

THE CONSTITUTIONS OF NETWORKS

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Abstract

This paper suggests that the idea of the *constitution of a network* may be a useful addition to our ways of understanding what happens within the business landscape. The constitution of a network can be understood as a system of beliefs, norms, rules and other conventions that are shared between actors in that network. Whether by intention or not, these systems provide a framework within which interaction takes place.

A NETWORK WITHOUT A CONSTITUTION?

Imagine the network surrounding the production, distribution and use of business products or services in which no rules and principles guided the actors' behaviour. In this situation, raw material suppliers, component manufacturers, equipment suppliers, logistics companies, wholesalers, consultants and service contractors would buy

and sell goods and services without reliance on any shared system of conventions: There would be no contracts; no invoices; no credit, no rules of negotiation; no statutory regulations; no rules regarding fair trade; no quality controls; no industry standards, no courts; no trade associations and arbitrations; no predefined patterns of advertising and promotions; no brand reputations; no warranties; no specified interface for logistics; no accounting standards; no property rights and no overt or covert collusion between companies.

Consequently, no actor would conform to a particular pattern of behaviour in a network like this; no one would expect others to conform to some previously learned pattern. No one would want to conform, given that no one else conforms (Lewis, 1967; Young, 1993). In short, this imaginary network would have no *constitution*.

What would be the problem for actors who participated in a network like this? The problem would not simply be the existence of anarchy, but rather the inherent difficulty for

actors of *interacting* with others and thereby, the possibility of exchange would be severely constrained (Casson, 1982; Choi, 1993; Loasby, 2000). The resources that actors need for their operations are usually not available in a concentrated form. Instead, they are widely dispersed and owned by other actors (Denrell, Fang, and Winter, 2003). In the amorphous topology of a network without a constitution that we have described, appropriate resources may not be recognized by potential buying or selling businesses. Hence, companies would face prohibitive costs in terms of resources, time and effort to access other actors, to negotiate the terms for interactions, to conclude and manifest deals and to oversee and enforce agreements. Furthermore, the existence of information asymmetries among actors would impose huge uncertainties and incremental barriers to the conclusion of informed and voluntary exchanges (Akerlof, 1970; Tirole, 1986). In the absence of a shared system of conventions among actors, information asymmetry and symmetric ignorance of exchange opportunities would prevent actors from deal-making and building up the business relationships and

mutually advantageous interdependence on which their businesses depend (Ford and Håkansson 2006).

EXAMINING CONSTITUTIONS OF NETWORKS THROUGH THE LENS OF ACTORS' PRACTICE

This paper investigates the idea of the constitutions of networks by looking at the interaction between actors in a particular business network. We use the term “network” to describe the structure of relationships and interdependencies within which the process of interaction takes place (Ford and Hakansson, 2006). The term ‘constitutions’ is used to encapsulate a higher order of conventions that are customary, expected and often self-enforcing (Lewis, 1967; Buchanan, 1975, 1978, 1988; Young, 1993) within a network and often surrounding particular “markets”. For example, markets in medieval England were created, organized and managed within a network that included the King who provided a franchise; the police who provided security; the judiciary and parliament that resolved disputes and provided a legal

framework; producers, merchants, carriers and vendors who provided offerings and of course customers (Coase, 1988). Thus, interactions within and around the medieval market were institutionalised within a constitution. Institutions supply actors with systems of conventions; they are “the rules of the game in a society, or more formally, they are the humanly devised constraints that shape human interaction; in consequence they structure incentives in human interaction, whether political, social, or economic” (North, 1990: 3). Extant research has provided significant insight into the nature of these terms (Casson, 1982; Buchanan, 1988; Sabel, 1993, 1997; Loasby, 2000; Slater, 2002; Helgesson and Kjellberg, 2005).

The objective of this study is to examine the idea of the constitutions of networks through the interactions of participants and some of their apparent outcomes. In particular, the present study attempts to provide a preliminary approach to the research question: How are actors’ interactions affected by and affect the make-up of networks?

The paper is based on empirical research conducted between 2002 and 2005 in the network surrounding consumer goods production and distribution in the United Kingdom. Significant actors in this network include multinational consumer goods companies and large grocery retailers. The paper provides information on the constitutions of this network and discusses their variations and relevance. We argue that companies invest in the selection and replication of practices that evolve over time as customs or common use. Investing in these practices is a time-consuming task. It involves interaction aimed at developing or accessing resources for future use in the relationships between participants. It may also involve investment in the development and implementation of wider social and political practices and the pressures designed to enforce them (Palamountain, 1955, McCammon, 1964). Moreover, investing in practices creates externalities in the form of ‘network assets’¹ that may be used by one company without limiting their use by others (Johanson and

¹ Often referred to as “market assets”.

