

Variety of Normative Structures An Investigation of SMEs in Bakery Industry

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Abstract

The purpose of this paper is to provide a view on an ongoing study of normative structures, a study which is performed within the Finnish bakery industry. It is assumed that there are differences in normative structuring of relationships between vertical upstream, vertical downstream and horizontal relationships. As there can be expected differences in the interests that parties have for these relationships, also norms are expected to vary. The normative expectations that are studied here are derived from relational exchange theory developed by Ian Macneil (1980).

This study is being performed using a quantitative questionnaire. Questionnaires were mailed to all bakeries in Finland. At the moment, the questionnaires are being analyzed.

This study will provide further understanding on the multiplicity of normative expectations in inter-firm relationships. The research findings will concern the possible differences in the normative structures between horizontal and vertical (both upstream and downstream) inter-firm relationships. Furthermore, this research pursues to see whether there may be detected differences in emphasis on relational or discrete norms.

Keywords: Inter-firm relationships, cooperation, networks, norms, SMEs

Introduction

Structuring and concentration within retailing and commodity market is an actively progressing and an important phenomenon. Structuring is taking place both in the vertical as well as in the horizontal dimension. Connected to this process, the meanings of cooperation, competition and 'coopetition' are gaining importance (Brandenburger and Nalebuff 1996, Easton 1990). Collaborating with many different types of organizations and maintaining many different kinds of relationships provides a major means to gain competitive edge over competitors. Yet, how can SMEs (Small- and Medium-sized Enterprises) manage the process of structuring with their limited resources also for collaboration? What are the means of an SME to manage in this situation, where creation of multiple types of relationships is more and more important?

Two major modes of governing relationships are contractual law and norms (Macneil 1980, see also Gundlach and Achrol, 1993). The need to operate as open organizations and the dynamic nature of environment create more and more interest towards structures such as relational norms. Relational norms are claimed to guide operating in relationships in the changing and unpredictable environment, and to help creating the important atmosphere of trust in the cooperation (ibid.). This article will focus on normative structures – not purely on relational norms, but on Ian Macneil's (1980) relational exchange theory which presents a frequently studied set of relational norms, but also discrete norms and common contractual norms.

The Finnish bakery industry was chosen as the empirical field due to following reasons; It provides an example of an individual line of business that contains a particularly large amount of companies. These companies, only few of which can be considered large companies, have an evident potential to gain benefits from collaboration. Learning how to collaborate both horizontally and vertically may – among other things - help the companies find ways for their products to the retail chains.

Theoretical framework

Macneil (1980) writes about governing contracts and exchange which occur in relationships. He sees contracts as promises or sets of promises. Yet, he (ibid.) emphasizes out that there is a gap between the given promise and the promise that is received due to different ways of understanding and interpreting the promise. This, together with the time delay between giving and delivering the promise and the limited possibility to plan the future, creates needs for effective governance (ibid.). Contract law and norms may be considered as major modes of governance. However, their effectiveness and ways that they are applied to in a modern environment varies (ibid. see also Gundlach and Achrol 1993 with a discussion also of hierarchy as a mode of governance.). It is relational norms in particular which have gained considerable interest in marketing research (e.g., Lambe, Spekman and Hunt 2000, Gundlach, Achrol ja Mentzer 1995, Heide and John 1992, Kaufmann and Dant 1992, Dant and Schul 1992, Boyle, Dwyer, Robicheux and Simpson 1992, Gundlach and Achrol 1992, Noordewier, John and Nevin 1990, Dwyer, Schurr and Oh, 1987) due to their ability to give guidance in modern relationships, where planning beforehand usually is difficult or impossible.

Below, general theory of norms is first briefly reviewed. Then Macneil's (e.g. 1980) theory of relational exchange is reviewed. Of interest to a company are a number of questions concerning norms in an inter-company relationship, such as, what behaviors do the norms concern, what is their depth and breadth and how uniform and strong are the norms.

Norms And Their Emergence

Norms are often defined as “expected patterns of behavior” (c.f. Dwyer, Schurr and Oh, 1987). Napier and Gerschenfeld (1993) write that norms “are the unspoken rules and standards which guide the group and define acceptable and unacceptable behavior by the group’s members.” (Napier and Gerschenfeld 1993; 115-117). Accordingly, norms are defined as “*expectations shared by parties to a relationship, which guide the parties and define acceptable and unacceptable behavior by the parties.*” (c.f. *ibid.*¹ and Heide and John 1992²). It is important to acknowledge that norms guide behavior – i.e. it is not actors but activities that are the objects of norms and that the emergence of norms implies an exchange of rights to control activities between actors (Coleman 1990).

