Norms of Autonomy, A Study of SMC Cooperation


Eiren Tuusjärvi
Helsinki School of Economics, P.O. Box 1210, FIN-00101 Helsinki, Finland.
(tel.) +358-9-43131, (fax) +358-9-431 38660, e-mail: tuusjarv@hkkk.fi.

Abstract

This article focuses on normative, behavioural expectations which guide cooperation between multiple companies. Relational norms which bring parties to act together in cooperation have been in focus in many earlier studies. The importance of relational norms is acknowledged also here. However, this article focuses the attention to the individual interests of the parties and particularly to the need of maintaining autonomy in certain areas also while in cooperation.

While most of the studies on norms guiding inter-company relationships have been quantitative, this research was performed as a qualitative research with a case group of five small and medium sized companies. The purpose of the cooperation was to develop export operations of the parties. For the study, data was mainly collected through interviews while the events were still unfolding. Documents and supplementary information acquired through telephone discussions were used to complement the interview data. The analysis was performed through discourse analysis.

The framework is based on Ian Macneils (1980) theory of contracts. The theory distinguishes ‘discrete norms’ and ‘relational norms’ which both have gained attention in research concerning inter-company exchange relationships. Macneil’s theory is briefly reviewed in order to provide a specific field of discussion, and to provide the context in which to give meaning to the findings and a place to incorporate the findings of the analysis.

This research makes a contribution through suggesting a new, third category of norms, ‘norms of moderated autonomy’. Normative expectations within this category guide situations where individual parties’ choice of behavior would be in conflict with the interests of the others or the group – but where the parties each and individually perceive the behavior as expected and acceptable. One central example of this is: Partners acting in conformance to relational norms show understanding and acceptance in a situation where one of the companies refuses a large and important contract due to a necessity to give priority to domestic key customer, a contract that had been negotiated for months and which would have been important for the group as a whole. While it was not positive to lose a deal from the point of view of the cooperation, each of the partners shared the behavioral expectation of giving priority to domestic key customers.

Keywords: inter-company cooperation, relational norms, autonomy.
Introduction

Theoretical Background of the Research

Individual interests are at the center in research which looks at a relationship from the perspective of one particular actor and discusses unilateral management of that relationship (e.g. Williamson 1979 and Transaction Cost Theory). However, when the relationship is discussed as a bilateral constellation containing two or more parties (c.f. Heide and John, 1992; Ring and Van de Ven 1992), the emphasis on individual interests often seems to diminish in favor of the continuity and ‘well-being’ of the relational constellation.

Ian Macneil, a professor of law, developed a theory of contracts, which has been widely applied and cited in marketing literature and research (Ivens and Blois, 2004, see also Spriggs 1996, 157) on long term exchange relationships. Macneil (1980, 20001) developed three sets of norms. First set of norms is ‘common contractual norms’ that must exist in all exchanges. He proposed that certain normative expectations implied by common contractual norms intensify when the exchange is discrete (and become a set called discrete norms). Certain others intensify when the exchange is relational (relational norms). Also the content and the names of some of the common contractual norms change (ibid.) as one moves from one end of the continuum to the other. Both groups of norms aim to bring partners to exchange to act along shared expectations, either holding discrete exchanges together or contribution to the continuity of a long-term cooperation.

The theory and research focusing on long term relationships and relational exchange has in particular applied norms in the relational end of the continuum, the relational norms. Also, as the parties to cooperation are usually autonomous companies with individual interests, it seems relevant to contest the strong emphasis of relational norms as the view on norms guiding behavior in the cooperative constellation.

An article on the relational norms and the dissolution process (Tuusjärvi 2000) cast doubt on whether the relational norms eventually contributed to the group’s dissolution as well as to its continuity. It may be suspected that the behavioral expectations contained in the norms may also lead to behavioral expectations that contradict the long-term interests of the parties (Tuusjärvi 2000, c.f. Kiesler 1969, 88-91). It may be that too narrow a view on studying relational norms is not a fruitful approach to cooperative norms. Also, Macneil himself suggests that “short-term discreteness is sometimes beneficial to long-term relational patterns.” (Macneil 1983, 364-366).