Mattsson, 1985; Cornes and Sandler, 1986). For example, the initial investment of retailer Wal-Mart in an Electronic Data Interchange with manufacturer Procter and Gamble provided the basis for a specific form of Continuous Stock Replenishment. The selection and subsequent replication of this practice by the two companies established a 'network asset' for third companies. Procter & Gamble and Wal-Mart capitalized on the Electronic Data Interchange and Continuous Stock Replenishment programmes to implement further exchanges with related third parties and hence committed further resources for future use (Mouzas and Araujo, 2000). The companies' continuing investments in these selected and replicated practices established a new order of conventions which became focal points for further interaction activities which are known in consumer goods networks as Category Management and Efficient Consumer Response (Corsten and Kumar, 2005).

Examining the constitutions of networks through the lens of actors' interactions brings three important benefits: First, examining interactions can help us to understand the

extent to which there is some overall constitution of a network and also the extent of diversity of views and practice that are shown up (Kriesberg, 1955, Wittreich, 1962). Second, the idea of constitutions of networks can help us understand something of the structure of networks as interconnected relationships and interdependencies. Third, analysing interaction can help in understanding the process of networks and particularly the re-ordering and re-confirming of institutionalised interaction.

PREVIOUS RESEARCH

The idea of a business network centres not on the action of single actors in an anonymous environment, but on a process of *interaction* between individually significant and interdependent actors (Gnyawali and Madhavan, 2001; Easton and Håkansson, 1996; Håkansson and Ford, 2002). The uneven distribution of resources and skills among actors creates the need to rely on the resources and skills of others. These interdependencies lead to continuing and frequently complex exchange relationships between networks of actors. Exchange relationships form an

underlying ontology in marketing theory (Alderson, 1957; Alderson, 1965; Bagozzi, 1975, 1978; Hunt, 1976, 1983; Håkansson 1982, Houston and Gassenheimer, 1987).

Companies, for example, enter exchange relationships when they perceive that value can be created and captured according to their specific interests and aims. Early marketing theory was much concerned with how exchange relationships contribute to the make up of networks (For example, Stigler, 1951; Vaile, Grether and Cox, 1952; Alderson, 1957; Ridgeway, 1957). However, recent work has largely ignored the contributions of these channels scholars and does not explain sufficiently how these exchange relationships form part of the business landscape. This landscape does not simply consist of the exchange relationships between specific companies; it is also based on institutionalised conventions, ranging from cultural customs to laws which constrain and enable exchange (Khalil, 1995; Kjellberg, 2001). Similarly, interaction among actors is a complex process that does not occur in a vacuum. Interactions are also based on a set of explicit or implicit rules and principles that guide actors.

Schelling (1960) observed that actors achieve much better interaction and coordination of their efforts when they are able to rely upon focal points. He defined focal points as a set of mutually perceived expectations, shared appreciations or preoccupations, obsessions and sensitivities. In a series of experimental studies, Schelling (1960) asked individuals to imagine a situation in which they were unable to communicate but wanted to meet each other in New York. The majority of respondents chose Grand Central Station because this place at that time provided a 'focal point for each person's expectation of what the other expects him to expect to be expected to do' (Schelling, 1960: 57). Mehta, Starmer and Sugden (1994) repeated Schelling's (1960) experimental investigation in a more formal setting with incentives in which they confirmed that actors are more successful at coordination if they rely on a set of prominent and salient points.

Focal points emphasize the fact that in a continuing interaction process, the *precedent* becomes extremely

important. The idea of precedent means that if a particular problem of practice X is settled in case C, then the rationale in case C would be applied by later actors to practice X. In other words, case C sets a precedent in relation to practice X. Actors attempt to co-ordinate their practices to their mutual benefit by drawing on *focal points* which are ‘prominent’ and ‘salient’ ways of mutually perceived expectations (Schelling, 1960; Sudgen 1995). They often articulate these prominent and salient ways as rules: ‘Implicit or explicit rules of expected behaviour that embody actors’ preferences’ (Nee, 1998: 87). There is a subtle, though important, difference between duty-imposing rules and power-conferring rules (Hart, 1961). The latter confer power on individuals to vary their initial position and enable them to modify or re-negotiate some of their own duties. Contractual arrangements, for example, may also confer discretion on parties to make the best use of their capacities and exercise their powers under specified criteria. A traditional distinction since Roman times has been between *ius strictum* (i.e. mandatory rules) and *ius dispositivum* (i.e. yielding rules); this differentiation corresponds to the

