basis of the questions they are left with after reading this (rather than tell them what to do).

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**APPENDIX**

**CHAPTER 2.**

**Giddens' model of structuration**

**Some examples of use of structuration theory (in the organizations sciences)**

## GIDDENS' MODEL OF STRUCTURATION

As agents take actions (in and between organizations), they create and recreate three fundamental elements of social interaction: meaning, power, and norms (Giddens 1976 p. 104). Thus, bearing this and the foregoing outline in mind, we are now able to make (some) sense of the following model:

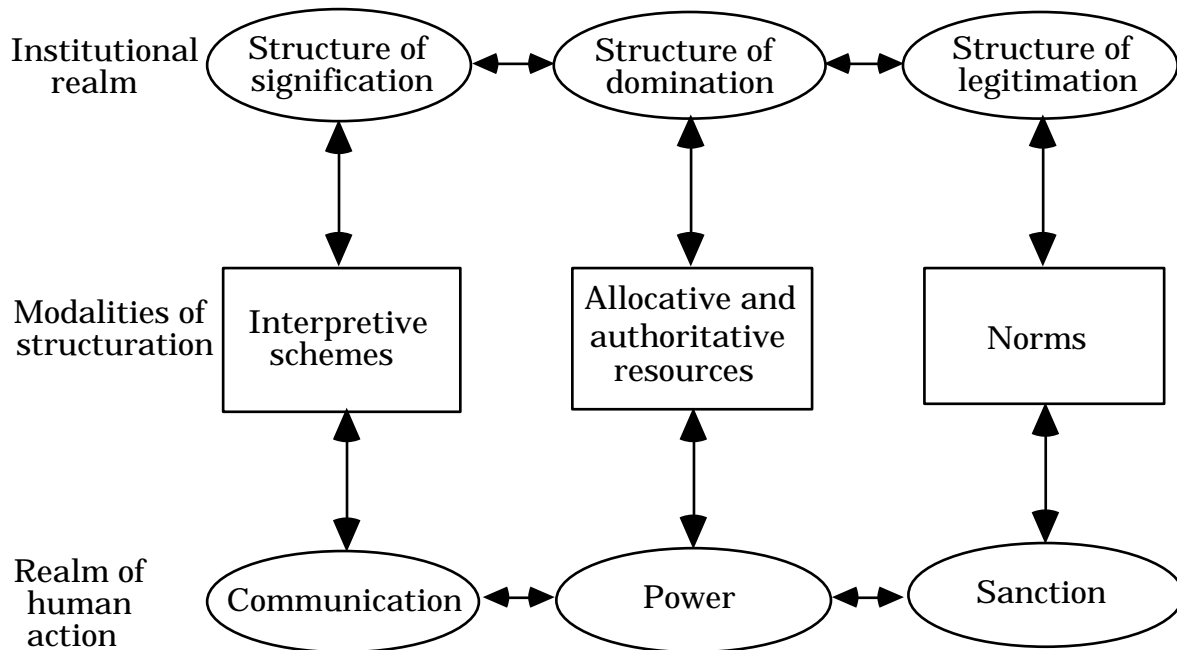


Figure A1: The dimensions of the duality of structure (Giddens, 1984, p.29)

The model consists of three interdependent "spheres", operating at two levels linked by the means of modalities. These are: 1) the structure of signification on the macro level, interacting with communication on the micro level through interpretive schemes, 2) a structure of domination on the macro level, interacting with power on the micro level through allocative and authoritative resources, and 3) a structure of legitimation on the macro level, interacting with sanction on the micro level through norms. These "spheres" are highly dependent on each other.

When agents act, and thereby establish social practices, they create and recreate three fundamental elements of social interaction. These elements are meaning, power and norms (Giddens, 1976), and they are part of the institutional realm as well as part of the realm of human action. These elements are, according to the theory of structuration, produced, reproduced and changed through the interplay between the realms of social action and social structure. This interplay is referred to as the "process of structuration".

### The modalities of structuration and dialectic of control

*Interpretive schemes* are shared stocks of knowledge that agents draw on to interpret behavior and events. This makes communicative interaction meaningful, as seen from an agent point of

view. "From an institutional point of view, interpretive schemes comprise structures of signification which represent the social rules that enable, inform, and inhibit the communication process. Thus in any interaction, shared knowledge is not merely background but an integral part of the communicative encounter, in part organizing it, and in part being shaped by the interaction itself" (Orlikowski & Robey, 1991, p.149).

*Resources, allocative and authoritative*, are the means through which intentions are realized, goals are accomplished, and power is exercised. Power, on one hand provides agents, and organizations, with capabilities to accomplish outcomes. On the other hand, asymmetry of resources (power) exists in all social systems, and through the use of these resources the organizational structure of domination is reaffirmed. This structure of domination may be modified through the use of counterpower.

Action and power are closely related to each other. To be an agent, Giddens (1984, p.14) says, "is to be able to deploy ... a range of causal powers, including that of influencing those deployed by others", and he continues "action depends upon the capability of the individual to 'make a difference' to a pre-existing state of affairs or course of events". This transformative capacity of action logically involves power. Being an agent means to have power, but a situation where the agent seems to 'have no choice' is still possible. It may seem obvious, but a "no-choice-situation" does not mean that action has been replaced by reaction, and that the agent has no power whatsoever. In fact, "an agent ceases to be such if he or she loses the capability to ... exercise some sort of power" (Giddens, 1984, p.14). The consequence of this is that all social praxis is the outcome of mutual constitution, and this puts the agency in a tension of autonomy and dependence, even under conditions of extreme unbalanced power relations (Sydow & Windeler, 1993; Emerson, 1962). This phenomenon is labeled the *dialectic of control*.

*Norms* govern sanctions, and they define the legitimacy of interaction within a setting's moral order, hence they are rules. "Normative components of interaction always center upon relations between the rights and obligations 'expected' of those participating in a range of interaction contexts. .... Normative elements of social systems are contingent claims which have to be sustained and 'made to count' through the effective mobilization of sanctions in the contexts of actual encounters. Normative sanctions express structural asymmetries of domination ..." (Giddens, 1984, p.30). In this manner norms constrain and enable agents actions, and through this becomes reinforced itself as a structural property.

### **An including perspective**

These three vertical relations in the model (e.g. power-resources-domination) typically belong to specific theoretical domains (see table 2.). With regard to structure of signification, the theoretical domain would be theories of coding and communication; the theoretical domain of structure of domination would be theories of resource authorization and theories of resource allocation, i.e. theories of political and economic institutions; the theoretical domain of structure of legitimation would be theory of normative regulation, i.e. legal institutions.

<i>Structure(s)</i>	<i>Theoretical Domain</i>	<i>Institutional Order</i>
Signification	Theory of coding	Symbolic orders/modes of discourse
Domination	Theory of resource authorization	Political institutions
	Theory of resource allocation	Economic institutions
Legitimation	Theory of normative regulation	Legal institutions

*Table A1.: Theoretical domains (Giddens, 1984, p.31)*

### **SOME EXAMPLES OF USE OF STRUCTURATION THEORY (IN THE ORGANIZATION SCIENCES)**

Several authors (to name some) in different areas of research related to organization sciences have made use of structuration theory (most recently by):

Sydow and Windeler	(1998) - on network processes and effectiveness
Sydow, Windeler and van Well	(1998) - on financial services networks
Leflaive	(1996) - on organizations as structures of domination
DeSanctis and Poole	(1994) - on advanced technology use and empirical work
Orlikowski Orlikowski & Robey	(1992) - (both) on information technology in (1991) organizations
Lewis and Seibold	(1993) - on innovation and strategic change
Yates & Orlikowski	(1992) - on organizational communication
Whittington	(1992) - on the institutional dimensions of managerial work
Macintosh & Scapens	(1990) - on management accounting practices in organizations





**CHAPTER 5.**

**Interview guides – Three examples**

**Codes – Scandinavia Online and Europay**

**Codes – NKL and Lilleborg**

**Codes – Esthetique and Norelor**

## INTERVIEW GUIDES – THREE EXAMPLES

NARVESEN 280297 1100 THOR HAUGE

1<sup>ST</sup> MEETING

Name, Position, Years in firm

### DATA COLLECTION:

interviews	who is potential "respondents"	- management
		- stores
contracts		
archival data		
observation		

What cooperative relations have been established (short about a few of these)  
- potential contact persons

How does the chain work internally? - organizing etc.

Short description of the trade, development last few years (especially concerning the cooperation between buyers and suppliers, as well as the consequences of this)

Choose one particular cooperative relationship

- background
- areas of cooperation
- exclusive territories
- time horizon
- formal conditions/contract
- how does the contract function as a management tool
- what is regulated in the agreement
- how are events that are not accounted for in advance/regulated in the contract managed
- what kind of issues are brought up (that are not regulated/what is negotiated)
- is the problem itself determining
- meetings/negotiations
- how do these progress/develop
- influence between contract and negotiation behavior/strategy
- how are outcomes assessed
- what relationship is there between one episode and the next
- other aspects

SENSITIZING CATEGORIES: governance mechanisms, negotiation strategies, nature of problem, outcome, episodes, personal motivation, learning, satisfaction/intention to preserve relationship

Does for instance Cubus Stortorvet have stands and wage support from Norelor?

"Everybody would love to sell Lancome, but for the most part we tell them no": Do you wish to give priority to for instance Esthetique?

What did it mean to get the best stand space in S&S in november -96?

October a letter was sent to you from Esthetique regarding joint activities fir the first six months of -98:

positions	package sizes	trading
outcomes	choice of media	sunsequent compensation
activities	decor	new solutions introduced
etc	time period	fighting on the "edge"
	order sizes	compromises
	returns (rights)	assessments of outcomes Norelor/joint
	number of doors	

Movida: you did not get the hair color distributed in Esthetique.

Can you describe the process from you started the work with getting Movida distributed in Esthetique and up to this day?

What happens informally and behind the "stage"?

What are you plenning next?

Is there other things currently going on between Norelor and Esthetique?

Is there any issues coming up soon?

Dialogue based on contract: how is this in relation to the Movida issue seen from Norelor's point of view?

influence between contract and negotiation behavior/strategy  
what relationship is there between one episode and the next  
how are outcomes assessed  
other aspects

SENSITIZING CATEGORIES: governance mechanisms, negotiation strategies, nature of problem, outcome, episodes, personal motivation, learning, satisfaction/intention to preserve relationship

INTERVIEW GUIDE L'ORÉAL ANNE RANGÅRD LARSEN 980223 AT 1000 AM NESØYA

How does the meetings related to establishment of 6 month plans between Norelor and Esthetique progress, for instance last time during fall?

How are these meetings prepared from Norelor's side, and what goals do you have for the meetings?

What do you do to achieve your goals, before the meetings, in the meetings, and eventually after?

Do you follow any "higher level" strategy in these meetings, or is the strategy directly related to the meeting?

What themes or issues occur in these meetings, for instance last time?

Are Norelor's and Esthetiques interest common or are they differing?

How are the outcomes of these meetings evaluated? What elements are important when evaluation is done?

Order sizes

Time periods

Returns (rights)

Joint advertisements

What media (Esthetique magazine)

Joint activities

Terms (rebates, credit times)

Package sizes

Is information on goals shared

Is there any trading on issues (logrolling, trading, compromises)

Are issues bundled (most important for you, most important for me)

Is it a simple or complicated process?

Do you meet with the same people each time? What does this influence the outcomes?

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S 971030 conflict issue  
S 971030 outcome  
S 9710xx coop spinoff  
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S 971114 card no 2  
S 971124 SOL IBM  
S 971203 issues  
S 971203 joint marketing  
S 971203 tech  
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S 98 july sellout  
S 98 May Marketing  
S 98 may new strat  
S 98 SET discuss forum  
S 98 SET shops  
S 98 Smart tech  
S 98 spring coop spinoff  
S 98 spring inaction  
S 98 spring interaction  
S 98 spring marketing need  
S 98 spring strat change  
S 98 spring Trygg Netthandel  
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S 980121 joint marketing  
S 980121 tech  
S 980121 Trygg Netthandel  
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S 980130 issues  
S 980130 joint marketing  
S 9801xx card no 2  
S 9801xx consequense  
S 980201 delay  
S 980215 gov incentives  
S 980302 change coop process  
S 980302 eval  
S 980302 market slow  
S 980302 SET 1  
S backg online payment tech  
S backg SET  
S background  
S contractual practice  
S coop Europay  
S coop roles SET  
S coop shops  
S current trade online  
S distribution transport  
S E 980601 coop agreement  
S E continuous issues

S E contract  
S E coop 3 phases  
S E coop background  
S E coop outcome  
S E decision process  
S E dep gov action  
S E dependence between issues  
S E diff econ expectations  
S E eval dimensions  
S E governance  
S E IBM  
S E info sharing  
S E logroll over time  
S E org of interaction  
S E project org  
S E SET project plans  
S E strat intent  
S E TN  
S EPN org  
S interoperability tech  
S JM EPN info  
S marketing efforts  
S Naerhandel background  
S net pay media  
S SET functionality  
S SET security  
S SET users transactions

**CODES – NKL AND LILLEBORG**

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	N 950217 decisions standards
	N 950302 decisions
	N 950309 kickoff challenges
	N 950309 kickoff coop E9
	N 950309 kickoff E9 org
	N 950309 kickoff expectations
	N 950309 kickoff goal
	N 950315 ref 950217
	N 950320 info sharing
	N 950320 issues
	N 950320 kickoff eval
	N 950320 mixed motives
	N 950324 issues
	N 950329 issues
	N 950330 project paper
	N 950331 ref group
	N 950404 coop meeting
	N 950405 project paper
	N 950425 issues
	N 950425 outcome USA
	N 950504 issues
	N 950507 project org
	N 950508 QR sem
	N 950509 Kramer
	N 950515 EDI
	N 950515 issues
	N 950515 priority and resource
	N 950515 project milestones
	N 950529 EDI
	N 950529 progression
	N 950529 project org
	N 950529 resources
	N 950620 progression
	N 950620 project org
	N 950620 resources
	N 950623 project paper



N 950627 EDI  
N 950627 issues  
N 950627 milestones  
N 950627 prog project org  
N 950627 prog resource org  
N 950627 project org change  
N 950627 resource project org  
N 950627 USA vs E9  
N 950706 EDI  
N 950706 issues  
N 950706 roll out  
N 950712 issues  
N 950814 work groups  
N 950816 proj handbook  
N 950822 budget  
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N 950822 EDI  
N 950822 issues  
N 950822 progression  
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N 950823 new standards  
N 950823 progression  
N 950823 project org  
N 950823 reengineering  
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N 950904 joint concern  
N 950904 progression  
N 950904 project org  
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N 950922 resources  
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N 951002 misc  
N 951002 prog resource  
N 951002 proj restructured  
N 951002 Sorlandssenteret  
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N 951018 misc  
N 951018 prog resource  
N 951018 project org coop prob  
N 951026 Contract price  
N 951026 measures  
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N 951109 proj org inter intra  
N 951109 resource rep  
N 951113 Central term  
N 951113 prog resource

N 951113 test plan  
N 951117 info sharing  
N 951117 progression  
N 951117 project org  
N 951117 resources  
N 951205 issue  
N 951214 misc  
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N 951214 resources  
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N 960201 issues startup prob  
N 960201 Milestone NKL St  
N 960201 misc  
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N 960201 project org  
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N 960227 issues  
N 960403 E3  
N 960403 issues  
N 960403 prog Prix  
N 960403 proj org change  
N 960403 proj outcomes  
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N 960513 joint focus need  
N 960513 prog critical issues  
N 960513 prog resources  
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N 960806 milestone  
N 960806 problem campaign  
N 960807 issues status meet  
N 960812 agenda  
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N 960812 issues detailed  
N 960812 status meet goal  
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N 960827 prog challenges milest  
N 960827 prog smooth  
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N 960827 resource solv attempt  
N 960827 status meet outcome  
N 960828 E9 status rep phase 1

N 960828 prog proj split init  
N 960828 Rollout memo  
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N 960923 info sharing  
N 960923 misc Excel  
N 960923 progression  
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N 961030 E9 dec joint proj  
N 961030 end report delay  
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N 9610me ExW background  
N 9610me ExW concerns  
N 9610me ExW issue  
N 9610me ExW neg process  
N 9610me ExW outcome  
N 9611pr ext proj manager  
N 9611pr less enthusiasm  
N 9611ul change concern  
N 9611ul inaction L NKL  
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N 97 spring  
N 970115 E9 end report  
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N 970129 issues Stv  
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N 970129 prob solv  
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N 970129 progression  
N 970129 resources  
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N 970404 inaction E2 L N  
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N 970618 issue  
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N 970630 E2 intention  
N 970702 EDI invit  
N 970708 background  
N 970708 concerns  
N 970708 E L to NKL Stv  
N 970708 issues

N 970708 mixed motives  
N 970708 outcome  
N 970708 prepare  
N 970728 Central term eval  
N 970919 dissolution  
N 970919 final occ E9 eval  
N 980127 E2 end report  
N BS background  
N business env change  
N Central term  
N continuous issues  
N contract relational  
N decision forums  
N decision process  
N decision process DPLM  
N decision process PLM  
N dep between issues  
N dep between org levels  
N dep between proj and org  
N dep comp coop process  
N dep gov interaction  
N DS new job  
N E2  
N E2 delay fall 97  
N E2 steering comm  
N E3 Crisp Slim  
N E9  
N E9 change need ind level  
N E9 complexity  
N E9 E2 prog extern influ pos  
N E9 eval outcome  
N E9 learning outcome  
N E9 outcome  
N E9 push pull dilemma  
N E9 short long term dilemma  
N E9 tech challenge  
N eval joint reports  
N gov mech  
N gov mech hierarchy  
N gov mech inc problem  
N gov mech incentives  
N gov mech trust  
N gov mech trust problem  
N info sharing  
N interaction freq  
N invest not rel specific  
N L competitive issues  
N L continued coop  
N L coop background  
N L coop background cost  
N L coop not exclusive  
N L coop phases  
N L E3  
N L evaluation dimensions  
N L evaluation informal

N L expect change roles  
N L gov formalization  
N L mgmt of comp issues  
N L phase 3 description  
N L phase 3 intentions  
N L prob solving  
N Lilleborg background  
N logroll  
N no private comp brands  
N other early coop experience  
N outc eval dim  
N personal relations  
N pre phase 3 exp L Obs  
N rel contr problem w turnover  
N split coop comp processes  
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N trans E9 E2  
N turnover