In this study, I approached the relationship openly, studying normative expectations that guide behaviors in a group of SMCs cooperating for export, with a methodology that is sensitive to the data and to ideas that could give a broader view of behavioral expectations in long-term cooperation; I decided to study the interview data through discourse analysis. The cooperation is considered embedded in a relationship, yet neither the continuity nor the well-being of the cooperation or the relationships is approached as values in themselves. Instead of an intent on defining norms that would make the cooperation continue, the purpose here is find the multiple meanings for normative expectations within the data.

Empirical Background of the Research

The empirical work in this study focuses on export cooperation in a group of SMCs and is based on qualitative data; interviews and documentation. The export group examined here was part of the program of Export Circles. The program of Export Circles was established in 1993 to support cooperation between SMCs aiming to enter export markets. According to Vientirengasopas (2002), almost 300 export groups and nearly 1000 companies have participated in them. Administered by Finpro ry, a semi-governmental organization, export circles receive a subsidy from the Finnish Ministry of Trade and Industry for a period

1 See a review and discussion of Macneil’s complete works in Campbell (2001).
of two to three years. Such subsidies generate public interest in the export groups and in making them function better.

Most empirical models of relationships have been developed in the area of large companies. Therefore developing our understanding of SMCs is important as such. Often the manager of an SMC is also the owner, and even when the manager is not the owner, he has a wide view of the company’s operations and decision-making, and possesses first-hand information about events. Understanding gained through studying SMCs seems a good starting point for a study of behavioral expectations in cooperation.

**Purpose of the Research**

Studies on normative expectations in long term cooperation have mostly been quantitative and focused on relational norms, with emphasis on the mutuality of interests. That parties to collaboration are individual actors and most often participate cooperation for their own interests, does not seem to get adequate attention in the research concerning behavioural expectations (see e.g. Blois 2002 of individual interests). A central question to ask is: do relational norms provide adequate basis for cooperation between SMC’s to function and for the SMC’s to make a commitment to the cooperation. Accordingly, the purpose of this paper is to focus on the shared expectations of autonomy in inter-company cooperation between SMCs.

This report will continue as follows: First, in the *theoretical framework* section I will go briefly through central ideas in Ian Macneil’s ‘theory of contracts’ (see e.g. Macneil 1980 and 2000), and within the theory, the categories of ‘relational norms’ and ‘discrete norms’. Secondly, I will explain the main methodological choices. The following section provides illustrations of data and interpretations of behavioural expectations concerning the area of study, expectations of autonomy. Then theoretical and managerial implications are discussed.

**Theoretical Framework**

The theory of this study is based on the somewhat common understanding that the existence and functioning of the group constellation requires certain resources and actions from its individual members which may contradict that member’s own interests (c.f. Bonoma 1976, Taylor 1987) and shared norms become a necessity (Napier and Gerschenfeld 1993). Briefly, the definition given to group norms in this study is as follows: “actual patterns of behavior as what is considered normal, and expectations about behavior in a certain situation at least partially shared by individuals in a group” (c.f. Heide and John 1992; 34 and Gilbert 1993).

As was explained in the introductory part, normative expectations in intercompany cooperation are often discussed through relational norms based on Ian Macneil’s theory (1980, see also e.g. 2000 and further Campbell 2001 for a complete bibliography of the writings of Macneil). The core of the theory suggests that there exists two extreme types of relationships; on one end of a continuum are discrete contractual relationships and on the other relational, contractual relationships. Discrete relationships are based on the assumed autonomy of the parties who seek to maximize individual benefit (c.f. e.g. Heide & John, 1992). Relational relationships are based on a mutuality of interests and on efforts by the parties to improve and maintain the well-being of the cooperative relationship as a unity (ibid.). This research focuses on the relational type of exchanges in long term cooperation, which occur under at least some uncertainty, and thus cannot be completely planned.