contemporary distinction between *mandatory* and *default* rules (Ayres and Gertner, 1989; Riley, 2000). In another way, Esser (1956) differentiates between 'Rule' (Norm) and 'Principle' (Grundsatz). The continuous replication of practices leads to the development of principles which operate as 'optimization commands' over time (Dworkin, 1967) and the characteristic norms of conduct will owe something to the predilections of the interacting companies. Rules and principles may therefore, limit the types of relationships in which the companies are able to participate (Håkansson and Ford, 2002). They increase the 'predictability' of group members' behaviour and give expression to a group's 'central values' (Feldman, 1984: 47).

Constitutional theories occupy a 'conditional platform of understanding' (Loughlin, 2005: 186) because they build on actors' central values; they try to draw upon bases of agreement that exist among actors and apply those 'agreed-upon principles to resolve more controversial issues' (Strauss, 1999: 581). Hence the legitimacy of constitutions is based upon the evolution of consent among related actors

over time (Barnett, 1986, 2003). Companies, for example, may agree with each other on a number of issues such as information sharing, work sharing, domain consensus, lobbying, price fixing, competitive behaviour, reciprocity and co-operation etc. and their agreements are continuously re-defined or re-adjusted over time. The resulting connectivity among companies that engage in these exchange relationships creates the need for actors' expectations to be expressed. Amstutz (2005) argues that 'one appropriate response is to assign these emergent orders of expectations to a *higher-order constitution*. For example, constitutions may specify the nature of the rights that individual actors may possess, acquire or transfer. In a similar way, Sabel (1997) describes how constitutional orders can solve co-ordination problems among companies. Accordingly, "constitutional orders consist of constituent units and superintendents". The constituent units may be independent firms. The superintendent may be for example, a court of law, the head office of a public or private hierarchy, the elected officers of an association, a

bureaucratic entity, trade associations, unions or training institutions' (Sabel, 1993: 73).

The expression of central values as a higher-order constitution infers formality. Thus, it is common for the constitutions of networks to include externally imposed, but accepted laws or legal agreements made by members e.g. standards or agreed norms of trading in the members of a trade association. But this formality does not imply that constitutions are the opposite of an informal substance of practice. The formality of constitutions is an abstraction that aims to preserve what is important in the substance of practice over time. Stinchcombe (2001) uses the example of gasoline and lubricating oil which is not the opposite of crude oil but refined versions of it; 'formality when it works is not the opposite of informal substance but the refined version or versions of it' (Stinchcombe, 2001: 3). Therefore, Stinchcombe (2001) advances three criteria to assess how formality works in practice. Firstly, the formality must be 'cognitively adequate' to grasp the reality it represents. Secondly, formality has to be communicated to involved

actors. Thirdly, formality must be able to change as reality changes. In this sense, the formality of constitutions serves to represent and govern the actors' practice. It guides the way actors relate to each other and it is constantly reshaped and reconfirmed by the practice of the involved actors.

A THEORETICAL MODEL FOR THE STUDY OF CONSTITUTIONS OF NETWORKS

We now propose a theoretical model for the study of constitutions of networks consisting of three conceptual dimensions. This considers constitutions of networks as a high order of conventions which are determined by three elementary forces: a) multilateral exchange, b) focal frames and c) recursive time.

Multilateral Interaction

One of the primary characteristics of interaction is that it is relative (Ford and Håkansson 2006). In other words, actors interact and deploy their individual resources and abilities

differently in different relationships. The value of actors' resources varies depending on where and how they are deployed. It is through multilateral interaction that individual resources are activated (Slater, 2002). Hence, multilateral interaction among individually significant actors introduces complexity into the interaction process and creates the need for transparency. In economic terms, the current value of one particular interaction can be articulated as the net present value of all expected future benefits and costs. This sum of the future stream of benefits and costs must be discounted by the opportunity cost, which is the cost of not investing in other exchange opportunities of similar systematic risk in other relationships (Modigliani and Miller, 1958). Exchanges among actors, however, may also include non-economic 'give-and-take' processes (Easton and Araujo, 1992); they may be task-specific as well as non task-specific. A typical pattern of interaction among companies nowadays will comprise several give-and-take processes at headquarter as well as at regional levels, plus a plethora of related information exchanges, often with third parties such as

trade associations, courts, professional communities and public bodies. Consider for instance the multilateral exchanges between two companies in the area of distribution management that involves several stock-keeping units, services, delivery, replenishment, price, timing as well as communication and information systems for order processing, implementation and billing (Buzzell and Ortmeier, 1995). Each investment in the facilitation of such complex, multilateral interaction generates significant externalities in the form of market assets (Johanson and Mattsson, 1985). These 'market assets' encompass the factual, physical and social conventions that surround exchanges; they are, in other words, goods that can be used by other related actors in the conclusion of new exchanges (Cornes and Sandler, 1986; Romer, 1990).