**CODES – ESTHETIQUE AND NORELOR**

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	E 921218 offer coop agreem 93
	E 93 spring E init and supp rel
	E 93 winter
	E 930210 coop agree 93 cont
	E 930310 coop agree 93 cont
	E 930324 coop agree 93 estab
	E 930401 coop 93 product list
	E 930401 KK card
	E 930601 info meet intro of E
	E 930621 E reorg SS
	E 930623 E intro letter strat
	E 930628 new wage bonus system
	E 930629 product meet procedure
	E 9306xx contr supplement
	E 930701 E new door
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	E 930817 info share sales feedb
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	E 930906 coop agree 93 sales
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E 95 winter  
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E 950110 coop agree 95 N DP  
E 950116 memo on P alliance  
E 950118 info share sales  
E 950201 N discount on invoice  
E 950207 poss all P postponed  
E 950314 supp year 94 Elico  
E 950323 info share sales  
E 950419 N contr DP terms disc  
E 950428 contr N DP compromise  
E 950518 basic ass hair issue  
E 950519 basic ass hair issue  
E 950609 N org change  
E 950629 coop contr PB 95  
E 950701 Esthetique mag info  
E 950901 info share in store  
E 950908 supp year 95  
E 951024 coop meet mark councl  
E 951103 terms conflict N DP  
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E 96 HR development  
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E 960110 bonus N engros  
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E 960307 bonus N engros

E 960506 supp 95 Elico  
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E 960710 N org change  
E 960801 coop contr 97 98 PB  
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E 961014 E Glasmag rebuild  
E 961018 E Glasmag feedback  
E 961101 joint act 97  
E 961114 Market council  
E 9611xx SS stand  
E 97 dec Lancome joint act  
E 97 oct joint act L B  
E 970106 info share sales  
E 970115 Market council  
E 970204 Esthetique mag info  
E 970211 Market council  
E 970318 Market council  
E 970416 Market council  
E 970513 Market council  
E 970528 Lancome activity  
E 9706pr current issues  
E 970820 info share hair  
E 970825 Movida background  
E 970825 Movida interest  
E 970825 Movida intro offer  
E 970901 info share sales  
E 970916 Movida issue progress  
E 970917 Lancome joint act  
E 971001 joint act 98 rules  
E 971027 terms 97 per door  
E 9710pr Movida outcome  
E 9710xx current issues  
E 9710xx Lauder  
E 971127 market council  
E 9711ul market council  
E 9711ul market development  
E 98 early summer Glasm stand  
E 98 early summer Lauder  
E 98 winter coop issues  
E 9801xx info share  
E 9802xx new contracts EU  
E 980302 low activity  
E 980330 low activity  
E 9807xx France soccer  
E 980806 coop state  
E 980814 new E store issue  
E 980821 current and fut issues  
E Arden problems  
E basic assortment  
E chain history  
E chain supp power relation



E complex products  
E consumer pull focus  
E contr forms in chain  
E contract based dialogue  
E contract formal  
E contracts complementary  
E coop and comp conc mixed  
E coop relations econ motiv  
E EDI planned  
E few important supp  
E gov mech econ incentives  
E gov mech trust  
E imp of customer rel and trust  
E imp of future possibilities  
E imp of image  
E imp of personal relations  
E imp of product quality  
E imp of trust  
E info sharing  
E joint activity costs  
E KLF statistics  
E Market council  
E Market council eval  
E Market council interaction  
E Market council issues  
E N business development  
E N business potential  
E N coop diff divisions  
E N coop diff levels  
E N coop rel strong  
E N coop selective and broad  
E N cultural diff  
E N eval of coop  
E N interdependence  
E N joint interests  
E N reciprocity  
E N stand invest rel specific  
E N stand investment  
E N typical interaction  
E Norelor background  
E selective dist background  
E selective dist chain comp  
E selective dist future orient  
E stand invest and store space  
E strat dir sel dist contested  
E strat dir selective dist  
E strat long term dist policy  
E strat select dist  
E strat target group  
E supplier org modes diff  
E trade chain descriptions  
E trade changes  
E trade hist supp dom  
E trend broad dist  
E Vita

E wage support

**CHAPTER 6.**

**Scandinavia Online and Europay – Data Sources**

**Scandinavia Online and Europay – Tracked incidents over time**

**Table A2.: Detailed description of event history - Scandinavia Online and Europay**

**Quotes from Scandinavia Online and Europay in original language**

**SOL EUROPAY DATA SOURCES***INTERVIEWS*

DATE	COMPANY	INFORMANT(S)	DURATION	# OF
970421	SOL	Espen Grimmert Helge Zimmer	75 minutes	1/1
971103	SOL	Sonja Fiskum	60 minutes	2/2
971125	SOL	Sonja Fiskum	105 minutes	3/3
980603	SOL	Sonja Fiskum	60 minutes	4/4
980611	SOL	Sonja Fiskum	90 minutes	5/5
980729	EUROPAY	Jørgen Myhrer	120 minutes	1/6
980814	SOL	Sonja Fiskum	90 minutes	6/7
980827	EUROPAY	Jørgen Myhrer	60 minutes	2/8

*ARCHIVAL DATA*

CONTRACTS: Cooperative contract between Scandinavia Online and Europay.

Contract between Scandinavia Online and Europay on SET pilot.

PROJECT PLANS: Project plans for implementation of SET pilot and production (three versions)

MINUTES OF MEETINGS: Minutes of meetings from steering committee the following dates: 970815, 970905, 970908, 970912, 970926, 971010, 971017, 971023, 971203, 980121, 980130

LETTERS: Different letters concerning the project, spin-offs, and related issues between Scandinavia Online, Europay, and other central actors dealing with net trade.

MEMOS: Some internal memos.

*OTHER*

Company outlets and webpages. Press clippings.

Interviews were conducted under constraints of available partners willing to participate in the study (explains delay between interview #1 and #2), financial situation, availability of informants, if, when and how archival data could be available (explains delay between interview #3 and #4), what kind of deal the company would agree to participate on (explains the few interviews with Europay), what other interviews were scheduled, and so forth.

Archival data was collected April the 3rd, 6th and 8th 1998 at Scandinavian Online in Oslo.

**SCANDINAVIAN ONLINE - EUROPAY  
TRACKED INCIDENTS OVER TIME**

D: Data source

I: Interview

L: Letter

C: Contract

M: Minutes of meetings

Me: Memo

DATE: e.g. 970609 indicates 9th of June 1997  
xxxxpr indicates primo; xxxxme indicates medio; xxxxul indicates ultimo

<i>DATE</i>	<i>SOURCE</i>	<i>ISSUES</i>
<b>PHASE ONE: DEVELOPMENT</b>		
9702me	D: I	Possible SET project
970301	D: I	Intentional agreement
970528	D: L	Concept SET project, SOL card
970601	D: I	SET introduction before Christmas
970606	D: L	SET standards and card possibilities
970609	D: C	Cooperative contract
970610	D: I	SET contract planned
970617	D: C	SET pilot contract
970618	D: Me	Project plan (version 1)
970703	D: L	SOL - IBM eTill
970805	D: C, I	SOL - GE Capital Finans card (Card history # 1), conflict
970815	D: M	Project organization, technical platform, joint marketing, SET 1.0 changed to 981115
970821	D: L	Joint marketing, possible co-branding separate process
970825	D:L	Joint marketing possibilities
9708ul	D: I	Intention to formalize for production (from phase 2)
970905	D: M, I	Uncertainty technical platform, technical procedures, SET 1.0 980101, marketing
970908	D: M, I	Solution technical problems, Decision eTill 4.0, introduction version 0.0
970911	D: Me	Project plan (version 3)
970912	D: M	Decision eTill 4.0, new dates milestones, joint marketing
9709me	D: I	Start first test transactions
970926	D: M	E-commerce from 971116, SET 1.0 980215, technical status, marketing
971001	D: Me, I	Rebate SOL membership for Eurocard Gold customers
971002	D: L, I	Presentation of Sol Business Network in Europay's customer magazine
971010	D: M, I	First introduction 971027 dependent on testing, technical issues, SOL 2 new employees dedicated joint marketing
971013/-17	D: M	Testing
971014	D: M	Joint marketing (meeting between CIO's)

<i>DATE</i>	<i>SOURCE</i>	<i>ISSUES</i>
971015	D: M	First "ordered and paid" with SET done
971017	D: M	Technical issues, joint marketing, introduction 971027/31?
971020/-24	D: M	Testing
971023	D: M	Introduction 971031 earliest, technical status
971029	D: I	Introduction issue
971030	D: I	Introduction delay (conflict) and joint introduction solution (SOL - Europay - Interpost)

**PHASE TWO: EARLY PRODUCTION**

971113	D: I	Introduction version 0.0, joint risk sharing (SOL - Europay - Interpost), evaluation
971114	D: L, I	Co-branded card SOL - Europay/Mastercard (Card history # 2)
971124	D: C	Contract SOL - IBM network services
971203	D: M, I	Preparation for SET 1.0, technical issues, discussion joint marketing
980114	D: I	Preparation for SET 1.0
980121	D: M, I	SET forum (Visa?), technical status, testing, interoperability, delay SET 1.0 possible
980130	D: M, I	Technical status, Market status, preparations for SET 1.0 (possible delay),
9801ul	D: I	Co-branded card conflict (Card history # 2), negative impact on activity and trust
980201	D: I	Delay (technical issues)
980213	D: I	Introduction SET 1.0 delayed
980215	D: I	Initial plan for SET 1.0, market slow

**PHASE THREE: DISSOLUTION**

980302	D: I	Introduction SET 1.0, evaluation, project meetings ended, interoperability Secure net trade forum
9804ul	D: I	Cooperation spin-offs, Smart card, Bokkilden
9805ul	D: I	Joint marketing attempt
9805ul	D: I	SOL new strategic direction
9807pr	D: I	SOL sell-out of technical platform, SET technology and shops to BBS

TOTAL 48 INCIDENTS

Table A2.: Detailed Description of Event History – Scandinavia Online and Europay Phase 1

TIME Date	ISSUES							
	Establishment of contract and governance mechanisms	Joint marketing	Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing	Introduction date estimate	Other
970301	Initial agree-ment; broad scope							
970528								SOL card idea
970609	General cooperative agreement							
970617	SET agreement						September	
970805								Reject of card # 1
970815	Project organization established - who issues certificates	Coordination of marketing activitie argeed	System performance Tech. project plan	Discussed			SET 1.0 changed to medio november	
970821		Activities: - customers - shops - business - joint stand Fornebu - Presentation of SOL BN in EPN magazine						Possible co- branding separate process



Table A2.: Detailed Description of Event History - Scandinavia Online and Europay Phase 1 (Continued)

TIME Date	ISSUES							
	Establishment of contract and governance mechanisms	Joint marketing	Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing I	Introduction date estimate	Other
970825	Joint marketing into project plan *	* Presentation of SOL BN in EPN mag.						co-branding SOL BN customers suggestions from Europay
970905		Decided idea exchange meeting	Procedures Interface problems	Alpha software problems and uncertainty	Conversion new year	Testing issues	SET 1.0 medio november	
970908				Work on chosen platform stopped - new platform discussed - advise change	extra conversion needed		no delay allowed	Transaction prices to market discussed informally during fall
970911	Final project plan - phases - milestones	EuroCard Gold holders offered SOL Member- ship rebate **		Dates for platform ready for testing	Dates - card holders - shops Software change around new year	Test dates set included internal testing and test ending	Intro version 0.0 medio october with press (**) Broad intro- duction in february?	Some informal evaluations done during fall

Table A2.: Detailed Description of Event History - Scandinavia Online and Europay Phase 1 (Continued)

TIME Date	Establishment of contract and governance mechanisms	Joint marketing	ISSUES		Testing	Introduction date estimate	Other	
			Miscellaneous	Platform				
970912		Joint meeting scheduled		New platform decided	Extra conversions needed			
971010		SOL pres. in EPN mag. Intro. issues		Technical problems	Test phases scheduled - test sample - criteria	Intro 0.02 more 971027	SOL employees dedicated to e-commerce	New possible
971015				First SET ordered and paid done				card co-branding
971020/24		Joint stand Fornebu						discussed
971023		- CIO meeting scheduled - SET logo	- Procedures - Support - Gateway for production established (PBS)	Certificate issuing OK	Test need	Intro 0.0 971031		during fall
<b>971029</b>					Final testing	Intro 0.0 971103 ***		
<b>971030</b>		CIO meet***			Additional test need	Intro 0.0 delay		

Table A2.: Detailed Description of Event History - Scandinavia Online and Europay Phase 2 (Continued)

TIME Date	Establishment of contract and governance mechanisms	Joint Marketing	ISSUES				Introduction date estimate	Other
			Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing		
971113		Press/Letters Presentation EPN mag.	<b>SET version 0.0 introduced to market</b>				Evaluations of intro delay and introduction of 0.0 with competitor IP done	
971114		* (idea was to increase transactions and joint profilation)					* Co-branded card intended (three levels) - SOL member card - SOL EuroCard Web - SOL MasterCard Cunsumer/Business market	
971203		Attempts to include other actors (difficult) *	Support coordination need		** Major conversion need for 1.0	- 1.0 test system primo january - interoperability across diff. software	SET 1.0 980215	* SOL desist from pushing on EPN to market 0.0 version due to **
980121		Prospects discussed	Preperations for 1.0 intro	Functionality OK capacity problem stability need	New Wallett planned 980213	Interoperability testing (february)	Possible delay allowed (if necessary)	Few transactions 2 new SET shops
980130		Marketing in external forum	Interoperability	Problems (more capacity coming next week)		EPN set test criteria	Status/discuss. before 1.0 conversion	Few transactions
9801ul								Rejection of co-branded card # 2
980213							SET 1.0 980302	Merket slow - few transactions (introduction delay allowed)

Table A2.: Detailed Description of Event History - Scandinavia Online and Europay Phase 3 (Continued)

TIME Date	ISSUES							
	Establishment of contract and governance mechanisms	Joint Marketing	Miscellaneous	Platform	TECHNICAL Certificates/ Conversion	Testing	Introduction date estimate	Other
980302	(SET contract fulfilled - General cooperative agreement valid)		<b>SET 1.0 introduced to market</b>			Interoperability issues "exported" to external forum (Trygg Netthandel)		Evaluation of project and introduction of SET 1.0 done  Project steering committee dissolved
9804ul								SOL invites EPN to contribute funding for new netshop "Bokkilden" (spin-off)  EPN invites SOL to participate in possible SmartCard project (web-based payment technology) (spin-off)
9805ul		Campaign attempt ("Get SET certification")						SOL: new strategic direction emerges
9807pr								<b>SOL sell out</b>

## QUOTES FROM SCANDINAVIA ONLINE - EUROPAY IN ORIGINAL LANGUAGE

(1) "... og begynte å tenke høyt, hvor vi da tenkte "nå må vi gjøre noe på SET-siden. Vi må være forberedt høsten -97 til å kunne ta imot SET-transaksjoner på våre butikker". Det var en klar strategisk føring fra vår side."

(2) "Europay Norge skal utstede og vedlikeholde sertifikater, tilby sikker betalingsformidling; ajour med internasjonale standarder.

SOL skal tilby markeds plass; en verdøkende plattform/infrastruktur for kjøp og salg hvor Butikk har varer og kjøper kan foreta bestillinger, betale og velge distribusjonsform. Legge til rette for konkurrerende betalingsmiddel som Butikk ønsker å bruke."

(3) This quote was actually written in english as I took notes during inspection of the archival material.

(4) "Utforme markedsføringsplan i fellesskap for å oppnå gjensidig gevinst"

(5) "Innledende i å sette tankene, men vi har ikke brukt den, slått opp i den siden. Vi tok på en måte de innledende diskusjonene på "hva er våres business, hva er deres business. ... Når det har satt tankene, kan du si, så har ikke det vært operativt en avtale vi har slått opp i og brukt senere. ... Det er en rammeavtale. Her er det områder av felles interesse, og det eneste konkrete der, eller det mest konkrete der er at man har satt seg en frist for å ha kommet opp med prosjektsamarbeid på en SET. Slik at så lenge formålet er såpass rundt, så er det jo også mindre behov for å regulere potensielle konfliktområder. Hva ville være konsekvensen av å gjøre ingenting av en slik avtale? Konsekvensen vil jo være veldig liten. Og spesielt så lenge det ikke er penger involvert, så ..."

(6) "Partene bærer sine respektive kostnader. Ved urimelig skjev fordeling vil annen løsning drøftes."

(7) Økonomi. Partene betaler for egne ansvarsområder, grensetilfeller varsles, minnelige ordning."

(8) "Vi har hatt noen små diskusjoner omkring kostnader, og hvem er det rimelig betaler for hva. Altså Trond og jeg, hvor vi har sagt at når IBM har ønsket å fakturere oss for noe. IBM ... så har vi sagt at dette er egentlig ikke vi som har ansvaret for den regningen, den hører til Europay sin del. Det har ikke vært noen konflikt men vi har hatt noen situasjoner hvor du kan si det har vært en gråson. Hvem skal egentlig betale for hva. ... og vi har vært tydelig på det muntlig, at gateway-kostnader er Europay, kortholderkostnader er Europay, butikk-kostnadene er våre. Klart en mere ... Hadde man gitt seg en måned ekstra, og planlagt ting bedre, så kunne vi sikkert ha gjort også en del ting ryddigere og bedre, men sånn ble det ikke. Det er noe med at du går inn i området for å skjønne hva du må gjøre. Og jeg er usikker på hvor mye vi hadde klart å tenke oss til, før vi hadde tatt i det."

(9) "Altså, mye av bakgrunnen for at det er beskrevet som det er, er vel at ... nærmest en erkjennelse av at vi ... det var en relativt klar rollefordeling på hva det var vi skulle gjøre, ikke sant. Og dermed også gitt hvilke kostnader og hvilke inntekter de forskjellige skulle ha".

(10) "Du kan si et uttrykk for at tenkningen har vært partnerskap og felles gevinst er den forretningsmodellen som er lagt til grunn, hvor vi har hatt en lav inngangspris for å få tilgang til muligheten og teknologien i handlesenteret, men hvor det i tillegg har vært en omsetningsbasert leie, kall det gjerne provisjon med andre ord. Jo større omsetning, jo større andel til SOL. Og da har tenkningen vært, jo mer trafikk vi bidrar til, jo større omsetning blir det på butikken, og da vi genererer trafikk skal vi ha en ekstra, da skal vi tjene mere når butikken går bedre. Genererer vi liten trafikk og omsetningen er liten så tjener vi mindre. Sånn at begge skal ha en straff på en måte hvis omsetningen ... eller vi skulle ha en straff. Egentlig er det vi som får straffen hvis omsetningen er liten".

(11) "Vi har jo forsøkt å jobbe ved konsensus da. At alle har vært enige om at dette er fornuftig å gjøre. Og når konsensus ikke har virket, så har man latt mindretallet bestemme. Hvis en part er uenige i noe, så blir det ikke gjort. Alle må være enige for at vi skal gjøre noe".