Having defined these two extreme kinds of exchanges, Macneil (1980) suggests a set of ‘common contractual norms’ that must exist in all exchanges. Altogether he suggests (Macneil 1980) a set of nine ‘common contract norms’ which were ‘role integrity’, ‘mutuality’, ‘implementation of planning’, ‘effectuation of consent’, ‘flexibility’, ‘contractual solidarity’, ‘the linking norms: restitution, reliance and expectation interests’, ‘creation and restraint of power’, and ‘harmonization with the social matrix’ (Figure 1). Later Macneil (1983) adds further norm, that of ‘propriety of means’. While he emphasizes that common
contract norms must be present in all exchanges. Macneil proposes that certain normative expectations implied by common contractual norms intensify when the exchange is discrete, and that certain others intensify when the exchange is relational. Also, the contents and names of some of the norms change as the relationship moves from one end of the continuum towards the other. Eventually, the theory distinguishes ‘relational norms’ from ‘discrete norms’ (see Figure 1).

A set of four norms he claims are “particularly relational.” These are role integrity (described through such dimensions as consistency, conflict, and content); preservation of the relation (primarily an intensification of contractual solidarity and flexibility); harmonization of relational conflict (derived from the norm of harmonization of the social matrix); and supracontract norms (examples of these are distributive justice, human dignity, social equality and inequality, and procedural justice). Macneil claims that these norms embody the normative behaviors that must take place “if relations are to continue” and ought to occur as long as the “continuance [of relations] is valued” (Macneil 1980, 64).

At the other end of the exchange continuum there are the discrete exchanges. The ideal of discrete contracting occurs when the parties plan the exchanges beforehand, and where the parties have no connections between each other – neither in the past nor in the future. Macneil’s theory presents two particular discrete norms. They are called “enhancing discreteness and presentiation.” Macneil defines ‘discreteness’ as separating the exchange transaction from everything else and ‘presentiation’ as “bringing the future into the present”. (Macneil 1980, 60).
In a recent study Ivens and Blois (2004) contrast Macneil’s theory of norms with studies that have applied the theory within the field of marketing. They point out the differing nature of discrete norms and relational norms. Yet, as they show, with only few exceptions, the studies have applied Macneil’s theory as if the two groups of norms would mirror each other. Findings from Ivens and Blois (ibid.) call for further empirical and theoretical work.

As has been discussed above, both discrete and relational norms guide different types of exchanges and imply different meanings. What is common to them is that they both strive towards finding a way of conforming to what is good for the exchange. Discrete norms pursue to hold exchanges together and to be performed as planned. Relational norms contribute to the continuity of long-term cooperation. As was stated earlier, this paper questions whether these two categories of norms are adequate; whether all behavioral expectations should be directed to what is good for the cooperative constellation.

To end this section a brief description of the role of the framework in this research deserves a comment. As the research followed social constructionist principles (see e.g. Potter and Wetherell 1987, Burr 1995), the purpose of the framework was not to guide the analysis. Instead, this framework provides the specific field of discussion; context in which to give the findings meaning and a place to incorporate the findings of the analysis (c.f. Jokinen and Juhila 1999, 57-58).

**Methodology**

The article is based on a qualitative case study that was undertaken to expand knowledge of the behavioral expectations in long-term cooperation between SMCs (Tuusjärvi 2003). As behavioral expectations are social constructions of a contingent nature, it is useful to study the phenomena as close as possible to their context through a case study. The case was selected with the intent of creating an information rich basis for the discussion (Stake 1994, 243). The focal export group, MetExports, involved five cooperating companies, SMCs. Four of them were all mechanical engineering subcontractors and thus to some extent competitors. The fifth was an installation company.