Focal Frames

Actors do not merely exchange with each other; they also construct the forms in which future interactions may happen (Cooper, 1992). In this sense, focal frames are

refined versions of the sedimented experience of previous exchanges. While experience is backward-looking, focal frames are forward-looking. Focal frames are active and collective forms of rules and principles that guide the direction of change within relationships; they transform interaction among actors into “continual, joint formulations of common ends” (Sabel, 1994: 138). They are not developed in a single relationship in isolation, but are built upon each actor’s wider view of the interactions in which it and others are engaged (Ford *et al.*, 2003)². Focal frames serve as an abstraction that represents the substance of interaction among actors (Stinchcombe, 2001). A contract, for example, is a *formalised* manifestation of an interaction to which two parties have agreed (Steyn, 1997; Buckley, 2005). The parties to a contract aim to achieve future outcomes. They anticipate and ‘presentiate’ future results which are abstracted into a focal frame. Atiyah (1986) uses the term ‘futurity’ to describe this focal frame as a process of discounting future results to the present. Furthermore, a range of technologies of thought such as legislation, plans,

² Elsewhere we have referred to these views as “network pictures” (Ford et al 2003)

drafts, numbers and formulas may also result in focal frames and thereby, render a field of practice knowable calculable and administrable (Miller and Rose, 1990).

Recursive Time

Business is not a collection of isolated, non-related transactions. Instead, interaction between companies is both multi-faceted and takes place over time as a recurrent pattern of episodes within continuing relationships. These episodes are affected by the perceptions of the participants of their previous interactions and by their expectations of the future. Relationships between actors are often long-term (Ford, 1978). But even in this case, 'relationship time' does not appear as a linear process but as recursive practice.

Habits and institutionalized forms of inter-firm interactions are manifestations of recursive time. Examples include periodic business or task reviews and annual negotiations between suppliers and customers. An important aspect of recursive time is that the time perspectives of different actors are often not aligned. Each actor may have a quite

different view of the actual or desirable evolution or progress of their exchange relationship, despite extensive interactions between them (Mannix, Tinsley and Bazerman, 1995).

EMPIRICAL STUDY

This study of constitutions of networks is part of a wider research project into the ways in which companies negotiate and make deals with each other. One of the most intriguing empirical findings of the initial research was the evidence of the complex conventions that govern the functioning of consumer goods networks. These networks comprise suppliers of raw materials, multinational grocery manufacturing companies, chains of grocery retailers and consumers (for an overview see, Villas-Boas and Zhao, 2005). We found that inherent rules and principles are seen by suppliers, manufacturers and retailers as the constitutions that guide the functioning of networks. This encouraged us to examine the existence of conventions more closely in order to try to explain how these conventions

emerge and evolve over time. What was also intriguing was the recognition that these conventions were invented to facilitate a continuing negotiation and deal-making among actors. By using case study research (Eisenhardt, 1989; Tsoukas, 1989; Ragin and Becker, 1992; Easton, 1995; Halinen and Törnroos, 2005), the present research examines a number of manifestations of constitutions in the network surrounding consumer goods in the United Kingdom. This network was chosen for investigation because it includes a significant part of the British economy generating an annual turnover of £ 100 billion. Between 2002 and 2005 we conducted 68 in-depth interviews and 12 company workshops with 84 senior managers. The method of data collection placed an emphasis on obtaining contemporary rules and principles, legislation, customs and role behaviour as well as manifestations of inter-firm agreements.