(12) "Det er riktig. Det tror jeg nok er riktig, at det var en slik konsensusorden rundt det der. Alle skulle akseptere det, ikke sant, og ingen ... jeg kan vel ikke huske at vi hverken i den ene eller andre retningen har blitt presset til noen vesentlige beslutninger. Altså man blir presset på småsaker her og der, det er naturlig, ikke sant,

men som går mer på ... det går ikke på de store linjene liksom. Men det er vel også ting som ... du er litt inne på dette med styringsgruppen, ... det stod ... sånne mekanismer var jo aldri beskrevet noe sted, eller avtalt på forhånd, ikke sant, men det er vel mer bare ut fra det man valgte hele tiden".

(13) "Jeg tror det må være en grunnleggende tillit til hverandre, slik at man er ... åpen i hvordan man jobber, og at de beslutninger som blir tatt, at man kan forstå hvorfor beslutninger blir tatt, at man føler at man ikke blir ført bak lyset, hvis du skjønner. SOL har vært gjennom en periode med mange strategiendringer, og det er forsåvidt greit hvis man bare er åpen og kommuniserer dette på en ordentlig måte. Så lenge man ikke prøver å spille hverandre ut mot andre igjen. Det tror jeg er det aller viktigste. At man kan forholde seg til en seriøs partner, som man kan ha tillit til. Og som ... det andre er at det er noen grunnleggende aktiviteter i bønn. Det tror jeg er viktig. Og det tredje er personer. At det er enkeltpersoner som finner hverandre, og kan holde kontakt da. Det må og selvfølgelig være at det også er ekte felles interesser. At det finnes områder som man finner en snipp som begge vil ha interesse av at man gjør noe sammen på. Men for å finne det, så må det være tillit, redelighet, at man vet at man kan være åpen".

(14) "Det hadde også betydning dette med at man fikk relasjoner til mennesker på SOL, altså enkeltpersoner her og enkeltpersoner på SOL, som fungerte bra. Hvertfall fra vår side så har vi stor respekt for de personene på SOL for de hadde ... altså de hadde for det første hadde de faglige kunnskaper, og de hadde denne etterrettelighet, og åpenheten også i dialogen som ... ja du fikk et tillitsforhold til de, akkurat de personene på SOL. Og det viste seg at det de visste og hadde betydning, det fortalte de til oss".

(15) "Typisk sak er ... har vel vært at ... det har vel vært mer at "denne aktiviteten er forsinket, eller denne har tatt lengre tid, her må IBM, for å ta det som et eksempel, her trenger vi den løsningen fra IBM innen da og da, hva kan vi gjøre for å få det til". Og at det da har vært en diskusjon, synspunkter, rundt hvordan man skal få det til og hva som egentlig er hindringene. Eller Europay kan ha trukket inn erfaringer fra parallelle prosjekter som de har, de jobber ikke bare med oss på dette, de jobber med andre også. Med Braathen og Interpost. De kunne trukket inn erfaringer "det ligner på noe som vi har opplevd i det samarbeidet", og IBM kan ha kommet med forklaringer eller forslag til hvordan ting skal gjøres. Så det har vært til dels problemløsning, forskjellige synspunkter, ja... Det har sjelden vært konflikter som sådan. Altså det har vært ganske løsningsorienterte møter, hvor man ... I den grad det har vært noen konflikt, så er det kanskje på farta på å få gjort ting. Det har ikke vært bare idyll, det er ikke det jeg prøver å si".

(16) "Det var problemstillinger vi ble klar over selv i denne styringsgruppen, hvor det var den gruppen som egentlig jobbet med alternativene, ikke sant, og der skiftet det vel ofte på tror jeg. Noen ganger var det vi som la frem alternativer, og noen ganger var det SOL som gjorde det, og det var egentlig en veldig fruktbar prosess. .. Det var veldig løsningsorientert synes jeg".

(17) "Altså hvis folk er enige i en beslutning, så er commitmentet mye sterkere. Så selvfølgelig, når du må gjøre kompromisser så blir det jo utvannet av det, da, men det er en mye bedre garanti for gjennomføring at folk er enige. Vi brukte nok mye tid på ... i slike situasjoner å få frem hvorfor de forskjellige mente det man mente, altså. Men det var det ... opplevde det, slik som jeg husker ihvertfall, at det var liten prestisje liksom, det var ikke noe ... det var ikke problematisk å si at "det er et mye bedre forslag det du kommer med nå", liksom. Selv om du er fra SOL".

(18) "HN: Så det å dele informasjon utover saken som ligger på bordet helt konkret, så er man i stand til bedre å forstå bakgrunnen for ulike synspunkt?

JM: Jada.

HN: Og da er det lettere å bli enig?

JM: Ja, ja, altså hvis du forstår andres motiver også, så er det ... og hva som ligger til grunn for deres synspunkter, så er det mye enklere å akseptere. Og igjen så, hvis du ikke gjør det så kan det veldig fort bli en sånn ... ja begynnelsen på en sånn mistenkeliggjøring, som kan være at "ok, her er det bare noen som presser for å presse". Et rent maktspill ikke sant. Og da forsvinner mye av samarbeidsviljen".

(19) "Og der var det jo sånn apropos ... der var det en del gnisninger. På at SOL ønsket en god del, og kanskje Trond spesielt, ønsket mye mer struktur på en del ting enn det både vi var i stand til å levere, og var i stand til å få IBM til å levere. ... og det var mange prosesser som var altfor dårlig beskrevet, altså. Rent operasjonelle prosesser. Hvordan ting skulle gjøres. Som gikk på dette med koordinering av hva som skulle gjøres. Rutiner for forskjellige ting, og ja ... Trond pushet på en god del ting der som han ville ha gjennom".

(20) "Når vi har prøvd å få gjennomslag for hva vi ønsker ... du kan si på mange måter har SOL vært motoren i hele samarbeidet. Vi har i praksis kjørt prosjektet. Og har pushet på både Europay og på IBM. Så vi har bruke tid som en faktor, altså presse på tid. Vi har presset på overordnet målsetting for alle parter. Vi har prøvd å vinkle resultatet ut fra hva alle parter egentlig har behov for, og har innpasset til tidligere. ... Så det er vel den strategien vi har prøvd å bruke, og så hekte det på tidligere commitment. ... Dersom IBM mener at betalingsteknologi og elektronisk handel er strategisk fokus, så må de vise det i praksis ved å få dette til. Og at SOL ... Vi har brukt også som strategi at SOL er en potensiell stor aktør i dette her, ikke bare i Norge, men på skandinavisk ... Så vi har brukt maktfaktoren vår også, da."

(21) "... avdekkingsfasen, altså det å få tegnet et bilde, altså "hva er det som er realiteten her". Det har vært en mye tyngre prosess enn det jeg har opplevd andre steder. Og det har ikke hatt noe med SOL å gjøre tror jeg. Det har mer å gjøre, igjen da, med teknikken og faktaene rundt det, altså. ... Forretningsmessig overfor SOL, så synes jeg det var veldig greit å forholde seg til de ... å få liksom SOL sine synspunkter på bordet, hva de ønsker og ikke ønsker, og så videre. Så det var mer rundt de tekniske ting ... Det å få tatt de rette beslutningene... Hvilket valg er det vi faktisk har. ... generelt er det relativt kjapt å få realitetene på bordet, og så kanskje også relativt kjapt å få alternativene på bordet, og så kan beslutningsprosessen trekke veldig langt ut i tid, og typisk ut fra hvis det er interessekonflikt, ikke sant. I prosjektet med SOL så opplevde jeg at det var mer en sånn ... en veldig lang sånn der ... å få faktaene på bordet, så var det om å gjøre å få alternativene klar så fort som mulig, og så hadde vi korte beslutningstider. .. Det var enkelt å få tatt beslutninger, når vi hadde faktaene".

(22) "... altså veldig mye av beslutningene var så avhengig av ting rundt teknologien at jeg tror at veldig mye av beslutningene ville blitt veldig rare hvis vi ikke hadde hatt representanter fra teknologisisiden. ... Det som kan være faren ved et sånn konstellasjon er at IBM plutselig hadde begynt å ha meninger om noe de ikke hadde rett til å ha mening om ... mer forretningsmessige ting. Det kan jeg hvertfall ikke huske var noen sånn problem. .... Det var programvare som var beta-versjoner, alfa-versjoner, og beheftet med ganske mye feil, så det å ha med IBM der synes jeg bare var en fordel"

(23) "... det lagde krøll i samarbeidet med Europay. ... I den tiden jeg da var på ferie offentliggjorde man da at GE Capital var de som var valgt, uten å informere de andre partene man hadde snakket med. Slik at måten Europay fikk vite det på var at det stod i vårt medlemsblad. Hvilket var en ubehagelig situasjon når jeg kom tilbake fra ferie. Da hadde man ikke opptrådt som en ordentlig samarbeidspart"

(24) "... jeg var på ferie husker jeg, og så fikk jeg tak i SOL-iD (SOL magazine), og da stod det: Sikker betaling på Internet overfor SOL medlemmer. Da tenkte jeg nå har gutta klart å gjøre dette her ferdig, ikke sant, og så lukker jeg opp bladet og så står det bare GE. Hva pokker er det som skjer? ... vi opplevde å ha en dialog gående med SOL. Vi snakket med SOL, ikke med enkeltpersoner i SOL men firmaet SOL vi mente å forholde oss til. ... Men jeg vet hvertfall at det som reddet mye av samarbeidet da, var enkeltpersoner som Sonja og Trond"

(25) "Europay argumenterte med at vi burde kjøre en demonstrasjon og introdusere dette før skiftet, slik at vi hadde en trygg teknologi å kunne vise frem tjenesten på. Vi spurte "er dere trygge på det som skjer 3. november, slik at vi ikke får en periode hvor ting er ute av drift" (sertifikatet er Europay sitt ansvar), og det var de komfortable med. Onsdagen hadde vi styringsgruppemøte hvor vi besluttet å lansere på fredag, men vi gav oss selv en siste tolvte time frem til klokken 1200 på torsdag, mere for å se hvis noe detter ned. Og det er jo da riktig å si at vi hadde jo ikke fått testet det grundig av forskjellige grunner, frem til den onsdagen. Likevel så var det en felles beslutning: "dette gjør vi". Torsdagen klokken halv tolv ringer Europay og sier at de ikke ønsker å lansere den fredagen, og det var litt ugreit. Da hadde vi innstilt oss på det, og kommunisert det til våre butikker, vi hadde planlagt medieaktiviteter, annonsering ute på nettet. ... Europay sin argumentasjon var at de ble usikre på rutinene rundt den 3. november. ... Jeg hadde forståelse for argumentene selv om jeg var overrasket at det skulle komme i løpet av natten. Min markedskollega ... reagerte mye tyngre på dette her. Han syntes at dette var svært alvorlig ... Det var ingen nye argumenter ... og i og med at Europay selv hadde pushet på dette, så syntes vi ikke det var bra. Vi hadde et møte samme ettermiddagen ... hvor vi var ganske klar og tydelig på det at vi syntes dette var uryddig og beklagelig, men at nå må vi se fremover".

(26) "vi ... sa rett og slett nei, da. Og ... SOL måtte bare akseptere vårt veto. Noe av det som var bakgrunnen for det der var også at vi satt med denne konkuransesituasjonen mellom SOL og Interpost. Og vi satt vel med en følelse av at for Ole Nordheim så var det viktigere å slå Interpost, enn å lansere akkurat da, altså".

(27) "Jeg husker at det var i etterkant av det at vi kom opp med dette her at ... "filler'n, vi må prøve å få disse til å lansere sammen" for å nøytralisere den biten der".

(28) "Så da kom vel ideen opp fra Europay: "hvorfor ikke prøve å lage det store fellesinitiativet, ... med Interpost, DnB, Postbanken", som likevel lå i løypa, og som skulle lansere. Det er riktig at vår argumentasjon på veien tidlig mot å lansere, var at vi ønsket å komme først forut for Interpost, så Europay prøvde da å nøytralisere de ved å foreslå et felles initiativ. Vi var fornøyd med det. Vi var positiv til det, og etter litt bearbeiding så ble også Interpost fornøyd med det, bankene var fornøyd med dette. ... Det er alltid muligheter i en konkret situasjon, som man kan snu. Samtidig som man selvfølgelig skal si fra, så skal man ikke lukke alle dører, da. Så det ble en veldig bra løsning til slutt".

(29) "Så det vi fikk til der, det synes jeg var veldig bra. Det var bra utad også. SOL var egentlig veldig enkle å overtale på det når de fikk presentert ideen. De så på mer effekten av at her er det om å gjøre å bygge opp tillit til et nytt betalingssystem, og da er vi mer tjent med at alle sier det samme ...".

(30) "Så fikk de på ny en henvendelse ... fra SOL AS. Jeg var ikke involvert i det. Og hvor da deres første reaksjon var "er det noe vits i å gjøre dette her en gang til", men så valgte de da å gå inn på dette på nytt igjen ... Europay jobbet opp et konsept, og kom til SOL med dette med prislapper og greier, men ... Det ble ikke realisert. Og det var liksom gang nummer to. ... Du kan si co-branded kortet var jo ... ikke en del av prosjektet, men jeg vil nok tro at den beslutningen som SOL gjorde der påvirket samarbeidsklimaet her, og Europay sin styrke i samarbeidet. Eller kraft inn i samarbeidet. ... Negativt. ...Det er klart at det var en høy interesse for SOL å få et godt tilbud, og det ville vært i høy interesse for Europay med å få dette her opp, så ... men så har det endt ... hvordan vil du vurdere det? Vi hadde en mulighet, men det endte opp på vilkår. Ren sånn ... mulighet, ... avtalen var sånn at SOL kunne få en bedre avtale med en annen leverandør. Sånn er jo business".

(31) "JM: ... slik som jeg husker det, så var det litt av det samme det at plutselig kom det noen andre beslutningstakere inn som hadde kjørt et annet prosjekt i dette SOL-hierarkiet, og kjørt gjennom noe der.

HN: Tror du det hadde betydning for aktiviteten etter 1.0-lanseringen, det at det dabbet av litt?

JM: Det hadde nok det hvertfall for kortleveransesiden hos oss. Og jeg mener Gry ... som er sjefen på der ... jeg husker hun ringte til (top management of) SOL, og var en del opphisset rundt det som skjedde der også. Såvidt jeg husker.

HN: Så det var ikke gunstig for å gjøre noe rundt 1.0?

JM: Det var ikke gunstig for den biten der. Men ... jeg husker ikke helt hvordan det traff det da. Sånn prosjektmessig ... så skapte det ikke så store bølger. Men markedsføringsmessig mot kortkundene så dempet nok det en del på våre initiativ hvertfall".

(32) "Vi opplevde at vi hadde jobbet godt sammen uten å ha en veldig formalisert avtale, så det i seg selv er jo en bragd, at vi klarte å sprengte noen tekniske grenser og fått det til. ... Vi har ikke sett noen fått det til i Norge på den måten vi har gjort det. ... alle andre som har holdt på med dette her har brukt veldig lang tid. Så vi er veldig fornøyd med det på den tekniske siden".

(33) "... hvis du ser på den tekniske siden og det som skjedde der, så var jo vår evaluering av SOL når vi hadde konvertert til 1.0 i mars, den var veldig god. Vi så på SOL som en veldig profesjonell partner, og som vi ønsket å gjøre flere prosjekter med".

(34) "Ja, men jeg sitter igjen med denne følelsen at det var litt halvhjertet. Jeg klarer ikke helt å fokusere hvorfor, men jeg har liksom ikke helt den derre ... det var ikke noe voldsom trøkk på den greiene der".



**CHAPTER 7.**

**NKL and Lilleborg – Data Sources**

**NKL and Lilleborg – Tracked incidents over time**

**Table A3.: Detailed description of event history NKL and Lilleborg**

**Quotes from NKL and Lilleborg**

**NKL LILLEBORG DATA SOURCES***INTERVIEWS*

DATE	COMPANY	INFORMANT(S)	DURATION	# OF
970403	NKL	Dag Schøyen	70 minutes	1/1
970404	Lilleborg	Jon Jacobsen	75 minutes	1/2
970630	NKL	Dag Schøyen	60 minutes	2/3
970630	Lilleborg	Jon Jacobsen	60 minutes	2/4
971003	NKL	Dag Schøyen	75 minutes	3/5
971103	NKL	Dag Schøyen	60 minutes	4/6
971125	Lilleborg	Jon Jacobsen	120 minutes	3/7
980216	NKL	Dag Schøyen	80 minutes	5/8
980216	Lilleborg	Jon Jacobsen	150 minutes	4/9
980309	Lilleborg	Jon Jacobsen	75 minutes	5/10
980309	NKL	Beate Storsul	70 minutes	6/11
980320	NKL	Dag Schøyen	75 minutes	7/12
980323	Lilleborg	Jon Jacobsen	70 minutes	6/13
980403	Lilleborg	Jon Jacobsen	60 minutes	7/14
980403	NKL	Dag Schøyen	60 minutes	8/15

*ARCHIVAL DATA*

## PROJECT HANDBOOKS AND REPORTS:

"Project handbook for project EPOS95" (Dated 950214)

"Project handbook for project EPOS95 Version 2.0" (Dated 950816)

"EPOS95 - Status report Phase 1"

"EPOS95 - A breakthrough in Norwegian grocery business. End report from test of efficient replenishment" (Dated 970115)

"Memo on initiation of pilot project EPOS2000 (Efficient replenishment from NKL to store)" (Dated 970213)

"Central terminal Grorud. Evaluation" (Dated 970728)

"EPOS2000 pilot. Efficient replenishment to store. End report" (Dated 980127)

*Most of these are confidential.*

DOCUMENTATION:

*About 120 documents (for the most part) fall into one of the following categories:*

AGENDAS FOR MEETINGS: Summoning for most meetings with formal agenda.

STATUS REPORTS: Status reports prepared for many (but not all) meetings.

MINUTES OF MEETINGS: Minutes of (formal) meetings during the (whole) collaboration on different levels.

PROJECT PAPER: A few numbers released as an project internal information channel.

MEMOS: Some internal memos.

*OTHER*

Company information (e.g. annual reports). Press clippings.

Interviews were conducted under constraints of the financial situation in the project, availability of informants, when archival data was available, what other interviews were scheduled, and so forth.

Archival data was received on discs fall 1997.