The data was gathered through interviews with the six managers who represented their firms in MetExports a cooperative export group that was the case group in this research. Also the export manager, and a representative of Finpro were interviewed. The majority of the interviews took place between August and December 1997; the Finpro representative and one manager were also interviewed in spring 1998. Since the establishment phase of MetExports began January 1994 and the group dissolved officially end of April 1998, the majority of the data were thus collected while the cooperation was actively going on. Supplementary data was collected from documents (such as faxes, letters, minutes of meetings, and reports) written in the period during which MetExports was established through to 1997 and also collected from telephone discussions between fall 1997 and spring 1998.

Discourse analysis was chosen as the methodology to follow because of its particular strength when the purpose of research is to find abstract meaning structures (e.g. Potter and Wetherell 1987, see also Suoninen 1997, 154-156, who suggests that discourse analysis is particular appropriate for detecting behavioral expectations). Thus, the interviews were fully transcribed and interpreted according to the principles of discourse analysis. The section below presents findings made through the discourse analysis and provides illustrative quotations from the data (see Tuusjärvi 2003 for a complete analysis).

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2 Finpro ry was an organization to promote exports, and for a year prior to its formal creation actively encouraged the formation of MetExports.

3 The thesis provided a case-description of the studied cooperative group in order to provide contextual background for the reader and to make the discourse analysis understandable (Tuusjärvi 2003). A brief review of the history can also be found in an article (Tuusjärvi and Blois 2004).
Interpreting Interview Data

The discourse analysis provided a view of three groups of norms guiding collaboration. The importance of relational norms was corroborated through the research and certain behaviors were found to be guided by the discrete norms, which have until received less attention in research concerning long term cooperation and relational exchange. Finally, the major contribution in the research was the finding of normative expectations named norms of moderated autonomy. This last category of norms implied to the shared expectation of integrity of companies’ autonomous decision-making concerning elements important to the company’s core, i.e. individual, central interests even when they would be contradictory to the collective interests.

This type of a behavior was individually in the interests of each partner and, accordingly, accepted also by each partner. Within this category of behaviors, the parties could take actions based on their individual interests in the atmosphere of mutual understanding. In the following I will provide examples of what I see as findings revealing norms of moderated autonomy.

The Unity of the Cooperation

It seems important to provide few notions concerning the commitment and unity of the group as a background for the discussion of autonomy. The few quotations below were chosen for this purpose.

“It certainly is that this type of project exporting depends heavily on NordicMetech. If it should dissolve, we would have a lot of trouble in looking for them [projects in export markets]. Well, we really see this type of cooperation as the only way”.

“[We] decided immediately, how we should continue this [cooperation]. And also that if we disagree [on the principles], then we shall not go on. We decided right at the beginning what the principles are and that this is the way we work. Everyone committed themselves, to this standard, of course”.

“We [partners] agreed already from the beginning that… we shall see each year how it went and if someone has something to complain about, he will speak out. He [the export manager] cannot, when he is out there, think of his task in a kind of multi-level way. If they [the requests for tenders] are directed to one company, then they are. Then we have reacted like this: Look, this one company has gotten less, can you [the export manager] look for [business] for them”.

The first of the quotations illustrates that participating the group provided the parties a chance to reach to the export markets and as such the maintenance of cooperation was of importance. Second one illustrates unity through stating the mutually shared perception of the importance of arriving at an agreement over rules and principles. Further, the group stated as a guiding principle the satisfaction of each partner individually. The evaluation of satisfaction of each partner was planned to take place yearly, and balancing activities were expected in case the parties would not be satisfied.

The functioning of discrete norms in relational exchange has been almost neglected in studies focusing on long-term cooperation (see for an exception Blois 2002, and e.g. Macneil 1983, 364-366).
Meanings of Autonomy in the Data

Earlier section pointed out the shared principles and the expectations of conforming to these principles. Agreement on the shared principles was important. Also, the mutual understanding of what was not included in the scope of cooperation was of central importance to the willingness to make a commitment.

Variation of Autonomy and Unity along Situation

The excerpt below provides a view on expectations of autonomy. It describes the changing logic of operations and the cooperation as becoming active when a system order is gained.