The critical examination, evaluation, categorization and recombination of empirical data encountered four major challenges: a) the problem of network boundaries, b) the problem of complexity, c) the problem of time and d) the

problem of comparison (Easton, 1995; Halinen and Törnroos, 2005). Network boundaries are not fixed but are determined for each observer by their focus of interest and knowledge. Thus, any research delimitation of a network is arbitrary because actors are interconnected throughout multiple “networks”. But nevertheless, in order to make sense of the constitution of networks we needed to move beyond the examination of dyadic relationships into those manifestations of practices that exist across a number of companies. For this reason we focussed on exchange practices in the interaction between multiples of a) manufacturers and retailers, b) manufacturers and consumers, c) retailers and consumers and c) actors and public authorities and analysed the effect of their practices on the development of constitutions of networks. Over the period 2002-2005, we concentrated our attention on episodes which contributed to changes in the constitutions of networks. We addressed the connections between systems of conventions, such as legal and non-legal rules, and the evolving patterns of exchange practices between manufacturers and retailers. These patterns of exchange

included institutionalised forms of annual contract negotiations and business reviews as well as the interactive processes among multiple actors. Our aim was to evaluate, test and determine the extent to which our knowledge claims do, or do not, truly represent or correspond to the world (Hunt, 1976, 1983). Our primary goal in data analysis was to link the theoretical knowledge with the empirical observations. We established this link through several cycles, moving between theoretical ideas and data on rules and principles as well as practices. We conducted an iterative examination of the technologies of thought. These included business plans, statutes, declarations, contract drafts, numbers and formulas as well as memoranda of understanding. This process encouraged conceptual dimensions of the theoretical model to emerge from the data rather than being imposed on them.

What do constitutions of networks include?

We will now examine a variety of manifestations of constitutions and analyse their impact on the making and

functioning of networks. We have chosen to present these particular manifestations because of their frequency of reference and application as agreed-upon principles to resolve conflicts and controversial issues during annual negotiations among companies. This will demonstrate that in many cases, constitutions of networks nowadays spell out the framework for an on-going regulation of interaction among actors. We will explore the advantages of constitutions of networks and highlight the situations in which companies find them particularly useful, such as those involving the security and calculability of exchanges. We will also show that the reasonable expectations and central values enshrined in these constitutions of networks mean that managers can time and again use them as a way-station to test their understanding of what is feasible in the marketplace.

Table 1: Constitutions of Networks- Consumer Goods Networks in the United Kingdom-

| | | | | |
|--------------------------------|---|---|---|--|
| <p>Manifestations</p> | <p>Interaction involving Manufacturers-Retailers</p> | <p>Interaction involving Manufacturers-Consumers</p> | <p>Interaction involving Retailers-Consumers</p> | <p>Interaction involving Multiple Actors-Public Authorities</p> |
| <p>Property rights/</p> | <p>Annual Trade Negotiations</p> | | | <p>Official registration within public bodies</p> |

| | | | | |
|--|--|------------------|------------------------|--|
| <p>Licences/ Patents/ Regulations</p> | <p>Umbrella Agreements Trade Allowances</p> | | | <p>such as trade associations, chambers and governmental authorities with regard to licences, patents, EAN-code, taxes etc. Regulations regarding Consumer Protection</p> |
| <p>Sourcing of</p> | | <p>Packaging</p> | <p>Restrictions on</p> | <p>Food and Health</p> |

| | | | | |
|------------------------------|--|---|---|--|
| Raw Material | | Information regarding ingredients, weight, allergic reactions and health warnings | the sale of tobacco and alcohol and drug products | Specifications |
| Production/ Operation | Rolling Forecast and Plans Production of standardized | Assortment Product Items | Opening hours Assortment | Location of the production site/ retail outlet |

| | | | | |
|----------------------------------|---|--|---------------|--|
| | packaging sizes and shipping cases | | Product Items | Environmental standards and constrains Labour law, security within production/operation |
| Annual Trade Negotiations | Negotiations between September-December | | | Contract Law Competition Law Practice in Good Faith |

| | | | | |
|--|---|--|--|--|
| | <p>Umbrella Agreements</p> <p>Listing of products</p> <p>Trade Allowances</p> | | | <p>A contract may be held to be void on the ground that it is illegal or against public policy</p> <p>Fair Trade Standards</p> |
|--|---|--|--|--|