**NKL - LILLEBORG  
TRACKED INCIDENTS OVER TIME**

D: Data source(s)	E9: EPOS95
I: Interview	E2: EPOS2000
P: Project handbook	SGM: Steering group meeting
S: Status reports	PMM: Project manager meeting
A: Agenda for meeting	PGM: Project group meeting
M: Minutes of meetings	WGLM: Working group leader meeting
PP: Project paper	
Me: Memo	
L: Letter	

DATE: e.g. 960828 indicates 28<sup>th</sup> of August 1996  
xxxxpr indicates primo; xxxxme indicates medio; xxxxul indicates ultimo

*Please note that several of the issues listed below are also discussed in interviews with the informants. However, the comments have been of a more general nature, and not specifically related to the actual dates. For this reason some "I"s in the data sources column might have been added, but is not.*

*DATE SOURCE ISSUES*

**PHASE 1: PREPARATION AND DEVELOPMENT PHASE**

940405	D: P	Decision to start cooperative supply chain management project
940822	D: P	Project idea established, described, planned
941222	D: P	Decision to start EPOS95 (efficient replenishment) project; Two strings: Lilleborg-NKL and NKL-Store
950203	D: M, I, A	SGM: Project handbook, project boundaries (EDI), joint study tour, kick-off
950214	D: P	Project handbook version 1 ready
950217	D: M, I	PMM: Project standards for reporting, minutes, archives, etc.
950302	D: M	PGM: Establishment 3 work groups, identification of central phases, test start estimate 951201
950309	D: M, I	Kick-off meeting (challenges, cooperation, organization, expectations, goals, etc)
950315	D: M	PMM: Standards (to be included in project handbook)
950320	D: M, S	SGM: Kick-off evaluation, work groups, progression estimates, study tour, non-exclusive cooperation
950324	D: M	PGM: Progression for project and working groups, study tour
950329	D: M	PMM: Mandate for working groups, study tour
950330	D: PP	First project paper: Project progression/status
950331	D: Me	Reference group mandate
950404	D: M, I	Cooperative meeting (information on kick-off in broader forum)
950405	D: PP	USA study tour
950425	D: M, I	PMM: Reports study tour
950504	D: M	PGM: Study tour, priority of project, resources -96, external consultants, progression
950507	D: Me	Suggestions for work groups included group leaders
950508	D: Me	Quick response seminar
950509	D: Me	Meeting with external consultant
950515	D: A, S, M, I	SGM: Working group details: flow (group gives premise for project), systems (started), competencies and information (questioned), EDI (not formal part of project), measurement. Milestones: 960401 testing done, 960601 end report and recommendation ready. Problems with priority given to, and resources committed to, the project.

950529	D: M, I	PMM: EDI, Organization of project questioned, inter-group meetings. Project seems more extensive because of focus on details.
950620	D: M, I	PGM (1200h): Working group progression. Work and coordination groups: corrective action? Resource situation. PMM (1400h): Project organization: changes suggested. Resource situation.
950623	D: PP, I	Progression (description of processes, development of systems), EDI (cooperation with EAN Norge), Rent of systems operation from external firm?
950627	D: A, S, M, I	SGM: EDI, measurement (started), work group progression , resources. Project organization changed.
950706	D: M	PGM: EDI, new project organization, new work groups discussed, resources
950712	D: M	PMM: Progression, work groups, resources, measurement.
950814	D: M, Me	PMM: New work groups (flow, systems L-NKL, systems NKL-store, competencies and information questioned) and group leaders, new project handbook.
950822	D: A, S, M, I	SGM: Budget -96, contract pricing, EDI (with EAN), progression, milestones. Competencies and information group dissolved, mandate moved to other groups. Next four weeks crucial for test in time. Mapping of routines almost done. Coming: revision of milestones.
950823	D: A, M	WGLM: New organization. Project information sharing. New project standards distributed. Status and progression: Important to renew, not automate current routines; delete unnecessary paper/routines, control based on deviation.
950904	D: A, M	WGLM: Priority Stavanger if conflict with central terminal. Status (reports delayed - usual): intense working period (details). Measurement. Delays likely.
950922	D: M, I	WGLM: Lilleborg resource problems. Central terminal. New store IS Obs! Sørlandssenteret; Obs! caused trouble and delay. Milestones revised. Replenishment: Prix Hegdehaugsveien from Grorud, NKL Stavanger from Lilleborg, Obs! Sørlandssenteret from Stavanger; Grorud and Ålesund from Lilleborg via central terminal. Software (E3 Crisp/Slim): course need, need to share experiences from related projects in FSØ.
951002	D: A, S, M, I	SGM: Resource problem, progression not satisfactory, NKL central terminal represents change in projects presupposition (Lilleborg positive), Contract pricing, Resources/progression, Project split into more autonomous parts, Testing, Project end estimate changed to 960902. Change store IS Obs!
951018	D: M, I	WGLM: Working groups works good, Measurement problems, Cooperative problems operational level: group leaders authority in the partner organization. Critical issues (ahead): resources, conversions, test plans, EDI.

951026	D: M, I	PMM: Contract prices development. Measurement. Analysis model (consequenses) for vendor managed inventory vs. orders must be developed (L to NKL and NKL to store).
951102	D: A, S	WGLM: Status working groups. System groups: various technical issues (install, conversion, etc.).
951109	D: M, I	PMM: Measurement. Preparation for change to electronic messages (consistent data through supply chain). Cooperative problems operational level: group leaders authority in the partner organization.
951113	D: M	WGLM: Status and progression. Under control. Resource problems. Dependency: Central terminal.
951117	D: A, S, I	SGM: Suggested joint project meeting all levels. Project progression almost on time. Consequences of earlier restructuring: more focused on testing, increased governance ability. Allocated resources not committed. Testing of system.
951205	D: M, I	Coordination meeting EPOS95 before experimental operation (goal: give shared platform in project regarding solutions and directions).
951214	D: A, S, M, I	SGM: Progression (no further delays allowed), testing of systems started (all parts tested, but not whole system), close cooperation in experimental operations in order to solve problems ad hoc, responsibilities in project discussed.

**PHASE 2: TEST PHASE**

960117	D: M	Milestone: Automatic replenishment of store (first suggestion produced 17th for delivery 18th).
960123	D: A, R	WGLM: Status and progression work groups, preparation for automatic replenishment from Lilleborg to NKL Stavanger. Progression Obs! and central terminal. External IS consultant problem.
960201	D: A, S, M, I	SGM: External IS consultant problem, startup issues and problems (minor), expansion stores and central terminal (Grorud and Ålesund), focus on store (chain) activities, Cooperative problems operational level: joint groups and group leaders must function well.
960227	D: A	WGLM: Status work groups, progression issues.
960403	D: M, I	SGM: Continuous work on communication systems (technical) needed. Very good results from the relatively short test period (chain management very positive). Expansion to other categories discussed. New project organization: excisting groups merged, and a new Store/Market work group added. Workshop with external IS/IT consultant.
960513	D: A, S,	SGM: Status, Results (so far), further progression and priorities. Project management statements: difficult phase because of conflict between project work (perceived priority down)and (ordinary) operations, expansions decided but lack of resources (project stalled) despite clear gains identified.



960530	D: Me	Suggestions new working groups, included group leaders and mandate (NKL - Store, NKL Central Terminal - Lilleborg, The store as a media).
960723	D: Me	Preparations for EPOS95 status meeting the 12th of August.
960805	D: Me	Measures available (miscellaneous, mixed results, trend: number of lay days reduced)
960806	D: A, M, I	SGM: Status EPOS95, Progression: challenges, recommendations, timing (project management, expansion stores and warehouses, progression vs. resources), status meeting with top management in respective organizations. Main challenge: keep the project "alive". Campaign problems.
960812	D: L, Me, I	Status meeting EPOS95. Goal: create joint understanding, agreement regarding priorities, and create enthusiasm for continuation.
960827	D: A, S, Me, M, I	SGM: Fulfillment of EPOS95, further roll-out, planned expansion stores/warehouse fall postponed, and testing, turnover, central terminal.
960828	D: S, Me, I	Two documents: EPOS95 - Status report Phase 1 and EPOS95 - Roll-out. Roll-out memo initiate possible new project establishment: NKL - Store and Supplier - NKL as separate initiatives.
960923	D: A, M, I	SGM: Status. Increased involvement of store/chain, project end report. Miscellaneous measures.
9610me	D: I	Negotiations and change to ExWorks terms. Done by D. Schøyen and J. Jacobsen as a one-off.
961030	D: A, M, I	SGM: NKL's project manager ended (minute written 970403 based on notes), Further progression store, End report, EPOS95 continuation as <i>joint</i> project. Measures. Central terminal. End report December. Pilot: expansion 10-15 stores.

### **PHASE 3: TRANSITION, REFOCUSING, AND INITIATION OF PILOT PHASE**

970129	D: A, M, I	SGM: Status and end report for EPOS95, turnover test store management, EPOS95 finished by ultimo March, continuation and expansion (store) in Pilot Project immediately. Pilot intended to have to strings: automatic replenishment from NKL (local warehouse unit/Central terminal) to stores, and replenishment of local units and central terminal. Expansion: include several of NKL's suppliers. Resources. Lilleborg included in (planned) new steering group.
970213	D: Me	Memo on establishment of EPOS2000 (direct continuation of EPOS95).
970404	D: A, Me, M, I	SGM: EPOS95 end status. EPOS2000: expansion several suppliers and product categories. Pilot primarily a quality test for communication, system solutions, management of orders, and routines in store. NKL - Store: as internal project in NKL, but Lilleborg invited in steering group as only supplier. Lilleborg - NKL: establishment memo will be prepared.

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970521	D: Me, I	Continuation of replenishment from Lilleborg to NKLS local units (outline)
970618	D: L, I	Amount of whole pallets versus picked/mixed.
970708	D: Me, I	Project meeting: Replenishment from Lilleborg to NKL warehouse: continuation of project part discussed, several problems identified.
9707me	D: I	NKL decides to stop the replenishment from Lilleborg to NKL warehouse part of EPOS.
970919	D: A, I	SGM: EPOS95 Status and summary (final occurrence of EPOS95 in material). Concern from Lilleborg that decision to stop automatic replenishment from Lilleborg to NKL Stavanger should not lead to a situation where one does not have a partnering project.

TOTAL 66 INCIDENTS



TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 1 (continued)

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test preparations	Resource availability	Miscellaneous	Cross-docking/terminalization	Related activities	Project orientation sites	focus
950529		Progression: important to be on time	Initiative to identify total resource need	Project more comprehensive than initially assumed Project organization questioned		EDI need in project related to external EDI projects	(2 stores 1 warehouse)	By this time the operational focus has changed to phase 1 and 2 only
950620	(establishment of work groups partly delayed)	Discussed problems with inform., reporting, and progression	Contribution problem	Problems related to the project organization - suggestions for solutions developed				
<b>950627</b>	Project organization and administrative structure changed and simplified; Working group changes discussed	(see above) Measurement started	(see above)			EDI issues will be coordinated with external project		
950814	New work groups initiated (flow and systems focus); Revised proj. handbook and document standards	follow-up plans needed	follow-up plans needed					
950822	New work groups in operation; Budget -96 discussed	Delay - activity, milestones; All work groups in operation	Additional resources made available	Contract pricing discussed		EDI coord. externally		

TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 1 (continued)

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test preparations	Resource availability	Miscellaneous	Cross-docking/terminalization	Related activities	Project orientation sites	focus
950904		Progression in work groups good; Reporting delayed	Resources available currently; Future needs		X-docking occurred as issue; Priority given to Stavanger if conflict			
950922		Progression delayed - new IS installation at Obs!	Resource problems	Courses in software needed	Terminalization of NKL Grorud and Ålesund	Cooperative experiences and use in external projects disc.	New test sites: NKL Grorud NKL Ålesund	
951002	Budget 96 ready	Delay: new IS Obs! and X-docking	Increased resource need as a consequence of X-docking (additional need)	Contract prices will be implemented Test report finished 960902	X-docking changes the presuppositions for EPOS95; Lilleborg positive	(see above)	New test site: new possible store in Stavanger discussed (additional)	Project split into more independent parts - easier to focus
951018		Progression/ work groups good; Measurement problems Important: Conversion and testing; Software training	Reporting of man-hours unsatisfactory	Problems with coop. across org. boundaries in work groups (leaders authority in partner org.) Project information meeting needed		EDI critical for test		

TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 1 (continued)

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test preparations	Resource availability	Miscellaneous	Cross-docking/terminalization	Related activities	Project orientation sites	Project orientation focus
951026	Contract prices for test established	Measurement delayed; Simulation need						
951109		Routines for numbering and coding of products and consistent data: rules established	Reporting of man-hours weekly	Coop. across org. boundaries in groups: spend more time with partner employees Project meeting planned 951205 - importance of joint understanding				
951113		Work group progression good Data exchange operative, software mainly in place		Work groups for the operative test discussed	Coordination with plans for terminalization important			
951117		Progression "on time" (almost)	Resources: project uses more than estimated; Allocated res. unavailable	Software training in progress				Restructuring of project has improved focus and management of test areas
951214		Syst. dev. done Test in progress Routines described	Availability	Close collaboration during operations to solve problems ad-hoc			Operative sites: Prix, NKL Stavanger	

TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 2  
ISSUES

TIME Date	Establishment and evolution of governance mechanisms	Test operations	Resource availability	Miscellaneous	Cross-docking/ terminalization	Related activities	Project orientation sites	focus	
960117		<i>Test operative Prix (Oslo)</i>					<i>1 store</i>	(still phase 1 and 2)	
960123		Test/follow-up Stavanger Further prog. Obs!		Presentation stock Collaboration with Chain NKL and Sales dep. Lilleborg	Identification of change need in NKL started	Problems in the coop. with software suppl. E3	↓	↓	
960201		Start-up problems Tech./software Counting in store Progression Obs! : ready to April	No slack	Stores should be more involved (added focus on in-store activities*); Organization with joint work groups and group leader continuous challenge	Terminalization Grorud/Ålesund: rough outline for solution - details in April	Put pressure on E3			*
960205		<i>Test operative NKL Stavanger</i>							<i>1 Warehouse</i>
960227		Status/Progress	Discussed	Organization	**	Meeting with E3 early March	Next: Obs!, Prix (Stavanger), **Grorud/Ålesund		
960403	New project org.: Flow- and systems groups merged, New store/market group added	Communication tech.: Instability <i>Early results "very good"</i> Product expansion		Operative committed personnel to run test in both organizations discussed		Workshop with E3 critical	↓	↓	

TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 2 (continued)

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test operations	Resource availability	Miscellaneous	Cross-docking/terminalization	Related activities	Project orientation sites	focus
960513		Some problems Good results *Further progression ceased (more or less); Product expansion delay	Experienced low priority: New resources not available Lilleborg will allocate one dedicated person	Dilemma: test project vs. ordinary operations * Need to revitalize project***	* Systems solution for X-docking not developed		*Earlier decided expansion not implemented; Inclusion of one new warehouse discussed (to prepare for roll-out)	
960806		Campaign activities caused problems (flow, inventory levels) - returns disc. *Challenge #1: keep project alive	Reporting of resource needs important	Sales force and consequences of "from push to pull" discussed; End report by 961001 *Major turnover in NKL among project personnel expected during fall -96; Joint status meeting planned	Systems solution for X-docking must be developed by 960918**		Goal: new stores by 960915 **Inclusion of terminal	
960812				***Joint meeting held				
960827		Test operations without major problems; Most gains in NKL, Lilleborg when critical mass reached	Resource problems in NKL*/	Roll-out memo discussed - roll-out as <i>two separate initiatives</i> : L - NKL, NKL - stores, easier to implement, ECR foundation, after -96*//; Project meeting successful	*Terminalization postponed until new resources available		*/ New sites postponed until new resources available	*//



TABLE A3.: Detailed Description of Event History - NKL and Lilleborg Phase 2 (continued)

TIME Date	ISSUES							
	Establishment and evolution of governance mechanisms	Test operations	Resource availability	Miscellaneous	Cross-docking/terminalization	Related activities	Project orientation sites	focus
96 October	Change in Steering committee composition	Chain employee dedicated 50% to project *	*	*Turnover in NKL (several key employees in project)		Transition to ExWorks sales terms for non-project sales - adaptation to terminalization and changed practice in the trade, handled by key project participants as one-off	↓	↓
96 October								
961030		Measurement problems: action taken to correct		*End report delayed Increased involvement of chain/stores initiated	Progression related to terminalization discussed	Inclusion of other suppliers discussed	Additional sites in pilot (roll-out) discussed	Agreement to continue the joint project with focus on the whole supply chain

TABLE A3: Detailed Description of Event History - NKL and Lilleborg Phase 3  
ISSUES

TIME Date	Establishment and evolution of governance mechanisms	Roll-out preparations	Resource availability	Miscellaneous	Cross-docking/ terminalization	Related activities	Project orientation sites focus
970129		Some remaining uncertainties: Test prolonged until March Pilot preparation - start 970501 as two projects * (EPOS2000)	Availability of resources in pilot discussed	End report presented ("technical"); Turnover key personnel in test store (unexpected); * Pilot will include additional suppliers - Lilleborg offered seat in Steering committee; Project publicity		Distribution related to ExWorks discussed	Planned roll-out sites: several stores and warehouses/ terminals Increase focus on gains in store Replenishment NKLStavanger continues
970404		Additional suppliers, Product expansion, End of test	Resources will be contributed from suppliers; Project given high priority	Establishment memo for EPOS2000 presented, Short version of end report EPOS95 presented	Terminalization included in EPOS2000	New corporate IS	Stores (as internal project) Replenishment from Lilleborg will continue
97 May	New key employee in NKL important decision maker	<i>Pilot in stores started</i>		Memo on continuation of replenishment from Lilleborg prepared			
970708		Continuation of replenishment from Lilleborg to NKL only issue	Lilleborg willing to commit necessary resources	Range of problems and possible solutions identified			
9707medic							<i>Replenishment from Lilleborg to NKL stopped</i>

## QUOTES FROM NKL – LILLEBORG IN ORIGINAL LANGUAGE

(35) "Og etter det møtet, eller etter det besøket der borte, så var det vel noen uker etterpå som vi snakket sammen, og vi fant ut at dette området her fant vi ut at det var veldig spennende å jobbe videre på. Så det var opptakten til dette prosjektet da".

(36) "Hovedpoenget er at styringen av dagens vareflyt er fragmentert og lite optimal. Den utløsende faktor, nemlig bestilling fra den enkelte butikk er ofte svært subjektiv; "her er det plass til en kasse til i hylla", "her kan vi sette en ekstra kasse på toppen", "nei, denne tror jeg ikke det vil gå så mye av, kan vente til neste levering", denne type vurdering som ikke er begrunnet i et kvantifisert behov. Det utrolige er at i butikker med scanningkasser er det tilgang på verdifull POS informasjon, men denne brukes ikke til å kvantifisere forventet salg. Vi må bevege oss fra dagens situasjon hvor butikken og grossistlageret bestiller varer til en fremtid hvor varestrømmen styres av systemer som utnytter salgsdata fra butikk og grossistlager."

(37) "En ting jeg opplevde i dette prosjektet som er svært interessant er at da vi var midt oppe i den mest hektiske perioden, tror jeg de fleste som var med gruppearbeid ikke hadde følelse av at det satt mennesker fra to forskjellige organisasjoner rundt bordet. Det var en ganske interessant observasjon. Og da trenger du ikke kontrakt."