"From our point of view, this functions particularly well. This does not really change anything for us. This [cooperation] is quite a separate business and we have free hands to operate as usual. It is a small organisation. Erkki [the export manager] is the only employee. Well, I believe that this is a kind of loose alliance, as it should be, until action really takes place and we carry out a [manufacturing] project. Then it is anything but loose."

The interviewee tells here that at times when there is no project going on the cooperation they can run their domestic operations as accustomed, and without interference. He states "this is a kind of loose alliance, as it should be". The same ideal of cooperation as enabling companies 'to have a free hand to operate as usual' was presented also elsewhere in the data. Parties described that during these 'less active' periods the parties calculated offers for export customers, participated meetings and planned for cooperation – but their domestic operations were running as usual. Later the partner specifies...

"... lets say that... if we get work where many participate. Then it is quite different from now. This is how I believe everyone sees it."

The quotations illustrate the parties pursuit to safeguard their domestic operations. This could be interpreted as lack of commitment to cooperation. However, with the scarce resources and the importance of domestic customers as central assets to companies, it seems that making this kind of periodic limitations to responsibilities and a changing logic in operations was an important technique for the parties to make credible and trustworthy commitment to the cooperation within the established boundaries.

Autonomy in Deciding Terms of Trade

A central topic was the question of setting prices to joint tenders. Bids to jointly made tenders were divided between the parties along each partner's capability base and strengths. Each partner participating in a joint tender was responsible for its' own part and acted as a subcontractor for the 'signing partner'. The levels of the prices set by parties were of interest for all who participated in giving the tender. Thus, there was a need for a mechanism to assure the competitiveness of the offer. The export manager was responsible for obtaining information of the level of the market price for the group to be competitive. Nevertheless, the group stated the autonomy of each partner to decide whether they were interested in bidding, with their own profit margins and thus, their own prices.

"When our export manager has a request for tender from the export market, he considers it, and he may find that there is a part that could suit us. Then he comes to us with the papers offering something for us to calculate. We look at it together and when it suits us, then the normal process of calculating a tender begins."

P(Partner): "Well, usually we do get requests for tenders to calculate and each company calculates their own (prices) themselves with their own margins. And well, if the tender is not competitive, one does not get the deal."
I(Interviewer): Mm.
But, if competitive capability is found and one makes a serious tender, then there is at least the possibility of obtaining an order."

"Well, it is our own weakness if the export manager gets requests [for us companies to calculate], but we are not able to make it with a competitive price.... If this [cooperation] continues and continues, there will be years when one can get business well and in some other year some other [company] will gain. The years and the cycles are not alike".

A situation where a partner had made offers, but was not getting turnover was constructed as the partner's 'own weakness' or a result of 'not being interested' in bidding or not making the bid 'seriously'. From the point of view of the collaborative entity, this meant that the companies did not see the cooperation as having responsibility for the levels of realized benefits.

I: "Well, is it possible to achieve a kind of a balance?"
P: "Not to my knowledge, and it surely is not anyone's objective. So you mean to obtain results for each in relation to inputs?"
I: "Mm."
P: "No, I think that we will have lost our way if we try to aim. So, we should have this type of loose feeling... I say, the intention is, of course, that everyone can make tenders. If they get business, they may make a success out of it. But if they don't, then they have not been able to manage and that is that."

This latter excerpt provides a view for the collaborative constellation as only having the responsibility of creating opportunity for member companies. Further a statement of boundaries and a construction of autonomy of partners in taking advantage of the opportunities created.

Priority to Domestic Key Customers
- Autonomy in Deciding whether to Bid

One incident in the cooperation in particular brought open the need for a category of norms that would enable violation of the well-being of the cooperation. The excerpt below illustrates the situation.

"... If they [partners] accept an important business deal, the [machine] shop is temporarily full. So they cannot perhaps serve these big Finnish companies [their main customers]. So, where do we draw the line [whom to reserve capacity for]? This is a question that needs to be considered seriously. ... it is when the [machine] shop is working flat out, it is so busy that there is no room for anything else. This is the problem. ... They [the important domestic customers] buy such great quantities. So they pretty much make the rules. And we have to take care of the relationships. Although it may hurt sometimes. The [relationships with key customers] have to be solid. ".