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|--------------------------|---|---|--|--|
| | | | | |
| Supply Management | Electronic Data Interchange Continuous Stock Replenishment Vendor Managed Inventory | Information to consumers regarding expiring dates | Merchandising of products Replenishment Placement of perishable products Club | |

| | | | | |
|----------------------------|---|---|--|---|
| | | | Membership | |
| Category Management | Assortments as separate businesses, each with its own pricing and profit/loss responsibilities Organisational structure that facilitates interaction | Consumer Insight (consumer buying behaviour in general) | Shopper Insight (consumer buying behaviour at the point-of-sale) | Joint Trade & Industry Body (ECR-Europe) Market Research Agencies (e.g. AC Nielsen, GfK) Trade Associations |

| | | | | |
|------------------|---|----------|---------|------------------------|
| | between manufacturers and retailers | | | Chambers of Commerce |
| Efficient | Efficiency gains in : | Consumer | Shopper | Joint Trade & Industry |

| | | | | |
|--------------------------|---|---|---|---|
| Consumer Response | <ul style="list-style-type: none"> -Assortments -Promotions -Replenishment -Introductions | Insight (consumer buying behaviour in general) | Insight (consumer buying behaviour at the point-of-sale) | Body (ECR-Europe) Market Research Agencies (e.g. AC Nielsen, GfK) Trade Associations Chambers of Commerce |
|--------------------------|---|---|---|---|

| | | | | |
|------------------|---|----------------|---|-------------------|
| | | | | |
| Invoicing | 30 Days delay of payment by the retailers | Internet Sales | Discounts to consumers Offers Credit cards Debit cards | Taxes Fees |

| | | | | |
|--------------------------------|---|--|--|--|
| | | | | |
| Manufacturer Brands | <p>Listing of Brands</p> <p>Promotional support at the point of sale</p> <p>Merchandising activities at the point of sale</p> | <p>Focus Groups with Consumers</p> <p>Advertising of brands through TV, Radio, Out-of Home, PR, Promotions</p> | <p>Point-of-sale Promotion</p> <p>Consumer Promotion</p> | <p>Property rights</p> <p>Registrations</p> <p>Competition law</p> <p>Advertising restrictions</p> |

| | | | | |
|------------------------|--|------------------|---|---|
| | Brand Visibility | Customer Service | | Ethics & Communication Standards |
| Retailer Brands | Sourcing Production Promotional support at the point of sale | | Promotional support at the point of sale Merchandising activities at the | Property rights Registrations Competition law |

| | | | | |
|----------------------|--|--|--|---|
| | <p>Merchandising activities at the point of sale</p> <p>Brand visibility</p> | | <p>point of sale</p> <p>Brand visibility</p> | <p>Advertising restrictions</p> <p>Ethics & Communication Standards</p> |
| Pre-estimates | <p>Cost pre-estimates</p> <p>Pre-estimates of</p> | | | |

| | | | | |
|--|-----------------------------|--|--|--|
| | Timing | | | |
| | Pre-estimates of Volumes | | | |
| | Investment Valuations | | | |
| | Contingency Plans | | | |

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|-----------------------|---|---|--|--|
| | | | | |
| Re-negotiation | Annual re-negotiation Quarterly Business Reviews Periodic Reviews | On-going interaction (brand offering/ consumer off-takes) | On-going interaction (Outlet offering/ consumer off-takes) | Umbrella Agreements annually re-negotiated Periodic renewal of licences |

| | | | | |
|---------------------------------|---|---|--|------------------------------|
| | | | | |
| Guarantee/ Liability | Manufacturer' guarantees to deliver quality of products and obligation to remedy deficiencies in products or other services | Manufacturer' guarantees to consumers Services to consumers | Retailers' guaranty to deliver quality of products and obligation to remedy deficiencies in products or | Tort Law Contract Law |

| | | | | |
|----------------------------------|--|--|--|--|
| | Liability to services obtained from subcontractors | | other services. | |
| Legal Venue / Legislation | Subject to contract United Kingdom | The Unfair Terms in Consumer Contracts Regulations | The Unfair Terms in Consumer Contracts Regulations | All contracts which involve consumers, employment of labour or financial and credit services are regulated |

| | | | | |
|--|--|--|--|---|
| | | <p>1999 give courts the power to regulate unfair terms in standard consumer contacts. United Kingdom</p> | <p>1999 give courts the power to regulate unfair terms in standard consumer contacts. United Kingdom</p> | <p>by statutes (UK-Legislation) United Kingdom</p> |
|--|--|--|--|---|