(38) "... Men jeg tror du skal ta utgangspunktet litt i betraktning her. Det var jo kommet et veldig klart utsagn om at prosjektet muliggjør så store besparelser at det ikke var nødvendig å regne på hvilke kostnader selve arbeidet ville medføre. Det spiller ingen rolle hva det koster, fordi det er en dråpe i havet, litt denne type tankegang."

(39) "... hvordan man skal fordele gevinster ... Om man for eksempel skal dele 50/50, eller et eller annet. Der har jo vi et utgangspunkt om at vi sier at det vi klarer å ta ut i gevinster, det skal videreføres til forbrukeren. Det er utgangspunktet. Så klarer vi å senke prisene våre gjennom effektivisering, så skal det gi seg utslag i bedre konkurransedyktighet. Det er utgangspunktet".

(40) "... vi har etablert et forhold med NKL som nok er noe bedre, eller som gjør at enhver diskusjon, konfrontasjon, eller whatever, kan være noe mer positiv enn det ellers ville vært".

(41) "Jo, jeg følte grunnlaget for åpenhet, dette med å ha oversikt, kunne ta opp hvilke som helst spørsmål og slikt, det var jo helt avgjørende for det vi klarte. Og eksempelvis så tror jeg det er ikke hvilken som helst leverandør vi kunne kjørt et sånt prosjekt med. ... Og det er fordi at det stemte med kultur og med tillit og de tingene som lå i bunnen".

(42) "Mens Ellen og jeg, vi drev jo den operative delen av prosjektet og vi skulle hele tiden holde trådene sammen og beslutte videre fremdrift og så formulere hvordan vi skulle gå videre. Og det var helt greit. ... Hun kom her med vesken sin to ganger i uken og så satte vi oss ned og holdt på et par timer og så dro hun av gårde igjen."

(43) "Ellen og jeg hadde mange diskusjoner om prosjektets innhold, metode, fremdrift, bemanning og selv om vi ikke alltid var enige om hvordan vi skulle gjøre ting, oppfattet jeg ikke at dette hadde bakgrunn i noen politiske overtoner."

(44) "De fleste beslutninger ble tatt av Ellen og meg uten at vi trengte noen til å "dømme". Det er klart at en del løsninger ble slik Ellen (NKL) ønsket de skulle være. Det hadde jeg ingen problemer med. For det første hadde hun en vesentlig bedre bakgrunn enn meg når det gjaldt en del dataløsninger, spesielt hadde hun jo en enorm kunnskap om NKL's løsninger og det var her de største endringene skulle gjennomføres. Mye av det som ble besluttet ble derfor basert på hennes kunnskap og på de premisser som lå i NKL mht. tekniske løsninger og praktiske forhold. Dette innebar likevel ikke at vi hadde noen følelse av at prosjektet ble veldig "NKL'sk" og derfor mindre interessant for oss."

(45) "Det er slik vi har gjort det. Slik at vi sier jo at selv om vi arbeider tett sammen, så innebærer ikke det at vi har sluttet å være kommersielle, det innebærer ikke at vi slutter å forhandle om priser og betingelser og saker og ting".

"Jeg kan nevne et annet eksempel på ting som kom opp. I prosjektet brukte NKL POS data selv til å beregne behov fra lager til butikk. Vi fikk salgsdata fra lageret og beregnet behov fra oss til lageret. Av andre årsaker var vi interessert i POS data og vi tok dette opp helt utenom prosjektet. Det ble laget en avtale og vi var ferdige med den saken. En del slike ting må bare løftes ut og tas for seg."

(46) "... så tror jeg at de fleste som var med i prosjektet, de hadde ingen følelse av at det satt mennesker fra to forskjellige organisasjoner rundt bordet".

(47) "Altså, vi hadde et veldig åpent forhold, det var veldig lite politikk, knapt noe i det hele tatt vil jeg si i mesteparten av det prosjektet. Så det var ganske unikt, og jeg tror det er det jeg vil trekke frem som en litt spesiell ting. Når vi satte oss ned rundt et bord, kunne være en 8-10 mennesker, og du ville ikke kunne høre hvor de kom fra".

(48) "Jo det tror jeg ... at vi har samme følelsen. Og det er fordi at vi ikke forhandler. Vi er felles om å få noe til å skje"

(49) "Det var en mer komplisert beslutningsprosess ... Vi var jevnbyrdige i forhold til beslutningsprosessen, som gjorde at det var ingen av oss som tok beslutninger over den andre".

(50) "... det å avklare hvor man står helt konkret, er jo veldig viktig, og når du ser de forskjellige standpunktene tydelig, så er det jo mye lettere å forholde seg til den annen part, og vite når du beveger deg inn i et område som vil kreve avklaringer eller diskusjoner eller endringer eller whatever, ikke sant. Og når du er i et område som er fritt for miner, og sånn. Og det var vel det vi gjorde. Vi opererte prosjektet i et område hvor det ikke lå noen miner. ... Hvor leder dette vi holder på med? Hvor er målet? Hvilken retning ønsker vi å gå? Så vi hadde jo en del slike diskusjoner, ... jeg vil ikke kalle det konfrontasjoner, men det var en viss politisering av diskusjonen, ... fordi at vi hadde litt forskjellige interesser i det. Men det ble jo aldri noen konflikt ut av det. Men det ble vel en presisering ... Vi ryddet nok unna noen sånne potensielle problemområder ved å ha litt utdypende diskusjoner".

(51) "... (på) delprosjektledernivået tror jeg det ikke var noe politikk i det hele tatt. Jeg tror ikke det var noen taktiske hensyn eller noe slikt, som ble tatt. ... Altså da jobbet man bare med et prosjekt, og de som var med de var med i prosjektet ... om de liksom hadde kontor et annet sted det spilte ingen rolle".

(52) "... han satte strek over mye arbeid og diskusjoner som kunne kommet hvis vi skulle laget en holdbar analyse av gevinst og nytte på dette tidspunktet. Vi visste jo svært lite om hva prosjektet ville innebære. Han signaliserte veldig klart at dette gjør vi fordi vi tror på konseptet og at det vil innebære en vesentlig økning av inntektsiden i fremtiden. Vi stiller opp med de avtalte ressursene og vi snakker sammen om veien etter hvert som den blir til."

(53) "Vi laget en tradisjonell prosjektorganisasjon med deltagere fra begge firmaer og de nødvendige styrende dokumenter som vi sendte ut. Vi valgte ut deltagere til de forskjellige arbeidsgruppene etter hvilke personer med relevante kvalifikasjoner vi hadde. Styringsgruppen fikk dette presentert og hadde ingen innsigelser. Det ble en organisering for en stor del på prosjektets premisser og ikke på de to bedriftenes fordi vi følte at dette var et felles prosjekt med felles mål."

(54) "Vi foreslo det veldig klart. Men det var aldri noen stor diskusjon om det ... Jeg erindrer at vi sa at "det er ikke noe å diskutere, hvis vi ikke er enige om det, hvis ikke dere synes det er noe godt forslag, så blir det annerledes, ferdig med det. Så kjører vi"".

(55) "Nei, altså vi hadde ingen innflytelse på den siden av saken. NKL valgte butikker og sa at disse er de ideelle butikkene. Vi sa "velg det som er best. Velg det som kommer til å funke". Og da dette kom så ble vi nok ganske forbauset da vi oppdaget at det var en butikk der, og en butikk der, og så et lager der. ... Og vi prøvde å stille den del spørsmål "hvorfor kan vi ikke få det her" ... men da hadde vi jo Prix ... "den ligger jo borti gata"".

(56) "(det var) ... NKL som hadde driftsansvaret i den butikken. Det var ikke et Samvirkelag. Derfor så ble den valgt. Og Erik Mjøster som satt i prosjektet, han hadde ansvaret for driften av den butikken. Hovedgrunnen til at vi valgte slik, var at vi trodde at det er det valget som vil gjøre det enklest for oss å gjennomføre".

(57) "Lilleborg meget positiv til sentralterminal, men dette krever en mer kompleks løsning og det er derfor dette er forskjøvet i tid".

(58) "Og så gjorde vi det (ler). Det var en litt morsom ting fordi det var så mye internt snakk frem og tilbake i Lilleborgs organisasjon, vi var ikke forberedt på et regime med fast pris, selv om det bare var for prosjektet. NKL på den andre siden var veldig klare og i prosjektledelsen var vi enige om at vi måtte finne en praktisk løsning og så foreslo vi en løsning og sa at dette må vi ha!"

(59) "Nei, og det tror jeg at man egentlig ikke fant noen god løsning på. Akkurat dette er et klassisk problem som jeg opplever også i andre prosjekter av denne typen".

(60) "Vi hadde noen sånne problemstillinger ... at det var noen som sa at "allright, jeg har fått ansvaret for den gruppen. Det er veldig greit med dem som er i egen organisasjon, men det er ikke så greit med dem som ikke er i egen organisasjon for de føler jeg jeg liksom ikke kan gå å direkte påvirke". Og da besluttet vi at "jo, det kan du. Og skulle det være noe konflikt med ... eller ressurskonflikt i den andre organisasjonen, så er det klart det er lederne der som må ta seg av". ... Det store problemet var akkurat denne konflikten mellom at du har en operativ jobb og at du har et prosjektansvar, og du blir målt etter den operative jobben og ikke dette prosjektet".

(61) "Vi har ut fra erfaringer med oppstart Prix sett at vi må fokusere mer på det som foregår i selve butikken. Dette medfører at vi må involvere kjededrift NKL, salg Lilleborg, og butikkansvarlige ... sterkere".

(62) "Deltagelse fra FSØ og butikknivå videre i prosjektet bør vurderes. Må se på problemet med presentation stock ... Det er viktig å få industrien til å unngå kamp om hylleplass".

(63) "Ja, vi så jo flere eksempler, blant annet dette med Space management planlegging som kom opp, som vi vel ikke var klar over i utgangspunktet. Vi ble jo mer og mer klar over nødvendigheten av å ha med butikk/kjedesiden for å få det til å fungere. Vi ble jo klar over at det var mye mer enn ett logistikkprosjekt. Mye klarere. Og det var vel også ett av dilemmaene, fordi at vi hadde store problemer med å få med blant annet kjededrift hos oss. De hadde ikke ressurser til å sette av i nødvendig grad til prosjektet. Det var jo også et problem for prosjektets fremdrift".

(64) "Organisering med felles grupper og felles delprosjektleder har vært en stor utfordring ... Dette har ikke fungert like godt på alle områder, men vi mener at det er av avgjørende betydning for fellesfølelsen i prosjektet at dette fungerer fremover. Vi vil derfor jobbe videre med dette".

(65) "EPOS95 har inntil idriftssettelsen i februar i år stort sett ført en kontinuerlig kamp om nødvendige ressurser selv om prosjektet har hatt en rimelig grad av fokus fra begge organisasjoner. ... Skal vi komme i mål slik som forutsatt er det nødvendig å revitalisere prosjektet, både gjennom å være enige om målsetting, skape fornyet interesse i deler av begge organisasjoner og ikke minst, sørge for at prosjektet kan få benytte nødvendige ressurser"

(66) "Det er derfor vår konklusjon at prosjektets fremdrift stort sett har stoppet opp".

(67) "Det ble en diskusjon om aktiviteter og de utfordringer dette skaper i flyten. Aktiviteter både mot butikk og mot NKL Stavanger må kunne styres bedre. Det ble enighet om at vi ikke skal overfokusere på aktivitetssiden, men konsentrere oss om å gjennomføre. Returer fra grossistlager til Lilleborg må kunne diskuteres. ... Se på konsekvenser på salgsapparatet - fra push til pull.

Største utfordringen er nå å holde liv i prosjektet. Størstedelen av prosjektorganisasjonen hos NKL må erstattes i løpet av kort tid. ... Målsetting for oppstart flere butikker er satt til 15.9.96. ... Løsning via sentralterminal må også utarbeides, dette er viktig for at Lilleborg skal få bedre resultater. Målsetting er at Stavanger skal forsynes via sentralterminal fra 18.09.1996".

(68) "Og det som skjedde var innkjøperen på lageret i Stavanger tok styringen gjennom å bestille ekstra varer utenom systemet da han syntes lagernivået ble for lavt. I tillegg hadde vi noen kampanjer som ble kjørt i denne perioden og hvor anslagene var fullstendig feil. Varenivået for noen produkter gikk derfor

slik i været at hele lagerbeholdningen der nede ble høyere enn den var før vi startet. Det tok lang tid før vi kom ned igjen. .... det pussige er at lagernivået alltid drives mot å være for høyt og at dette er en kombinasjon av hva våre selgere gjør og hva innkjøp på det lokale lageret gjør, det er nesten alltid selvforskyldt."

(69) "Oppfatningen av møtet var positivt og det er en bred felles interesse for prosjektet. En roll-out vil gi økonomisk gevinst for begge parter. Effekten for Lilleborg vil først komme når roll-out fasen gir kritisk masse m.h.t. varevolum som suppleres, mens FS/NKL vil oppleve en kontinuerlig bedring".

(70) "En videreføring av prosjektet og innføring av kontinuerlig varesupplering vil best bli ivaretatt ved at innføringen gjennomføres i to separate løp... Grunnen til dette er at det gir enkleste gjennomføring. Men vi må ikke miste totalperspektivet (ECR) ...

*Leverandør til NKL:* Videreføringen bør organiseres i partneringprosjekter ... med...leverandører

*NKL til butikk:* Videreføringen organiseres som et ordinært prosjekt ...

(71) " ... jeg oppfattet at de (Lilleborg) så negativt på det. Det var kroppsspråk og reaksjon, sånn sett. ... tror jeg de var ganske ydmyke i forhold til NKL. At de la kanskje litt bånd på seg selv".

(72) "Med en gang den ideen ble presentert, da var (replenishment from Lilleborg to NKL Stavanger) i realiteten død den. Fordi da følte nok NKL at ... de så at på butikkens side så var det veldig viktig for dem å fortsette, og de hadde ikke ressurser og de hadde kanskje ikke tilstrekkelig tro på ... de hadde ihvertfall ikke noen interessert mennesker, til å drive den andre biten. ... Der er det helt klart at den beslutningen ... vi fightet ikke den i det hele tatt, selv om vi vel kommenterte og sa at vi ikke syntes det var så veldig fornuftig".

(73) "Det er viktig å bli enig om hvordan vi skal samordne arbeidet mellom Lilleborg og NKL og mellom NKL og butikk i denne fasen. ... EPOS95 forsetter som et pilot-prosjekt, der nye tanker og ideer kan testes ut og kompetanse bygges opp under oppsyn av den felles styringsgruppen. Viktig å beholde totalperspektivet på vareflyten og også trekke fordeler av felles innsats på alle områder, f.eks. ha med leverandør i butikk".

(74) "Nei, vi har jo ikke tjent på Lilleborg. Så vi håper jo kanskje at Lilleborg har tjent noe".

(75) "Det var da det liksom begynte å bli skallet av løsninger. ... Slik jeg oppleve det så ble vel min erkjennelse etterhvert at vi hadde gapt for stort".

(76) "Ellen Haugen og jeg hadde den samme fokus og tro på prosjektets totalitet, et fellesskap som var veldig klart. Det var veldig åpent. Da hun sluttet gikk vi over i en ny fase. Det var ingen til å overta hos NKL og prosjektet falt litt mellom to stoler, vil jeg si."

(77) "... (tidligere hadde) man gledet seg til å jobbe med dette prosjektet, så begynte det å skje ting. Blant annet utskiftninger av personer. Gløden forsvant ... Så flatet utviklingen ut"

(78) "Del 1 omfatter innføring av automatisk varesupplering fra lokal enhet/Sentral terminal til 10 - 15 butikker. ... Lilleborgs engasjement i butikk er del av prosjektet. ... Del 2 omfatter påfylling av lokal enhet, og vil ha tre faser: Rendyrking av løsningen mot Stavanger; Inkludere Sentral Terminal; Inkludere Hamar".

(79) "Og vi mente at det var bedre å flytte fokus til butikk. Fordi, utfra integrert vareforsyning, så er utgangspunktet å starte nærmest mulig forbrukeren, og jobbe bakover. Og vi for vår del så også at det er i butikk det er størst effekt".

(80) "HN: Var det et forhandlingstema hvorvidt man skulle gjøre det slik eller ikke?"

JJ: Nei, vi sa det var greit.

HN: Men det var ikke i Lilleborg sin interesse?

JJ: Nei, det tror jeg vil si, at vi hadde nok vært mere happy med at vi hadde holdt tingene samlet. Og jeg ble vel litt vonbråten fordi hele prosjektets ide, hele veien, har jo vært at dette gjør vi helt annerledes enn andre. Vi holder tak i hele kjeden, fra leverandør og ut i butikk. hvilket ingen har gjort før. Men ... jeg tror de visste nok litt mer enn oss om at det ikke gikk så veldig bra nede i Stavanger".

(81) "... det var en litt sånn spesiell situasjon, fordi da vi diskuterte akkurat dette med den delingen, så spør Sætveit egentlig om vi er fornøyd. Og da sier vi jo da at vi er jo egentlig ikke helt fornøyd. På den annen side ... det har jo også vært en av de veldig interessante delene av dette prosjektet, at vi har jobbet sammen om løsninger i butikk. Som er en viktig ting. Veldig viktig ting. Og da kom Sætveit og sa det at "det er greit, men du kan være med i styringsgruppen". ... Og det syntes jeg var den ultimate beviset på at man her hadde et klart fellesskap. Det er jo sjelden at du tilbyr en leverandør å ta del i en styringsgruppe innefor et område som man normalt ikke vil jobbe sammen om. For dette var jo da deres lager og ut til deres butikker".

(82) "Utvidelse til andre leverandører. Overgang til hele varegruppene for vask og hygiene innebærer ikke direkte involvering av andre leverandører utover at de er med. Det er interesse fra NKL om å trekke inn f.eks ..."

(83) "Det var helt all right. Det var jo en forutsetning kan du si fra begynnelsen, når vi kom til et visst punkt, så skulle vi også trekke inn andre. Vi så jo det som en fordel rent ressursmessig. At skal du rulle ut i mange butikker, så trenger du faktisk en god del mennesker".

(84) "*Pilot*: Gjennomføringen av en pilot innebærer en utvidelse både m.h.t. supplering fra leverandør til Sentral Terminal/lokalt lager og fra lager til butikk.

*NKL - Butikk*: ... Dette vil bli drevet som et internt prosjekt primært rettet mot supplering fra NKL til butikk. Lilleborg inviteres med i styringsgruppen for dette prosjektet.

*Lilleborg - NKL*: Det vil bli utarbeidet et etableringsnotat for Lilleborgs videre arbeid med automatisk varesupplering basert på en diskusjon om hvilke løsninger som skal benyttes.