Coleman (1990) points out *two conditions* for the emergence of norms. The first of these is the *demand for norms*. The second condition is that an actor or some actors have the possibility of *sanctioning* effectively behavior that is guided by the norm. These two conditions provide a basis for claiming that normative structures are likely to differ between relationships; demand for norms and ability and willingness to sanction violations are likely to differ along the content and purpose of the relationships.

The first condition, the demand or need for norms can arise when activities of certain actors affect or may affect other actors. Creation of shared norms implies a certain loss to actors, or more precisely: acceptance of being the target of a norm contradicts companies’ aspiration to retaining their autonomy since it implies the right given to some other actor(s) to control its actions. Due to the natural reluctance of giving up autonomy, it is likely that companies need to have a good reason for creating and accepting norms, in particular when they themselves are targets of the norm.

The second condition for the emergence of norms *concerns sanctioning against violation of a norm* (Coleman, 1990: 247-248). Sanctioning may be positive, aiming at expanding certain behavior, or negative, aiming at prohibiting certain behavior (Coleman, 1990, 247). Sanctioning always creates costs to the sanctioner and it may be perceived as being too costly to be carried out. For the emergence and maintenance of norms it is necessary that the actors have the *right and the necessary resources to provide effective sanctions* that support norms (Coleman *ibid.* 247-248). Kahneman, Kentsh and Thaler (1986) also point out the necessity for a *willingness* to sanction.

It is possible to suggest that in vertical upstream relationships and downstream relationships as well as in horizontal relationships, the parties’ interests towards each other’s actions are likely to differ. One example illustrating an imbalance in the interests arises when the customer requests the manufacturer to make adaptations, and as a consequence, the manufacturer demands necessary adaptations from the supplier to enable flexibility for the customer (see Wathne and Heide 2004).³ While vertical relationships are considered as having a number of obstacles to overcome, horizontal relationships with potential competitors provide even more complicated requirements and potential hazards (c.f. Park, 1996). Accordingly, the demand and willingness to give consent to norms may differ in these different types of relationships and it will be interesting to make comparisons.

¹ Napier and Gerschenfeld (1993) define group norms as “... the unspoken rules and standards which guide the group and define acceptable and unacceptable behavior by the group members.”

² Heide and John (1992) defined norms followingly: “norms are expectations about behavior that are at least partially shared by a group of decision makers.”

³ As norms are ‘shared expectations’, it will be interesting to see whether the data suggests differences in norms reported by the informant, the manufacturing company for the two vertical types of relationships; upstream and downstream.

Furthermore, it seems even more evident that willingness to sanction is likely to differ between these categories of relationships, for example a manufacturer's willingness to sanction a customer for violating a norm is likely to differ from his or her willingness to sanction a supplier or a horizontally related company. That there may be differences in the *demand for norms* and in the *ability or willingness to sanction*, gives grounds to suggest that norms in different types of network relationships are likely to differ between each other.

Macneil's Theory of Relational Exchange

The theoretical framework on norms, that is to be applied, is Ian Macneil's (1980, see also e.g. Macneil 1974 and 2000, see also Campbell 2001) theory of relational exchange. Its major strength is in its rich conceptual base focusing on behaviors and in particular behavioral expectations. It presents a structure that can be related directly with a wide range of behaviors.