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|----------------------------|--|-------------------------------|------------------------------|--|
| | | | | |
| Fair Dealings/ | Contract law Legislation | Legislation/ Fair dealings | Legislation/ Fair dealing | Contract law Legislation |
| Non-Legal Rules | Contracting in good faith (Good faith is in UK a | Corporate Reputation | Corporate Reputation | Standards defined by the International Chamber of Commerce |

| | | | | |
|--|---|---|---|---|
| | <p>non-legal requirement)</p> <p>Imposition of non-legal sanctions (exclusion, reputation)</p> <p>Domain consensus (regarding channels/ territories/ Assortments/margins)</p> <p>Price fixing</p> | <p>Corporate Responsibility</p> <p>Self-restrictions (e.g. activities directed to children)</p> | <p>Corporate Responsibility</p> <p>Self-restrictions (e.g. activities directed to children)</p> | <p>(ICC)</p> <p>Association of Manufacturers/ Grocery Retailers</p> <p>Professional Institutes</p> <p>International Standards Organisations (ISO)/</p> <p>Quality Standards</p> |
|--|---|---|---|---|

| | | | | |
|--|---|--|--|---|
| | <p>for products such as tobacco</p> <p>Co-operation based on Reciprocity</p> <p>Escalation Procedures in case of conflict</p> | | | <p>Consumer Protection Agencies/organisations</p> <p>Dispute Resolution</p> <p>Mediation /Arbitration</p> |
|--|---|--|--|---|

DISCUSSION OF RESULTS

The manifestations presented in table 1 demonstrate that the function of constitutions of networks is to provide shared systems of conventions that guide interaction among actors. Moving beyond dyadic relationships we examined interaction that exists across a number of actors in the networks of consumer goods. These interaction practices do not occur in a vacuum; they are based on shared conventions. Constitutions of networks draw upon bases of agreement that exist among related actors to articulate a high order of shared conventions (Lewis, 1967; Choi, 1993; Young, 1993). They comprise customary, expected, legal, and often non-legal rules and principles. Their validity and legitimacy is continuously redefined through the evolution of consent over time among related actors (Barnett, 1986, 2003).

In our study, consumer goods networks are *constituted* by shared systems of conventions that make possible

interaction and thereby, the conclusion of exchange between actors. Table 2 illustrates this. First, shared systems of conventions cope with the existence of multilateral interaction among actors by defining property rights, exclusivity, data interchange, allowances, subcontracting or good faith and reciprocity rules. Second, they attempt to provide focal frames of mutually perceived expectations and shared appreciations. Focal frames may include umbrella agreements, domain consensus, brands, quality standards, pre-estimates and valuations as well as statutes and non-legal rules. Third, shared systems of conventions incorporate recursive time, in the sense of institutionalizing recurrent pattern of episodes such as annual re-negotiations, stock replenishment, business reviews and meetings as well as sanctions and reputations. Multilateral interactions, focal frames and recursive time are conceptual dimensions of a 'topology' or 'podium' of factual physical and social conventions which impact on the making and functioning of consumer goods networks in the United Kingdom. These conventions evolved over time. While in medieval England markets were created and organized by

individuals as fairs under the franchise of the King, the contemporary consumer business in the United Kingdom is shaped by the use of information technology, statutes, quality standards, trade associations and a series of non-legal but customary rules. Before the turn of the last century for example, the use of information technology enabled radical changes and establishment of new conventions in the way that manufacturers and retailers arrange their information exchange, replenish their inventories, manage their product categories or interact with consumer.

Table 2: Networks constituted by shared systems of conventions

| | |
|------------------------------|--|
| CONCEPTUAL DIMENSIONS | SHARED SYSTEMS OF CONVENTIONS |
| | |

| | |
|---------------------------------|--|
| <p>Multilateral Interaction</p> | <p>Property Rights</p> <p>Exclusivity</p> <p>Electronic Data Interchange</p> <p>Subcontracting</p> <p>Trade Allowances</p> <p>Volume/Prices/Discounts</p> <p>Terms of Payment</p> <p>Good Faith</p> <p>Reciprocity</p> |
| <p>Focal Frames</p> | <p>Umbrella Agreements</p> <p>Domain Consensus</p> <p>Manufacturer brands</p> <p>Retailer brands</p> <p>Guarantee/ Liability</p> <p>Quality Standards</p> <p>Pre-estimates</p> <p>Investment Valuations</p> <p>Statutes/Declarations</p> |

| | |
|----------------|---|
| | Legal/ Non-Legal Rules |
| Recursive Time | <p>Annual Re-negotiation</p> <p>Business Reviews</p> <p>Stock Replenishment</p> <p>Notification/Information</p> <p>Periodic Reviews</p> <p>Meetings</p> <p>Sanctions</p> <p>Reputations</p> |

How are constitutions of networks seen by actors?