*Eventuelt*: Prosjektet har klar prioritet"

(85) "... (the memo) var bakgrunnen for å ta opp diskusjonen av denne delen av prosjektet igjen, men den ble bare stoppet pga. manglende ressurser og ikke høy prioritet. Den nye ledelsen hadde mer enn nok med å få tak i prosjektets andre del og daglig drift. Det ble derfor ikke gjort noe mer med saken fra Lilleborgs side."

(86) "Og da fikk vi en liste som var så lang at vi fant ut at dette har ikke vi ressurser til, her må vi stoppe... Det skadet hele samarbeidet, slik som jeg opplevde det".

(87) "Ideen å følge hele strengen, ... den er veldig spennende. Jeg tror det er mest å hente i leddet butikk-NKL. Årsaken til at jeg sier det er at butikken har ikke noe profesjonelt innkjøpsapparat, og har heller ikke vært veldig opptatt av innkjøp. Det har NKL vært, og derfor så har vi mindre å hente i det leddet NKL-Lilleborg. ... Men for å klare å få nok fokus på EPOS2000 butikk, så er jeg helt overbevist om at det var riktig å si at nå stopper vi det andre delprosjektet. Vi har ikke nok oppmerksomhet, og konsentrerer oss om den første delen, for der er gevinstene størst".

(88) "Altså, når man kjenner hverandre godt som NKL og Lilleborg gjør, og du skal ta en beslutning som den andre parten ikke er enig i, eller ikke er glad i den prioriteten, så er jo det vanskelig å gjøre det. Og jeg tror at det bar litt preg av det. At ikke vi sa tydelig nok, tidlig nok og tydelig nok ifra til Lilleborg at "vi makter ikke dette, vi har ikke ressurser". Det burde vi ha gjort".

"... det var mye lettere for meg å si det at dette fører ikke noe sted. Enten så må vi gjøre dette 100%, eller så får vi legge det ned".

(89) "Så, yes, vi vil hele tiden være interessert i å prøve noe nytt. Men vi vil også være veldig oppmerksom på kostnader, fordi at det er stor forskjell på å ta ut kostnader, og å skyfle kostnader. Det første er veldig positivt, det andre er uproduktivt".

(90) "Ja, vi gjorde en status til hvert styringsgruppemøte, en evaluering av hvor vi var i forhold til planen, men ikke en oppsummering som ga oss en resultatbeskrivelse av situasjonen hvis det var slutt her og nå..."

(91) "Det viktigste var jo hvilken innvirkning det vi gjorde hadde på økonomien. På salget, på omløpshastigheten, på lagernivå, på de målbare delene av vareflyten. Det var jo det viktigste."

(92) "Altså, det ligger jo i utgangspunktet i den prosjektmodellen som vi har brukt. Dette med også å ha et ... langt perspektiv, og ha en formening om hvilke gevinster og potensiale som ligger der".

(93) "Altså vår interesse i prosjektet det er jo utelukkende fremtidig forventning. ... Du etablerer jo et forhold for å kunne kontinuerlig gjøre gode ting"

(94) "... det var ihvertfall en ny giv for å kunne oppsummere lærdommen i prosjektet, og virkelig se at vi hadde lært noe. Og at det var positivt".

(95) " Ja, det er jo helt klart det at når folk lærer hverandre å kjenne, så øker effektiviteten mellom to organisasjoner. ... "Jøss, er det slik dere gjør det. Vi trodde dere gjorde slik, og derfor hadde vi lagt opp til å gjøre slik". Ikke sant. Man kan lage løsninger som ikke henger sammen. Den type ting blir det ryddet en hel del unna. Når du får et sånt samarbeid".



**CHAPTER 8.**

**Esthetique and Norelor – Data Sources**

**Esthetique and Norelor – Tracked incidents over time**

**Table A4.: Detailed description of event history Esthetique and Norelor**

**Quotes from Esthetique and Norelor**

**ESTHETIQUE NORELOR DATA SOURCES***INTERVIEWS*

DATE	COMPANY	INFORMANT(S)	DURATION	# OF
970228	Esthetique	Thor Hauge	60 minutes	1/1
970404	Esthetique	Thor Hauge	45 minutes	2/2
970422	Norelor	Sigurd A. Hauge	75 minutes	1/3
970606	Esthetique	Thor Hauge	70 minutes	3/4
970701	Norelor	Sigurd A. Hauge	80 minutes	2/5
971008	Esthetique	Thor Hauge	75 minutes	4/6
971126	Norelor	Sigurd A. Hauge	60 minutes	3/7
971126	Esthetique	Thor Hauge	30 minutes	5/8
980223	Norelor	Anne R. Larsen	80 minutes	4/9
980302	Esthetique	Thor Hauge	75 minutes	6/10
980313	Norelor	Sigurd A. Hauge	60 minutes	5/11
980330	Norelor	Sigurd A. Hauge	80 minutes	6/12
980806	Norelor	Bernhard Claudel	75 minutes	7/13
980821	Esthetique	Thor Hauge	60 minutes	7/14

*ARCHIVAL DATA***CONTRACTS:**

Cooperative contracts between Esthetique and Norelor divisions DPP (public / mass market) and PB (selective series). Supplementary contracts. Contracts between Norelor and the individual Esthetique store. Stand agreement.

**LETTERS / FAXES:**

Business correspondence.

**MEMOS:**

(Such as) Minutes and agendas from Market Councils, 6 months plans, Campaign activity sheets.

**STATISTICS:**

(Such as) Statistics on sales chain/stores/series, Trade statistics, etc.

**INTERNAL DOCUMENTS:**

(Such as) Overviews over shops, magazines, and product lists.

*OTHER*

Company information and corporate outlets (e.g. annual reports).

Esthetique Magazine.

Newspaper articles (during data collection; older articles from DN-Arkiv on the web).

Archival data on past interaction was available and borrowed late fall 1997 from Sigurd Armand Hauge, Norelor. Additional archival information was received throughout the interview period.

Interviews were conducted under constraints of the financial situation in the project, availability of informants, when archival data was available, what other interviews were scheduled, and so forth.

**ESTHETIQUE - NORELOR  
TRACKED INCIDENTS OVER TIME**

D: Data source(s)  
I: Interview  
C: Contract  
L: Letters (faxes included)  
A: Agenda for meeting  
M: Minutes of meetings  
6MP: Six-month plans  
Me: Memo

DATE: e.g 960801 indicates the 1st of August 1996  
Xxxxpr indicates primo; xxxxme indicates medio; xxxxul indicates ultimo

*Please note that several of the issues listed below are also discussed in interviews with the informants. However, the comments have been of a more general nature, and not specifically related to the actual dates. For this reason some "I"s in the data sources column might have been added, but is not.*

*DATE SOURCE ISSUES*

**1: PRE-ESTHETIQUE PHASE (MODENA)**

92 winter	D: I	New director of Perfums et Beaute in Norelor.
92 spring	D: I	Narvesen buys two "magazine" stores, and seven "conventional". Modena counts 20 perfumeries. Tough negotiations with suppliers. Contract supplement initiated.
920609	D: L	Meeting concerning assortment and terms.
920612	D: L	Follow-up on meeting 920609 - offer.
921123	D: L	Negotiation meeting concerning collaborative agreement for 1993. Basic assortment is new element. Wage support.
921214	D: L, C	Contract supplement. Additional regulations (early version).
921218	D: L, C	Contract offer for 1993. Sales terms and bonus design (rebates, bonuses, stand employees, payment, invoicing, returns)
93 winter	D: I	Cooperation on minimum level
930210	D: C, L	New offer for collaborative contract 1993. Some changes in terms/bonuses. Norelor want additional agreements directly with shops, "based on mutual goals". Wage support - changing views - Norelor accommodate.
930310	D: C, L, I	New draft - collaborative agreement for 1993. Some adjustments in terms (increased rebates given minimum revenue level).
930324	D: L, I	Cooperative agreement reached. Wage support for stand employees. Lancôme in basic assortment.
930401	D: L, I	Product lists for basic and voluntary assortment (accepted products).
930401	D: L, I	KK-Card issue. Turndown from Modena.
93 spring	D: L, I	Narvesen release plans to re-launch Modena as Esthetique, focusing on selective distribution of high profile series. Quality areas. Target group. Policy vs. suppliers: partners in distribution, concentration, efficiency, joint gains. Chains contribution to an enhanced distribution process.

**2: ESTHETIQUE INITIATION AND ESTABLISHMENT**

930601	D: Me, I	Information meeting regarding the introduction of Esthetique. Norelor involved in "think-tank". Lancôme activity for re-opening wanted from Esthetique.
930621	D: L	Steen & Strøm magazine reorganized. Sales ranks.
930623	D: L	Official letter regarding the re-opening. Special activities are given first priority. Background: tax on cosmetics removed by the turn of the year 92/93, and a polarization of the market is expected.
930628	D: L, I	New wage system (initial, additional for competence and sales). Individual agreements between employees and suppliers will be stopped, and replaced by a wage support direct to central office. Implementation next six months.
930629	D: L	Invitation to and information about product meetings; all products must be approved (later referred to as Market Councils).
930813	D: L	Sharing sales information for July.
930817	D: L	Response on sales information. Selective: very good. Broad: disappointing - Norelor concerned.
930901	D: L, I	Norelor send sales plans and individual store budgets (selective series).
930902	D: Me	Modena re-opened as Esthetique.
930906	D: L, I	Additions to 1993 contract (ref. 930901). Contract supplement extended.
931025	D: L	Cacharel will be stopped.
931101	D: L	Joint meeting - rebuilding and new stands at Steen & Strøm.
931130	D: L	Wage system adjustments ("unfair" consequences corrected).
931203	D: L	Stand invitations: priority given Biotherm and Helena Rubenstein at Steen & Strøm.
931214	D: L, I	Contract supplement adjusted (minimum orders, returns, split of marketing costs - "spell tuning")
940101	D: L	Cacharel stopped. Last implementation of new wage system (sales bonus).
940105	D: L	Sharing of sales information.
940214	D: L, I	Lancôme-festival activity plans. Credit time discussed.
940222	D: L	Information regarding Supplier of the Year Competition 1994.
94 winter	D: I	Severe conflict between Esthetique and Director of Division PB.
94 winter	D: I	Meetings concerning the Director issue: Director bypassed.
940323	D: L, Me	Supplier tour planned (store manager general meeting moved abroad)
940401	D: Me, I	Narvesen buy Vita.
940407	D: L, I	Paris tour - planning in progression (split of costs Esthetique, Norelor, Clarins, Chanel).
940430	D: L	Paris tour.

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940518	D: L	Organizational change in Narvesen: Esthetique and Vita in own Division, but as separate profit centers.
940524	D: L, I	Organizational change in Narvesen: new supplier contacts wanted (Narvesen intend to coordinate purchasing).
940530	D: L	Introduction of new Director in Narvesen.
940610	D: L, I	Lancôme-festival evaluation (very satisfactory).
940704	D: L	Market Council dates (fall).
940710	D: L	Contract 1994. DPP. Slight adjustment - increased gross earnings.
940711	D: L	Information regarding possible installation of IS in stores. Information about new Esthetique magazine store in Bogstadveien (3rd magazine store in Esthetique).
940722	D: L	Training/product schooling needed for new employee (Glasmagasinet).
940809	D: L, I	New stand contracts: new stands for Biotherm and Helena Rubenstein (Steen & Strøm). Duration: 5 years.
941001	D: I	Bernhard Claudel new Director of Division PB. Replaces former non-grata Director. New beginning.
941105	D: L	Meeting to discuss the business in general - several suppliers invited.
941111	D: Me	Sharing sales information (rankings).
941111	D: Me, L, I	Internal discussion in Norelor regarding an inquiry from Esthetique to finance store furnishing in addition to stands - turned down.
941122	D: L, I	Information regarding possible alliance between Narvesen Parfyme and Parfymelle.
941201	D: Me, I	Presentation folder - partnering create value for chain and suppliers. Identifies possible conflict issues.
941207	D: Me	Sharing sales information (magazine).
941208	D: L, I	Narvesen Parfyme coordinate their purchasing. Alliance negotiations with Parfymelle.
941221	D: L	Information meeting with suppliers regarding purchasing in 1995 (ref. 941208).
950104	D: L	Sharing sales information.
950110	D: C, I	Initial contract draft between Narvesen Parfyme and Norelor DPP (broad distribution). Discount structure (chain, function, and quantity); store follow-up frequencies; wholesale terms.
950116	D: Me	Internal Norelor document regarding possible revenues for new chain partnership (ref. 941122)
950118	D: L, I	Attempt from Esthetique to formalize and increase information sharing on sales development "to jointly be able to analyze the market and the effect of mutual efforts".
9501xx	D: L	Contract draft for 1995 sent from Norelor Division PB.
950201	D: L, I	Response to contract draft 9501xx. Sales terms discussion (discount structure, magazine store issues, wage support, marketing support, deferred payment). Narvesen will remove all volume-based discounts to stores, and move these to discount on invoice (central).
950207	D: L, I	Possible alliance between Narvesen Parfyme and Parfymelle postponed.
950314	D: L	Elico Supplier of the Year 1994.

950323	D: L	Sharing sales information (magazine).
95 spring	D: L, I	Discount store issue.
950419	D: L, I	Contract discussion with DPP: wholesale discount given minimum orders, chain discount minimum as last year, in addition Narvesen ask for a central bonus.
950428	D: L, I	Contract compromise 1995 with DPP. Chain discount established (function and quantity discounts removed), deferred payment achieved, central bonus accepted, but earmarked for joint marketing activities. Separate agreement for Perfection.
95 spring	D: I	Contract discussions for 1995 between Esthetique and Norelor Division PB.
950518	D: L, I	Basic hair series issue. Norelor surprised by Esthetique's choice of competitor.
950519	D: L, I	Answer to Norelor's letter 950518.
950609	D: L	Organizational change in Narvesen. Vita and Narvesen Perfume Wholesale merged.

### 3: COOPERATIVE EVOLUTION AND GROWTH

950629	D: C, L, I	Cooperative contract with Division PB for 1995 established "after long and cumbersome process". Bonuses, discounts, option on bonus systems, joint marketing, wage support, etc.
950701	D: L	Information about Esthetique Magazine (printed).
950901	D: L	Sigurd A. Hauge spent one day in stores with Esthetique.
950908	D: L, I	Information related to Supplier of the Year 1995.
951024	D: L	Market Council
9510ul	D: L	First issue of Esthetique Magazine.
951103	D: L, I	Conflict related to terms between Narvesen Wholesale and Norelor DPP. Economic solution offered.
951229	D: L, C	Initial contract between Narvesen and Division DPP (only 20% share in Esthetique). Continuation.
960102	D: L, I	Sharing sales information (rankings Steen & Strøm: Lancôme #2 (from stable #4).
960109	D: L, I	Addition to 1996 contract (DPP), suggestions for basic assortment from Norelor (broad distribution).
960110	D: L	Bonus to Narvesen Wholesale (initial)
960112	D: C	New draft for agreement for 1996 between DPP and Narvesen.
960124	D: L	Bonus to Narvesen Wholesale (corrected - lower, ref 960110)
960124	D: C	New draft for agreement for 1996 between DPP and Narvesen (minimal changes).
960216	D: L, I	Market Council has expressed interest for Biotherm. Thor Hauge brings the suggestion to include Biotherm in the basic selective assortment to Director of PB, Bernhard Claudel.



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960219	D: L, I	Cooperative contract with Division PB for 1996-1997 (discounts, central bonus, bonus scales yearly updated per store). " ... look forward to continue our prosperous and solid cooperation in years to come".
960307	D: L	Bonus to Narvesen Wholesale (final - slightly up, ref 960110, 960124)
960506	D: L	Elico Supplier of the Year 1995.
960523	D: M	Market Council. Meetings with suppliers.
960531	D: M	Cooperative meeting on joint activities on selective series (sales development good).
96 spring	D: I	Discussion regarding Biotherm and possible change of sales terms.
960613	D: L	Letter regarding cooperative agreement for 1997 and 1998 (former 96/97), related to Biotherm possibly into basic assortment.
960619	D: Me	Market Council.
960710	D: L	Narvesen organizational change. Narvesen Perfume: division liquidated. Esthetique and Vita part of Narvesen Retailing.
960801	D: C, I, L	New cooperative contract for 1997/1998 with Division PB. Biotherm into basic assortment. Slight increase in discounts (compromise - middle solution). Discounts frozen through 1998.
960802	D: Me	Invitations to Market Councils during fall (28/8, 18/9, 16/10, 13/11)
960807	D: Me	Market Council.
961014	D: L, I	Glasmagasinet (magazine store) - rebuilding planned. Needs information on minimum stand space.
961018	D: L, I	Feedback on Glasmagasinet: Norelor want new dialogue regarding Perfection (that was formerly excluded).
961101	D: L	Letter to suppliers - invitation to discuss joint activities first 6 months of 1997.
961114	D: Me	Market Council. Joint activities for Lancôme and Biotherm discussed.
9611ul	D: I	Esthetique offer the best stand space in Steen & Strøm magazine store to Norelor (after Elisabeth Arden was taken out of basic assortment)
970106	D: L, I	Sharing sales information (Steen & Strøm: Lancôme, Helena Rubenstein, Biotherm, and Perfection all do very good).
970115	D: M, 6MP	Market Council. Joint activity Lancôme: new lipstick Rouge Idole.
970204	D: L, I	Information about reader poll for Esthetique Magazine (print). Results very positive.
970211	D: M	Market Council.
9702ul	D: 6MP	Joint activities for Lancôme (new eye cream: Primordiale Yeux) and Biotherm (new moisture cream: Hydra-Detoux)
970318	D: M	Market Council. New fragrance from Lancôme.
9703me	D: 6MP	Joint activity Biotherm. New product.
970416	D: M	Market Council.