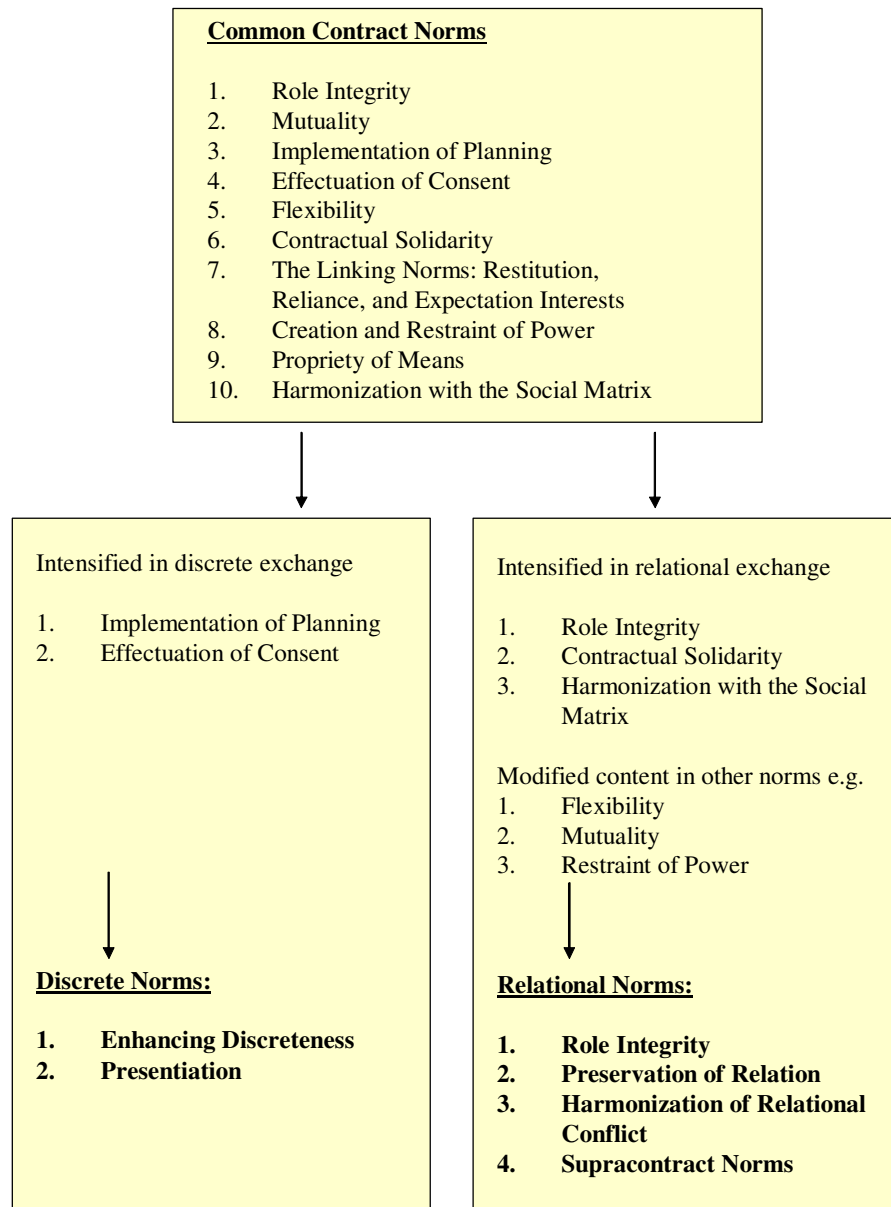


Figure 1: Norms in Macneil's Contract Theory (see Macneil 1980 and 1983)

Macneil (1980, 2000, see Figure 1 above) developed three sets of norms. First set of norms is 'common contractual norms' that must exist in all exchanges. However, to distinguish between different types of exchange relationships, he presents a continuum with discrete exchange relationships in the one end and relational exchange relationships in the other. He proposed that certain normative expectations implied by common contractual norms intensify when the exchange is discrete (and become a set called *discrete norms*). These norms give guidance in a situation where parties do not expect to be making exchanges in the future and where planning for the future is possible. They emphasize planning and carrying out tasks as has been agreed beforehand. Another subset of norms becomes active when the exchange is relational (*relational norms*). These norms pursue to give guidance for a relationship in a situation where planning is not possible and where the parties believe that they will continue their relationship also in the future.

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* (see reviews in Ivens, 2003 and also Tuusjärvi, 2003). Emphasis on certain relational norms such as solidarity and mutuality, may easily create a view on parties pursuing towards virtuous ways of operating; necessity to create expectations where one is expected to know what the other party/parties value and to act in ways that contribute to one's partners' well-being (Tuusjärvi 2003). As the context is exchange relationships between business partners, however, there is always present the threat of giving away 'free lunches' and encountering opportunism by one's partner which is not the purpose of any of the parties (c.f. Wathne and Heide 2000, Brandenburger and Nalebuff 1996). It is for their individual interests, why companies join their forces (Blois 2002) and even in cooperation, the parties need to safeguard their strategic interests, which takes precedence to protecting the relational norms (see Kersi and Frazier 2001, 77).