Handling the relations meant prioritizing key domestic customers and reserving manufacturing capacity for their orders. The partners seemed to agree on giving priority and adapting to the needs of domestic customers and, consequently, to adapt the capacity available for export marketing.

The refusal by one central company in of a big order for the group provides a clear example of the shared understanding and even expectation of prioritizing domestic customer relationships. The self-evidence of the situation is illustrated by the first quotations below.

P: "It was a big order... only on the last day we found that we could not do it this summer..."
I: "Were you annoyed about it?"
P: "No I wasn't, it cannot be. How can I put it? We have our machine shop full. What can you do about it, you can only manufacture so much."
I: “Is it so that the customer relationships are so close in this area that one cannot say no to a regular customer?”
P: “ABSOLUTELY. It is so difficult.”
I: “Is it possible to say no?”
P: “It is, of course, possible to say [no], but it is terribly difficult, as was said, when it is an important relationship.”

The latter interviewee, from a partnering company comments the prioritizing of a domestic key customer as a self-evident situation as well. The emphasis on the utterance ‘ABSOLUTELY’ attaches particular meaning and importance to what the interviewee is saying. He clearly wishes to make the interviewer understand the importance of key customers to the companies. Although the preceding question is leading, the idea is clear. Prioritizing domestic customers appears as the only reasonable, and thus expected, way to act.

Discussion and Implications

As mentioned in the beginning of this section, the two categories of norms in Macneil’s (see e.g. 1980) contract theory, relational norms and discrete norms, are of importance in cooperation. Both, and in particular the relational norms, have central importance for long-term inter-company cooperation. However, this article focused on the necessity of acknowledging the needs for autonomy in cooperation between SMC’s (Figure 2 below).

![Diagram](image_url)

Figure 2: Normative Expectations in a Cooperative Relationship between SMCs

The category of norms of moderated autonomy implied the shared expectation of integrity of companies’ autonomous decision-making concerning elements important to the company’s core, i.e. individual, central interests even when they would be contradictory to the collective interests. The needs for autonomy in decision-making was seen in defining following decisions as internal to each individual company – even in a situation where the group had invested marketing resources in acquiring the bid for tender. Examples of such decisions were: decision whether to participate in the tender or not, the level of the price for the offer, profit margins, and finally the autonomy to decide whether to sign or participate in a contract or not.
**Theoretical Implications**

Studies on normative expectations in inter-company collaboration focus on norms which emphasize the need to conform to behavioural expectations and to take actions to the wellbeing of the cooperative constellation. Yet, partners to cooperation most often participate for their own interests.

This paper suggests a supplementary category of norms: ‘norms of moderated autonomy’. It argues that in order for a cooperation to last, norms enabling autonomy are also necessary, and an understanding needs to be constructed concerning the needs for autonomous decision-making. This third category increases the complexity of the structure of normative expectations. Therefore, it would be most relevant first to carry out qualitative research to find out more about the meaning of the category and of the relation between all three categories of norms, and later continue with quantitative research to find out more about the applicability and importance of the new category.

**Managerial Implications**

What does the adaptation of norms of moderated autonomy mean from a managerial point of view? It means that companies need to pay attention to, and define the boundaries for the cooperation. They not only need to define expectations and boundaries between themselves and their partners, but also between themselves and the collaboration.

As the case of MetExports, the parties made their own decisions whether to bid or not, and their own decisions of prices and profit margins, the companies also were responsible for their own benefits. This had a particularly important implication and consequence to what the parties could expect from the cooperation. Although ‘a fair distribution of benefits’ was an important shared expectation, the parties could not justify comparisons between themselves nor expect a particular relation between their realized benefits. The autonomous decision-making seems necessarily to exclude some of the responsibility from the cooperative constellation to the individual parties, which might otherwise be expected.

**References**