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9704me	D: 6MP	Joint activity: Lancôme festival.
970513	D: M, I	Market Council. New 6 month plans (2nd half 1997)
970528	D: 6MP	Joint activity Lancôme. New sun series - Solaire. Nationwide advertisement.
9706p r	D: I	Current issues: advertising in Esthetique Magazine, local store activities, new store openings, store space issues, hair product assortment (market leader from Norelor not in Esthetique)
970820	D: L	Statistics on hair dye products in Denmark and Sweden sent from Norelor to Esthetique. Major hair events initiated.
970825	D: I	Esthetique about to take in new hair color product. Several suppliers about to introduce/relaunch new competing candidates (Norelor: Movida; Midelfart: Clairol; Lepsøe: Wella; Henkel: PolyCountryColor). Norelor shows positive sales abroad for Movida, as well as indicates distribution in trade stores only (and not in groceries, etc.). Norelor make concessions to get distribution.
970901	D: L	Sharing sales information (ranking of series Steen & Strøm - Lancôme stable, Helena Rubenstein and Biotherm up).
970916	D: I, L	Movida considered as first choice for new hair product. Concessions made from Norelor. Contract drafts sent from Norelor. Terms discussed. Existing inventory discussed taken/bought out. Progression <i>intense</i> .
970917	D: 6MP	Joint activities Lancôme. Primordiale Nuit. Nationwide advertisement. Samples, marketing, etc.
971001	D: L, I	Letter from Esthetique. Attempt to formalize a set of informally existing joint activity commitment "rules".
9710pr	D: I	Esthetique choose PolyCountryColor from Henkel (Movida will only get voluntary distribution in Esthetique).
(97oct	D: I	Esthetique have negotiations with Estée Lauder, competitor to Norelor (outcome might have impact).
9710me	D: 6MP	Joint activity Lancôme (Teint Idole)
971027	D: L	Yearly bonus scales from Norelor to Esthetique.
971031	D: 6MP	Joint activity Biotherm
9711ul	D: I	Market Council (both with DPP and PB divisions). Good market development for Norelor products.
9712me	D: 6MP	Joint activity Lancôme (Joyeux Noël)
9801xx	D: I	Sharing sales information.
98 winter	D: I	6 month plans, advertising in Esthetique Magazine, local activities in stores, Norelor wants good store spaces (typically gets it, as Esthetique gets the selective products they want). Development good on Norelor's series in Esthetique.
9802xx	D: C, I	New contracts. Adapted to EU legislation. No substantial change, or change in business practice ("paper change").
98 March	D: I	Cooperative activity level low (apart from operational store level business activities)
98 June	D: I	Glasmagasinet. Rebuilding and stand spaces settled after 2 1/2 - 3 year time period. Norelor received "best" space.
98 July	D: I	Sigurd A. Hauge invite Thor Hauge, Vita and Parfymelle to bronze final in Football World Championship.

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980808	D: I	Cooperative state "still better". No big issues.
980814	D: I	New store opening at Oslo Airport Gardermoen. Esthetique asks for economic support (for marketing) based on used shelf space. Initial attempt turned down. Second attempt sent - no reactions.
980821	D: I	Preparations for 1999 agreements. Norelor received good store space in Glasmagasinet, Norelor products good growth in Esthetique, discounts frozen since fall 1996. Prepare for fight on sales terms.

TOTAL 139 INCIDENTS

Table A4.: Detailed Description of Event History – Esthetique and Norelor Phase 1  
ISSUES

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
92 spring/early june	Meetings with suppliers to prepare for a new contractual practice as Modena (suddenly) counts 20 stores (formerly 11) - contract supplement introduced as new element "though negotiations"							Narvesen acquire 2 magazine stores and 7 conventional	
<b>921123</b>	Contract negotiations PB for 1993 started (incentive structures and other sales terms)					(Cooperative efforts			
<b>921214</b>	Contract supplement introduced (early version)					on low			
921218	Contract offer from PB				(wage support	level -			
930210	New contract draft (some changes in terms/issues)				directly	some			
930310	New contract draft (terms adjusted)				to stand	product meetings)			
<b>930324</b>	Contractual agreement for 1993 reached (similar to offer dated 930210)				employee in				
930401					magazines)		Participation on KK discount card turned down		
93 spring								Narvesen plan to turn Modena into Esthetique	

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 2  
ISSUES

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
930601							*Norelor invited in "think-tank"; Lancome activity wanted for re-opening		* Information meeting on the introduction of Esthetique
930628					New wage system will be implemented; agreements between supp. and employees in stores stop.; wage support to head office		(insufficient data		(Some
930629						Invitation to and information on about product meetings (5) during fall	joint activities)		sharing of sales information)
930901								Modena re-opened as Esthetique	
930902				**	Sales plans and store budgets between Norelor and stores **				

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 2

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
930906	Additions to 1993 contract (ref. 930902) Contract supplement extended					(Product			
931103					Adjustments in wage support agreement	meetings held)			
931203					*				* Invitation to discuss stands for B. and HR.
<b>931214</b>	Contract supplement adjustments						(ongoing		
<b>94 winter</b>	* distrust to Norelor director (severe personal conflict); situation managed through trustful relationship at top level				(final implementation of new wage system)		in stores;		Narvesen threat to stop business
940401							data	Narvesen buy Vita	
940518							not specific)	Esthetique and Vita organized in one division	
940524	New supplier contracts wanted (mainly DPP) Narvesen intends to coordinate purchasing *							Narvesen Perfume Wholesale (broad distribution about 20% in Esthetique)	

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 2

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
94 spring							Lancome festival		
940704						Dates for fall			
940710		Slight adjustments of 1994 contract with DPP (increase in gross earnings)			(training of new store employee)				(Sharing of sales information)
<b>940809</b>			New stand contracts S&S mag. for Biotherm and Helena Rubenstein - duration: 5 years			(Market Councils held - insufficient data on joint activities)			
<b>941001</b>	New Director in Norelor Division Perfume et Beauté (replace non-grata Director; New beginning - good personal chemistry)								
941201									Information folder from E.: partnering create value for chain and supplier, some conflict areas identified
950110		Initial contract draft -95 between Narvesen Parfyme and Norelor DPP (discount structure, terms, etc.)							

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 2

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
<b>9501xx</b>	Contract draft between Esthetique and PB								(Sharing of
950201	Response to 9501xx. Incentive structure and sales term issues. Esthetique wants to remove all volum-based discounts to stores, and replace with a discount on invoice (to head office)*				*				sales information)
950419	Contract discussions with DPP (ref. 950110) Incentive structure. Central bonus new issue.								
<b>950428</b>	Contract reached with DPP. New incentive structure. Central bonus accepted, but earmarked for joint marketing efforts. Separate agreement for Perfection.								
95 spring	Discussions regarding -95 contract with PB continuing						(ongoing - but data not enough specific)		
<b>9505me</b>					** (influence)		(Lancome festival yearly **)		Esthetique turn downhair series from Norelor
950609								Narvesen Perfume Wholesale and Vita merged (broad distribution)	



Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 3  
ISSUES

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
950629	Cooperative contract with PB for 1995 established "after long and cumbersome process". (incentive structure, joint marketing, wage support *, etc.)				*				
950701							(ongoing		Esthetique magazine (print) planned
951024						Market Council	on store		
9510ul					** (influence)		level **;		1st issue of Esthetique mag.
951229	Initial contract draft with DPP. (continuation of former)						data		
960102							not specific)		Sharing sales information (Lancome increase in S&S)
960109	Addition to contract draft DPP								
960112	New contract draft DPP.								
960124	Final contract draft for 1996 with DPP (minimal changes)								

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 3  
ISSUES

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
9602pr						Market Council express interest for Biotherm to be included in basic assortment (Arden taken out)			
960216									Thor Hauge discuss Biotherm issue with PB
960219					*				
96 spring					**		(Lancome festival **)		Continued discussions on Biotherm; PB withholding
960523					i	Market Council			
960531					n		Cooperative meeting on joint activities on selective series **		
					f				
					l				
					u				
					e				
					n				
					c				
					e				

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 3

**ISSUES**

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
960613	Letter regarding possible contract with PB for 1997 and -98 (former 96/97) related to Biotherm issue				**		(o		
960619					i		n		
960710					n	Market Council	g		
					f		o		
					l		i		
					u		n		
					e		g**)		
					n				
<b>960801</b>	New cooperative contract with PB lasting through 1998. Biotherm in basic assortment *. Slight increase in discounts, that are "frozen" through 1998.				* Biotherm in basic assortment increase store influence				
960802						Invitations to Market Councils during fall			
961014									Re-building of magazine store planned (Glasmagasinet)
961114					**		X-mas activity for Lancome and Biotherm**		
					inf.				

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 3

TIME Date	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
9611ul			New stand agreements offered to Lancome (replace Arden) in S&S magazine store						
970106									Sharing sales information
97 winter spring					i n f l u e n c e	4 Market councils Several joint activities on Lancome and Biotherm			
97 april						Lancome festival			
970513						Market Council 6 month plans			
97 june						local activities			store space issues hair product assortment issue
970825									Esthetique about to decide for new hair product; Norelor about to introduce Movidia (hair dye)
(continued)									

Table A4.: Detailed Description of Event History - Esthetique and Norelor Phase 3  
ISSUES

TIME Date (970825)	Establishment and evolution of contractual framework and governance mechanisms				Wage support and store influence	Market Council	Joint/campaign activities	Narvesen organizational change	Miscellaneous
	PB	DPP	Stands	Store					
970916									Norelor makes concessions to be chosen in competition with several suppliers
9709me					* inf.		Joint activity Lancome *		Additional concessions made from Norelor; Esthetique consider Movida; Norelor send draft for agreement
971001				**			** Attempts to formalize practice and commitments in joint activities		
<b>9710pr</b>									Outsider Poly Country Color chosen; Movida into voluntary assortment (Norelor <i>very</i> disappointed)



## QUOTES FROM ESTHETIQUE - NORELOR IN ORIGINAL LANGUAGE

Please note that the interview with Director, Esthetique Perfums et Beauté, Bernhard Claudel was done in English.

(96) "Men allikevel for at vi skal få ut bedre betingelser å tjene mere penger på dette her, så sier vi at dette skal vi gjøre sammen for vi er samarbeidspartnere i distribusjon. Og hvis vi kan påføre hverandre besparelser og reduserte kostnader i den prosessen, så kan begge parter tjene mere penger. Det er det tankesettet som ligger bak da".

(97) "... det jeg har gjort i alle år, har jo vært primært bygget på en personlig kontakt. Altså, relasjonsoppbygging. Slik at du får ... at vi får et forhold til hverandre. ... Man kan si så mye man vil om produkter, betingelser, et cetera, hvis det ikke er en kjemi et eller annet sted mellom menneskene. Det har ihvertfall vært min filosofi i alle år. Man er nødt til å bygge relasjoner. ... det er alltid noen alternativer å ta i steden ..."

(98) "... mellom Norelor nå, så har vi en muntlig forståelse for våre felles forpliktelser, og hvilken vei vi skal gå"

(99) "...det er mer ... hva skal vi kalle det ... driftsmøter på en måte".

(100) "Han har gitt oss gode betingelser, og vi har jobbet bra sammen med han. Han har sagt noen "ja, jeg skal få den beste plassen, og den største plassen, og alt det der". Det har han fått".

(101) "Jeg tror nok over tid så blir det kompensert, selv om man .... Jeg tror ikke man drar inn gamle saker, "husker du da for tre år siden ...", nei ... jeg tror det går i historieboka"

(102) "... hvis man hadde tatt bilde av Lancôme standen over en årrekke, så vil man se at man hele tiden har flyttet oss, og nå har vi jo en meget sentral plass på Lancôme og en veldig bra plass for både Biotherm og Helena Rubenstein".

(103) "... men det jeg er redd for er jo rekrutteringsbiten. Altså, du skal ha inn unge mennesker, og de kommer inn i prinsippet på rimelig make-up, type Perfection, kommer inn på hårfarve. Det er to inngangsporter til å rekruttere ... Jeg kjører på den så ofte jeg kan, fordi at jeg tror at på sikt så gjør ... så må Esthetique også ha noe annet enn dyre ting. Så den drar jeg kontinuerlig".

(104) "Jeg har prøvd å prate med Sigurd om dette i alle år egentlig. Det er ikke der vi skal være sterke. For oss er dette bare noen serviceprodukter. De siste parfymeriene våre ny ligger på en andel av selektive på over 90%".

(105) "Når det gjelder den andre dagligvaredelen, som Sigurd er veldig opptatt av, som han til stadighet konfronterer meg med, vi har jo dette hårfargekonseptet vårt som vi har utviklet, nivå 1, 2, 3, og der har vi tatt ut markedslederen, for Sigurd sitter på markedslederen på hårfarge".

(106) "Fordi det som har vært det vi har fightet for, altså betingelsessettet ... "Det kommer til å bli ekstremt dyrt for dere etterhvert å håndtere disse små frittstående parfymeriene. Uansett hva dere gjør med dem, det får være opp til dere, men vi må ha bedre betingelser". Og vi har jo fått det idag, så idag vil jeg si ligger vi et sted mellom (X) og (Y) % bedre betingelser enn disse frittstående parfymeriene. Rene økonomiske betingelser".

(107) "... men det er faktisk som å balansere på en sånn knivegg. Du må komme så langt opp som mulig, men du kan ikke gå over for da detter du helt ned igjen liksom"

(108) "... først og fremst så har Esthetique ved Thor Hauge vel primært sagt at han vil helst ikke ha produkter solgt i dagligvare. Det er hans utgangspunkt. ... (Q: selling in can be a problem?) For DPP, ja. For de har flere produkter, og det er lettere for Esthetique å si nei fordi det har ikke slike konsekvenser".

(109) "Vi prøver, jeg prøver, kanskje noe som slett ikke kjeden liker: jeg prøver å la vær å diskriminere. Jeg har hvertfall inntil nå sett på at har man en Lancôme-kunde, så har man en Lancôme-kunde. Og bør, ihverfall mer eller mindre, behandles rettferdig. Jeg vet jo at Esthetique helst vil ha egne aktiviteter, egne lanseringer, egen ditt egen datt, og eksklusivitet på ditt og bare meg får datt, ikke sant. Men vi er avhengig av et forhandlernet til, nemlig de andre som ikke er Esthetique".

(110) "Vi har en bra varerullering på serien, så vi står i et veldig ... hva skal jeg si litt positivt lys også. Så jeg føler jo at stemningen er veldig positiv".

"Jeg føler at de (the interests) for en stor del faller sammen, og jeg føler også vel at noen ganger er det ting som ikke lar seg gjøre. Det koster for mye, har ikke midler til å kunne gjøre det, og det føler jeg at de har aksept for. Men at vi prøver sammen å finne til løsninger som ... vi kan møtes på halvveien, og kan få det til å bli en bra kampanje, som er hovedformålet".

(111) "Det er klart at det skal jo passe inn i en kampanjeplan for Esthetique. Det er klart vi er bare ett element i det. Vi kan ha våre kampanjer".

(112) "Jeg vil si i markedsrådet så er hovedlinja at man ser fra sak til sak, uten å tenke de store perspektivet, selv om det ligger i bakhodet på dem. ... (de) er mer kortsiktig".

(113) "De er nok mer kortsiktige. Men det er en veldig viktig bit av det å skape gode relasjoner. Vi gir og tar litt"

(114) "... la jo vi opp en type strategi før vi gikk i det møtet, fordi vi hadde ... Det vi gjør veldig ofte er at vi møtes og så presenterer vi vår halvårsplan, eventuelt helårsplan, for hva vi skal gjøre med lanseringer, store aktiviteter, og slike ting ... Jeg hadde jo allerede på forhånd fått signaler om at de ønsket Body Harmony, så jeg mener tingene var jo på en måte strukturert da".

(115) "Nei, vi fighter jo hele tiden, og det er klart, det er ikke negativt men det er en hard kamp hele tiden på alle områder. Og vi må jo naturligvis prøve å få med oss så mye som mulig for vi driver jo med å maksimere verdier på alle områder. Og de sitter på sin side og maksimerer sine verdier. Der vil det alltid være en kamp. Det vil alltid være temperatur sånn sett. Så er det noen som er viktigere enn andre her, ikke sant".

(116) "Det kommer en morgendag. Vi skal være i business, og kunden skal være i business. Desto bedre de gjør det, desto bedre gjør vi det. Uten kunder er jeg låst jeg. ... Det går på omsetning. Det er volumet som teller".

(117) "Vi prøvde naturligvis å gjøre det så attraktivt som mulig å være i basissortimentet. Når man begynte å prate om dette her. Og det var vel egentlig ingen av oss som visste alle konsekvensene ved å være i basis og ikke være i basis. ... men de tok ikke sjansen på å falle utenfor heller, så det har vært fightet hardt fra dag 1".

(118) "... vi hadde ikke en samtale vi uten at det var trusler ikke sant. Enten så tar du inn den, eller så ... nå gjør vi sånn og sånn og ... det var en direkte kulturkollisjon altså. ... Men ... vi fikk jo betingelser og sånn på plass. Det er jo greit nok. Men selve samarbeidet det var helt av en annen verden for oss".

(119) "Det var et slags lojalitetskort. Du ble belønnet for å være trofast mot ett merke, og en forhandler. Fordi kortet var primært også knyttet mot forhandler".

(120) "Men vi så jo på det som en leverandørstyrt ting, hvor de styrte disse tingene og lagde markedsaktivitetene og ikke ... all oppmerksomheten rundt det ... Vi ble bare en som gav rabatter på en måte. På Lancome. Og vi ville jo da begynne å bygge opp vårt eget merkenavn, ikke sant. Så det passet dårlig. Det var helt feil, ikke sant".

(121) "når de kjøpte Modena, så skulle de jo oppgradere for noe av Modena og de gamle EPA, ... det var jo litt frynsete ry".

(122) "Og Lauder var jo ikke med i det hele tatt".

(123) "... det var viktig at de også så fordelene ... Altså vi gjør dette for å tjene mere penger, sammen. Vi er sammen om å distribuere varer. La oss finne en effektiv måte å gjøre det på så vi kan tjene mere penger begge parter. Men det er klart, man var veldig skeptisk og trodde det var mere prat enn alvor. Men da begynner du hvertfall på en vei. ... men man tok det vel egentlig ikke helt på alvor til å begynne med".

(124) "Det er mange av disse selskapene som sitter med internasjonal erfaring, og man sitter også med erfaring på kjeder som har gjort tilsvarende ting tidligere. Og det er klart, når du skal gjøre noe nytt, så er det ofte lett å gjøre den del feil, og hvis noen har gjort det samme før deg, er det ikke noen vits for oss å sitte å finne opp hjulet på nytt".



(125) "Dem tror de har jobbet hos Estée Lauder eller Lancôme, eller noe sånt ikke sant. Så sterkt knytter dem damene til seg. "Alt som er rundt deg, sug kundene til deg, det er her du selger, det er her du får penger, og desto mer du selger desto mer penger får du da". Bang, bang, bang. Det er et problem. For oss. Og det har vi ryddet opp i. ... Du skulle kanskje hatt et Clinique- produkt egentlig. I forhold til de behovene du hadde. Pluss at når det står ... når en er til lunsj og en annen må på do, så står en stand tom, og da gir dem filla dem to som står i standen ved siden av. At det står kø i den standen og venter på hjelp ikke sant. Det er et kjempeproblem, for da er det dårlig service på Steen & Strøm. Eller Glasmagasinet. Ikke sant. Pluss at de følte ikke noe lojalitet eller identitet i forhold til Esthetique".

(126) "Og jeg, fra vår side, så så vi jo helt klart at det måtte ryddes opp, fordi at det var så stor forskjellsbehandling av de enkelte ansatte i de to butikkene, at man var nødt til å få en renhårig og renstyrt personalpolitikk. Og det tror jeg, fra vår side så så jeg ingen ... heller en fordel for du slapp å bli konfrontert med "ja men hun får og hun får og hun får, jeg får ikke. Hvorfor får ikke jeg?" ... Så for oss var det ingen problem og innordne oss et nytt system, eller en retningslinje som kom fra Thor Hauge. Jeg synes ... jeg liker å vite hva spillereglene er, jeg. For da har man noe å forholde seg til".