Since the relational norms emphasize in particular continuity and 'well-being' of the relational constellation, Tuusjärvi (2003) pointed out that focusing on relational norms may not allow adequate attention to individual interests. 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. Few studies have pointed out this perspective (Blois 2002, Blois and Ivens 2005). The idea of acknowledging discrete norms in a relationship as well is suggested also in an empirical article of Blois (2002, see also Tuusjärvi 2000). On the other hand Blois and Ivens (2005) take into account the common contractual norms. Also, Macneil (1980, 1983) himself seems rather to have had the idea of providing a holistic understanding on relationships pointing out that while relational norms are necessary for continuity of a relationship, the common contractual norms need to exist in all exchange. Furthermore, Macneil (Macneil 1983, 364-366) pointed out that "short-term discreteness is sometimes beneficial to long-term relational patterns."

As a summary to the discussion above – this research has the purpose of studying normative structures guiding different types of relationships; upstream and downstream vertical relationships and horizontal relationships with potential competitors. This study will not only restrict the norms to be studied on relational norms, but takes a wider perspective to the norms including also discrete elements.

Methodology

Bakery industry in Finland is a fairly concentrated market. There are more than eight hundred companies operating in the bakery industry in Finland. Two of the companies count for 60 % of the market share. The majority of companies are micro sized companies, while little less than 150 companies employ ten or more persons. The Ministry of Trade and Industry in Finland mentions

cooperation as an important means for small- and medium-sized bakeries to improve their performance. There are a great variety of functions where the companies' efficiency can be improved and margins may be increased through cooperation. Accordingly, bakery industry was chosen as the field for study as it provides (besides the two biggest companies) a relatively large number of SMEs and companies have interests towards developing cooperation.

Three main sources of primary data are utilized; interviews in supporting organizations working with bakery industry, interviews with company managers and a field questionnaire. Interviews were profited from during the process of developing the questionnaire. Furthermore, different type of documentation is utilized as supplementary data; government reports, articles in newspapers and professional magazines amongst other public data are used to investigate the field.

The questionnaire was mailed to 820 companies in the bakery industry in February 2006 and a second, follow-up questionnaire was mailed in March. For the first mailing 77 acceptable answers were received. To increase the activity level for the second mailing, a pencil was enclosed in order to draw attention and to facilitate answering the questionnaire. It is likely that the pencil had an effect, as the number of acceptable answers for this mailing was 100. Altogether 177 acceptable answers were received (22 % of the original population).

In the questionnaire, the operationalizations for normative expectations needed to reflect the different aspects of the theory adequately and yet, the list would need to be short enough not to discourage the informants. A point, which is often forgotten, that the relational and discrete norms are not mirror images of each other (see Ivens and Blois, 2004) complicates the process of developing the set of arguments.

A number of articles which had applied Macneil's (1980) theory were studied closely (Lambe, Spekman and Hunt 2000, Gundlach, Achrol ja Mentzer 1995, Heide and John 1992, Kaufmann and Dant 1992, Dant and Schul 1992, Boyle, Dwyer, Robicheux and Simpson 1992, Gundlach and Achrol 1992, Noordewier, John and Nevin 1990). As a result 32 arguments were developed. However, it was decided that only a restricted number of arguments would be accepted. A set of arguments would be developed which the informants would find motivating and with contents that were relatively easy to distinguish from each other. Expert interviews and tests with six bakery-owners led to diminishing the number of arguments. The final number of tested normative items was 19, supplemented by two arguments about the nature of the relationship, i.e. whether the relationship could be considered rather as discrete or as relational. Justifications for excluding certain arguments were mainly twofold. Firstly, it seemed that a large amount of reverse items could have caused confusion and abandonment of answering the questions. Certain reverse items were excluded. Secondly, the contents of certain of the arguments were perceived as being so close, that the informants' motivation and interest towards the questionnaire diminished. Choices were made to exclude questions that were perceived as overlapping by the informants.

The arguments were formulated so that the informant would write his or her view of the norms in the relationship – his/her view of the mutual expectations. The assumption was made that the answers would reflect the mutually (probably mainly nonverbally) agreed principles of operation and not only the company's own expectations on behaviors.

Questions Concerning The Type of Relationship And Normative Expectations in The Questionnaire

At first the informants were given guidance and a question that lead them to the evaluation of the normative arguments. They were asked to inform about the partner in the relationship. The alternatives were given to the companies.

In order to evaluate arguments in this question, please choose one relationship with another bakery or some other type of organization, which is important to your company in some way. The

relationship may be a transactional exchange relationship or a relationship based on partnership.

Is the company which you chose ___ *another bakery*
___ *supplier*
___ *trading company*
___ *some other, what.*

Informants were asked to evaluate the following arguments with a scale of 1 through 5: 1=completely against expectations, 3=not along or against the expectations, 5=completely along expectations.

The list of normative arguments began with statements where the purpose was to enable analysis of the nature of the relationship; whether the relationship was closer to the discrete type of a relationship or closer to the relational-type of a relationship. The two statements were as follows: *Our operations can be considered as a partnership with pursuit to continuity and with the attempt to produce benefits together.*

Our operations consist of a sequence of individual buying- and selling transactions without any deeper cooperation.

The following 19 items tested the extent of different normative expectations along Macneil's (e.g. 1980) relational exchange theory.

Mutuality:

1. *We both know each other's goals, they have been defined clearly.* (This item reflects also the norm of planning)
2. *Our operations are based on mutual trust in each getting at least a fair amount of benefits* (c.f. Boyle et al. 1992, Gundlach et al. 1995).
3. *Trust in the benefits accumulating to some extent in relation to the inputs is important in the operations* (c.f. Boyle et al. 1992).
4. *In our operations we monitor the performance of each party and transaction separately to assure compliance with expectations* (c.f. Kaufmann and Dant 1992, reverse item).

Solidarity:

1. *Problems that arise in the course of this relationship are considered by the parties as joint rather than individual responsibilities.* (c.f. Heide and John 1992).
2. *We are happy to do favors to each other* (c.f. Heide and John 1992).
3. *Almost all activity between us is based on continuous negotiations* (Kaufmann and Dant 1992, Dant and Schul 1992, reverse item).
4. *We both are committed to the preservation of mutual operations* (Boyle et al. 1992).
5. *It is important that each individual action, activity or transaction is profitable to both* (c.f. Kaufmann and Dant 1992).

Flexibility:

1. *It is expected that changes in the terms of ongoing transactions can be made in the case of unanticipated economic events* (c.f. Kaufmann and Dant 1992).
2. *Flexibility in response to requests for changes is a characteristic of this relationship* (c.f. Heide and John 1994).

Information exchange:

1. *It is self-evident that we exchange information frequently and informally* (c.f. Heide and John 1994).

Restraint of power:

1. *It is expected that each party should avoid the use of power they have over the other party* (Kaufmann and Dant 1992).

Role integrity⁴:

1. *Both parties have their own clearly agreed and predictable responsibilities and task-areas.*
2. *Both our duties necessitate knowledge of each other's organizations and ways of operating.*
3. *Each partner expects that the other party does only what has explicitly been agreed upon (c.f. Kaufmann and Dant 1992).*

Autonomy

1. *We both understand and accept that it is at times necessary to make decisions that may be unfavorable to the cooperation (c.f. Tuusjärvi 2005 and 2003)*

Harmonization of Conflict

1. *Each avoids formal procedures in situations of conflict (c.f. Gundlach and Achrol 1993).*
2. *In case of disagreement we attempt to reach a mutually satisfactory solution. (c.f. Gundlach et al. 1995).*

A closer look at these arguments and operationalizations applied in many of the published empirical studies – shows that it is most difficult or even impossible to make explicit the distinction between the different categories of norms. However, it seems that Macneil's (1980) idea was to create a holistic understanding of normative expectations. He himself states that the 'cake can be sliced in many ways' (ibid). I believe that by this, he meant the creation of specific categories for the norms.

Expected Research Findings and Contribution

It is expected that the analysis of the research data will reveal both the multiplicity of normative expectations and at least some of the possible differences in the normative structures between the categories of relationships – vertical relationships (upstream and downstream) and relationships with horizontally related companies.

SMEs are often neglected in the marketing research. At the same time SMEs are often working as subcontractors and partners to bigger companies. Gaining understanding of the orientations and limitations of SMEs towards creating relationships, and portfolios of relationships is thus theoretically interesting, but can also create new ideas to be tested with larger firms. Furthermore, today knowledge gained from this study is relevant for educators and for the managers in the field.

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⁴ Role integrity has often been tested through operationalizations which emphasize the complexity of roles. Yet, the idea in the norm of role integrity is, that it brings predictability to the operations. This is what is measured here in this questionnaire.

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