(127) "De har sånne divisjonsdirektører som er to eller tre år på hvert sted, og så er det ut i verden. ... Men vi hadde det så vanskelig med han. Han bare føk inn i butikkene våre, og bak disker, og inn i skuffer, og ordnet og skjelte ut damer, og det var ikke måte på. Han var en propell uten like. ... Så vi prøvde jo å ta dette, og få det til å fungere da med normale samtaler, men det fungerte ikke. Så da sendte jeg et brev og sa at dersom ikke vi får en uforbeholden unnskyldning for, det var tre forskjellige forhold ... og at han pluss en av selgerne dems holdt seg unna Esthetique, både hovedkontor og butikker, i minst ett år, så ville vi si opp alt samarbeidet med L'Oréal. Hele Narvesen og hele L'Oréal, ikke noe mere med hverandre å gjøre. Dette hadde vi helt opp på konsernnivå her ... fordi vi går aldri ut med en trussel uten at vi er parat og har forberedt oss på å gjennomføre det".

(128) "... en tankegang som går langt på siden av min, og da må jo Thor og jeg snakke sammen etterpå, og prøve å se hvor er det vi vil hen. Og (he) kom både med sin "hvordan skal Esthetique drive", dessuten også med å beskyldte en av kjedeinnkjøperne for å være kjøpt og betalt av Clarins, for hun kom derfra. Det gjør man ikke ustraffet. Og han ble skriftlig erklært non-grata. Og jeg er helt enig. Beklager, men jeg er helt enig. Det går ikke an".

(129) "... så hadde både Thor og jeg en god dialog før, og vi hadde under, og vi hadde etter. Nå tok det oss litt tid før (his name) ble borte ... og så ble han da flyttet til duty-free Hong Kong. Så han kom rimelig langt unna".

(130) "I utgangspunktet så er det jo alltid opportunt å motivere sisteleddet, ikke sant, for det er de som selger varene. ... Når alt skal via "store far" i Oslo, så er det klart at du mister noe av den påvirkningskraften du har på den enkelte butikk. ... vi synes det er greit å kunne påvirke sluttbrukeren".

(131) "Det store punktet i den avtalen var jo fordeling av annonsekostnadene,  $X+Z/Y-Z$ . ... i utgangspunktet selv i dag så kjører man på  $X/Y$ , og jeg har ihvertfall prøvd å ha et rimelig klart prinsipp om at en rimelig felles måte å behandle kundene på. (but) ... etterhvert så var det vel ikke noen særlig annen mulighet, tror jeg, hvis jeg ikke husker helt feil (laughs). For oss var det viktig å få til en avtale for magasinene. Magasinene er i utgangspunktet tapsbringende i så henseende, men det er viktige reklameplasser, showcases"

(132) "Ja, det betyr at dem ikke har det noen andre steder. Sånn har jeg tolket det, ihvertfall. Sånn at det ... dette har vært vondt for dem dette med  $X+Z/Y-Z$ ".

(133) "... når disse nye franske direktørene kommer så ... dem kjenner ikke situasjonen. ... Men de er veldig redd for å inngå nye avtaler og gjøre noe feil. Så derfor tar det veldig lang tid, og det er masse ting de må sjekke og sette seg inn i, og ... dem er så redd for å gjøre noe gærnt, ikke sant. Så da er det ... Da blir det veldig omstendelig. Men samtidig så vet jeg også det at ... å miste en stor samarbeidspartner, det vil dem heller ikke, ikke sant".

(134) "... skal du først ha en serie, så skal du ha en viss opplæring i bunnen, og vi skal gjøre en skikkelig jobb. Og i stedet for å åpne alle, så åpner man nå sakte men sikkert ... Vi var jo veldig glad for at Esthetique sa ja til Biotherm, det skulle bare mangle. Det var nok bare farten i det hele, som var en diskusjon".

(135) "Vi ønsker ikke å ta inn den uten å få noe ekstra, så det jobber vi jo (very) hardt med"

(136) "Vi fikk X% til på alt fra (PB), så tok vi den inn".

(137) "Det (occupying the best space) er veldig viktig. Veldig hard fight. Og Lancôme ... de har gjort flere ting. Siden Bernhard kom inn ... (bedre betingelser enn det vi har hatt hos dem ... og det er en utvikling). De vil jo ha noe igjen for det... Og dette er mer sånn bakenforliggende, det er ikke noen formelle skriftlige avtaler på det, men det er mere prinsipper for hvilken utvikling vi ser, og at vi er enige i den utviklingen, ser felles utbytte av den, liksom".

(138) "Hvor kan de få mest ut av plasseringen? - og det er vel det man må se på etterhvert: hvor er det man kan tjene mest penger og hvor er det man kan få til mest. ... Så jeg går ut fra at vi ser business og de ser business".

(139) "For det som skjer nå, Movida kommer med en ny farve, Poly kommer med en ny farve, Lepsøe kommer med en relansering på en av fargene sine, og Clairol gjør det samme. Og alle skal bruke 10 millioner på TV ikke sant. Det kommer til å bli en helvetes fight. Og alle har nå gått rett inn på faghandelen".

(140) "Så min forståelse var helt klar på at dette hadde Thor ... at han skulle ta inn Movida. Og motytelsen min var jo da to sider i magasinet hans. Jeg var aldri i tvil om at det var avtalen".

(141) "Vi tok av oss buksa for Movida".

(142) "Han skal inn. Det er ikke snakk om penger, ... betingelser, spiller ingen rolle. Han må ha distribusjon, ikke sant. Når du bruker 10 millioner på TV hjelper ikke det dersom du ikke har distribusjon"

(143) "Og jeg innrømmer ærlig at jeg har følt meg lurt. Og det er faktisk første gang som jeg kan huske, at jeg virkelig har blitt lurt på en deal. Og det har jeg helt klart uttrykt til Thor Hauge i klartekst".

(144) "For å være helt ærlig, jeg ønsket vel ikke å gi de akkurat valgmulighet... Jeg ville gjerne være fleksibel å få det til å gå, men jeg følte vel ikke at det var den riktige løsningen egentlig. Jeg synes ikke det var den beste tingen å gå for. For det vi snakker om her er jo for begge parter maksimal omsetning".

(145) "Jeg tror til og med vi diskuterte helt ned i antall produkter i kampanjen og justerte til om de skulle ha så mange body lotion, så mange rouge, gele, hvis du skjønner".

(146) "...vi ønsker et så godt og nært samarbeid som mulig med Esthetique, og da har vi også ... føler vel vi også at da må vi også kalle det "ofre" littegrann for å tilpasse våre aktiviteter etter deres ønsker. ... det er jo helt nytt at vi (Biotherm) gjør en eksklusiv kjedetilpasset kampanje".

(147) "Når du ser hva vi har tilført den businessen deres, så er det meget, meget bra".

(148) "Det er jo selvfølgelig, for å si det sånn, for begge parter å gjøre noe som gir en ekstra rullering av varer. det er jo ikke til å komme bort fra".

(149) "Det er volumet som teller"

(150) "... vi måler ikke hvor mye vi solgte den og den uken. Det er ikke det som er det avgjørende for om vi går riktig vei, liksom. Det er mange ting. ... (but) vi følger jo opp disse seriene... hver eneste måned, så ser vi på hvordan utviklingen har vært på omsetningen, andeler, og så videre, som de forskjellige seriene har".

(151) "... altså på de kvartalsmøtene så gjør vi jo opp status. Da går vi gjennom de tingene vi har hatt og hva vi synes har fungert bra og ikke bra på begge sider. ... Men vi er i utgangspunktet ikke så veldig opptatt av dette på kort sikt, da, det er liksom mere ... ja hvordan ting fungerer og hvor positivt ting blir mottatt, og ... ja, det er mye følelse... i den biten. Vi skal ikke overlate alt til datamaskinen, der altså".

(152) "Og jeg ser at for oss er det viktig, for den image vi gir produktene, at seriene våre er hos Esthetique".

(153) "... så er det veldig viktig at vi får et godt fotfeste hos Esthetique. Vi vet vi idag har det, men vi ønsker selvfølgelig å gjøre tingene ennå bedre (...) ... fordi at for oss så er Esthetique den kjeden som vi føler er fremtidens kjede. Som er en moderne kjede som vi har veldig tro på".



## **CHAPTER 9**

### **Scatterplots over time for the three cases**

**Table A5.: Governance mechanisms and negotiation strategies in use over time  
(all cases)**

### **SCATTERPLOTS OVER TIME FOR THE THREE CASES**

On the following pages, a table showing how the dominant governance mechanisms and negotiation strategies in joint decisive events changed over time is displayed. Along the vertical axis the dominant governance mechanisms in use are placed, while the dominant negotiation strategies in use are placed along the horizontal axis. Thus, the three main governance mechanisms and the five negotiation strategies create a fifteen-cell matrix. Each event (drawn from each case individual description of event history) is classified in terms of dominant mechanism and strategy, and then entered into the relevant cell(s) in the matrix.

As the event history in each case was divided into three phases, each of the scatterplots (tables) represent one phase and includes all cases. Some abbreviations are used. P, A, and T indicates the governance mechanisms of price, authority, and trust. In the cells the letters S, N, and E is used to denote the three cases SOL-Europay, NKL-Lilleborg, and Esthetique-Norelor respectively. The numbers refers to the event numbers from the case descriptions of event histories. Some event numbers have the letters "s" and/or "c" as co-notations. These indicate that the event was particularly related to structural and/or contractual issues. The remaining events were basically related to transactional/operational issues. In some cells the word "secondary" is entered, and means that interaction in secondary events in the cooperation related to this particular combination of mechanisms and strategies.

*DOMINANT NEGOTIATION STRATEGY IN USE*

YIELDING

COMPROMISE

PROBLEM SOLVING

INACTION

CONTENDING

PHASE 1

<i>DOMINANT GOVERNANCE MECHANISM IN USE</i>	P		E: 6	S: 3s N: 1, 2s, 3s, 6, 8, 9, 10, 12, 13, 15, 17 secondary E: 8, 9(s)	N: secondary	S: 2cd  E: 1, 2, 3, 4, 5, 6, 7: c,s; 8
	A		S: secondary	S: 3s, 6, 7, 8c, 10 secondary N: 3s, 4s, 8s, 9s, 10s 13s, 14s, 16s, secondary E: 2, 5s, 7s	N: 14, 16	S: 11  E: 2, 5s, 7s
	T	N: 3s, 4s		S: 1c, 4s, 5, 6, 7, 8 9, 10, 11 secondary N: 1, 2c, 3s, 4s, 5, 6, 7, 8, 11, 12, 13, 14, 15, 16, 17, 18 secondary		S: secondary

*Table A5.: Governance mechanisms and negotiation strategies in use over time (all cases)*

*DOMINANT NEGOTIATION STRATEGY IN USE*

YIELDING

COMPROMISE

PROBLEM SOLVING

INACTION

CONTENDING

## PHASE 2

<i>DOMINANT GOVERNANCE MECHANISM IN USE</i>	P	N: 26 E: 23	N: secondary E: 22c	S: secondary N: 21, 22, 23, 24, 26 E: 10s, 11s, 13, 16(c), 18s secondary	S: secondary N: 23 secondary	S: 14cd N: 26 secondary E: 17, 20c, 21c, 23c, 24, secondary
	A	N: 26 E: 11, 17		N: 19, 20, 21s, 22s, 24, 26 E: 11, 12, 16, 18s	N: 21s secondary	N: 26 secondary E: 17, 21, 24
	T	N: 26 E: 23		S: 12, 13cd secondary N: 21, 22, 23, 24, 25, 26, 27, secondary E: 10s, 12, 14, 15(c), 18s, 19, secondary	S: secondary N: 27 secondary	N: 26 E: 17

*Table A5.: Governance mechanisms and negotiation strategies in use over time (all cases) - continued*

*DOMINANT NEGOTIATION STRATEGY IN USE*

YIELDING

COMPROMISE

PROBLEM SOLVING

INACTION

CONTENDING

## PHASE 3

<i>DOMINANT GOVERNANCE MECHANISM IN USE</i>	P	E: 25, 34, 36 secondary	E: 31c, 36 secondary	S: 15, 17, 18 N: 29 E: 26c, 27c, 28, 29, 30, 32c, 33, 36 secondary	S N: 30	S: 19 N: 31, 32 E: 25, 29, 34, 35 secondary
	A		E: 31c	N: 29 E: 36, 37 secondary	S	E: 27, 29
	T	N: 28 E: 36 Secondary	E: 31c	S: 15, 16d, 17 N: 28, 29, 31 E: 26c, 27c, 28c, 30, 31c, 32c, 33, 36, 37 Secondary	S: 16d N: (30)	

Table A5.: Governance mechanisms and negotiation strategies in use over time (all cases) – continued



**CHAPTER 10.**

**An additional "messy sketch"**

**Messy sketch 1.: Continuous negotiated agreements – Evolution and consequences of structural and behavioral change**

### AN ADDITIONAL "MESSY SKETCH"

On the next page is what I prefer not to label a *figure*, but rather a "*messy sketch*". The sketch is based on the conceptual framework and the modeling presented in the discussion of the findings. The different figures the messy sketch draws on should be relatively easy to identify. The messy sketch could have been, for obvious reasons, included in the summary section following the discussion. However, as the messy sketch have been revised a number of times, and have been decided let out of the thesis almost an equal number of times, I still chose to include it somehow.

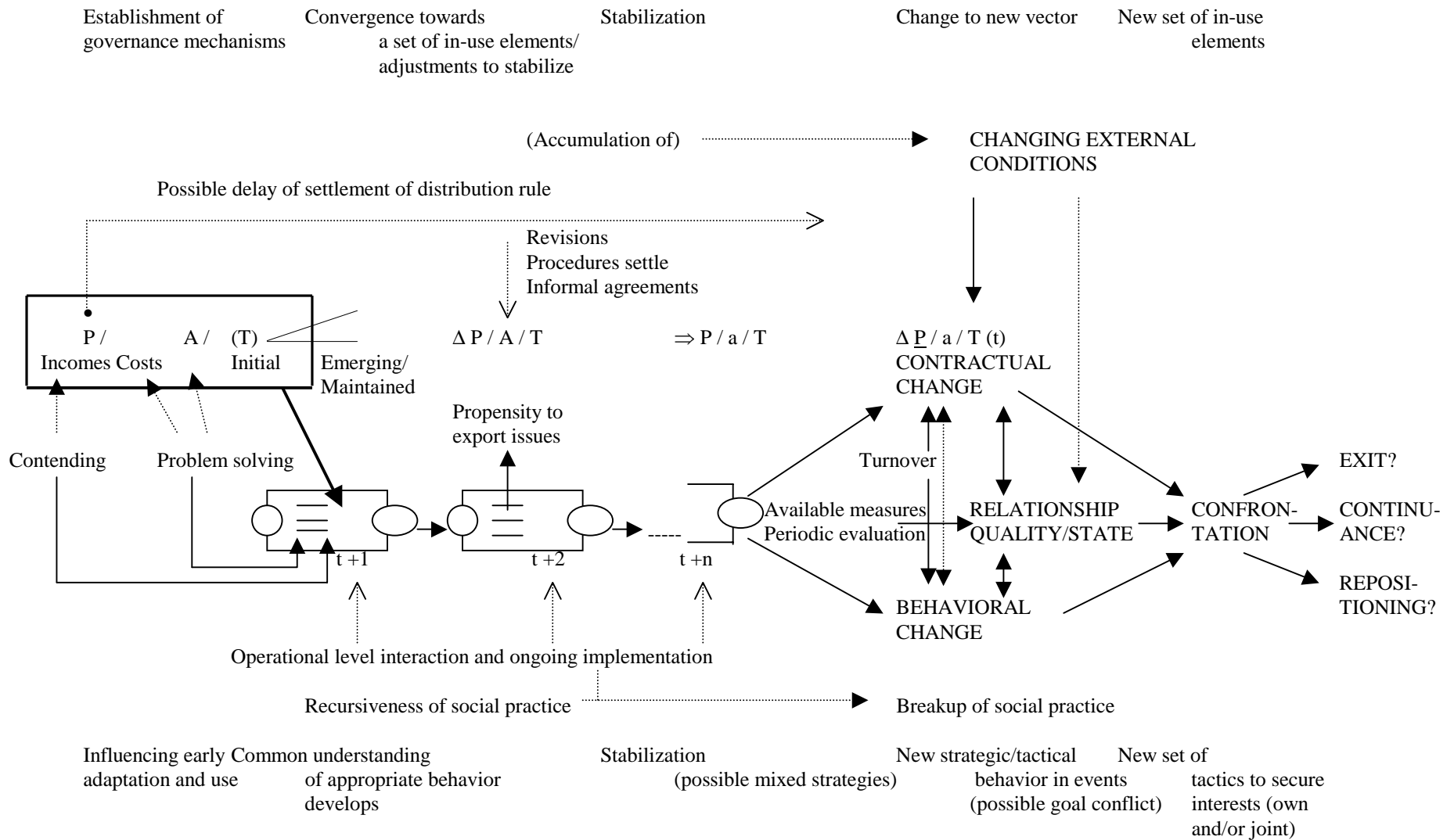
As might be guessed, I am not entirely comfortable with the attempt to model the developmental processes discussed in the form of a figure. Because it seems to be messy, and I suspect it is likely to raise more questions than it potentially is able to answer. As it *is* included, it is probably because it raises questions, but I am not fully able to confirm this hypothesis. And this is probably the reason it is included in *this* form. If it is not because I am sentimental and unable to "kill my misfits" (it is sure not my "darling"). In addition, Lave and March' 1975 book "An Introduction to Models in the Social Sciences" seems to come to mind too often.

Although messy, the sketch seems to capture some of the findings, ideas, and possible propositions the study has generated. Further, the messy sketch represents a snapshot, or a collage, of what seems to be some of the key aspects of the conceptual framework and the discussion of the findings (although a bit blurred).

A detailed representation of the modeling in the discussion is possible, but would only have made it even more blurred.

Maybe I am asking for trouble.

Thanks for reading this before turning the page.



Messy sketch 1.: Continuous negotiated agreements – Evolution and consequences of structural and behavioral change



Don't want to think too much  
It makes me think too much  
It keeps my mind on my mind

Don't want to see too much  
It makes me see too much  
Sometimes I'd rather be blind

All the things that they're saying, doing  
It overloads me  
Too much static  
I want to disconnect myself  
Pull my brain out and go deep inside  
I want to pull it out

Henry Rollins "Disconnect" (Quote taken from the 1994 Rollins Band album *Weight*, Imago Recording Company, 72787 21034 2)