Consumer goods markets demonstrate the existence of *several*, heterogeneous, overlapping and, frequently, conflicting constitutions. These have been well documented in earlier channel research (McCammon, 1964 *op cit*; French, 1960; Mallen, 1964)³. Many of the declarations issued by Trade Associations or the International Chamber of Commerce contain non-legal rules and principles of fair dealings and standards that reflect legal rules defined in statutes such as the Unfair Terms in Consumer Contracts Regulations 1999 (Macdonald, 1999). Similarly, there is an overlap between different constitutions. Category management systems, for example, overlap with Efficient Consumer Response and Supply Management Systems (Araujo and Mouzas, 1999; Mouzas and Araujo, 2000), and umbrella agreements often transform implicit norms which are already embedded in customs into explicit norms for interaction (Mouzas and Ford, 2006). Some of the shared

³ Alexander and Hill (1958) tell an interesting story about the attempts of manufacturers to enforce retail price control. 'A large New York store cut the price of a well known fountain pen. The pen company employed so called Bowery bums to line up at the counter to take advantage of the sale. To save fumigation costs the store called off the whole affair'

conventions are regarded as general constraints applied to multiple actors and areas. For example, property rights, competition law, advertising restrictions or ethical and communication standards apply to manufacturer brands as well as to retailer brands.

We can identify a number of variations in the way that these constitutions are seen. Some of them, such as statutes, contracts or standards are binding, which means that the rules contained in these manifestations are legally enforceable. Other constitutions contain default or yielding rules (Ayres and Gertner, 1989; Riley, 2000) that are non mandatory but often self-enforcing. Manufacturers and retailers usually conclude their interaction in accordance with default rules because of the benefits that these rules confer and the cost of non-legal sanctions (Charny, 1990; Scott, 2003). These rules are valid for a certain period and they are usually re-confirmed or re-ordered through annual renegotiations or arbitration processes or court decisions. If rules are confirmed and renewed over time, they establish a 'principle' which is an optimization command (Esser, 1956).

For example, in the consumer goods network there is an accepted principle that retailers are entitled a substantial delay of payment (see Table 1) and thus retailers draw on manufacturers as trade creditors to provide working capital for their retail stores. Manifestations of constitutions are, therefore, used by manufacturers and retailers to resolve more controversial issues such as allocation of responsibilities, liabilities or gross margins. Nevertheless, constitutions of networks are often disputed. This is evidenced, for example, in the domain consensus between retailers and manufacturers. Domain consensus is related to the definition of boundaries, role sets and expectations in the relationship (Ford, 1978). The fact that domains are often disputed and redefined over time is being demonstrated vividly in the engagement of the retailers in boosting retailer brands (Dunne and Narasimhan, 1999). This tendency can be regarded as an attempt by the retailers to invade domains that are traditionally the preserve of manufacturers, to redefine role-sets and to redraw the boundaries of the network in which both retailers and manufacturers are embedded.

CONCLUSION

On the basis of this empirical study in the important network for consumer goods in the United Kingdom, it is apparent that we can identify constitutions of networks that define the topology of these networks. These constitutions of exist to provide a framework for the interaction between actors such as manufacturers, retailers, consumers or public authorities. Constitutions of networks comprise shared systems of conventions of legal and non-legal rules which express the actors' appreciations and expectations about how they and others should conduct business.

Values and expectations may exist at the specific relationship level or more widely across areas of a network such as manufacturers or retailers. The idea of constitutions of networks is useful for the analysis of networks and interaction within them as it provides an alternate way of conceptualising the current and evolving

views of actors that are likely to form the basis for evaluation of innovations or changes in practices.

An interesting issue which is not addressed in this study is the extent to which the constitutions of networks are explicit, formalised, legal, non-legal or illegal and the extent to which they are viewed in the same way by all actors in either similar companies or across the network. It is also interesting to conjecture about variations in these constitutions in different networks having different characteristics. For example, we would expect more explicit constitutions and widely held commonality of views in older and more stable networks, where mutual knowledge of each other and the 'workings' of the network were well developed. It may also be in these networks that there is a greater likelihood of illegal constitutions.

This empirical study demonstrates that this consumer goods network is an arrangement that has evolved over time as an unintended outcome of the actors' effort to interact. In this effort, the constitutions of networks deliver shared

systems of conventions that facilitate the realisation of interaction practice among actors. These conventions cope with the existence of multilateral interaction, allow the creation of focal frames and enable recurrent episodes over recursive time. Therefore, we can conclude that there is a dialectic relationship between ‘interaction’ and ‘constitutions’. This study introduced the term *constitutions of networks* in an attempt to link interaction and networks. In practical terms, this implies that research on markets needs to include the investigation and analysis of interaction practice among actors as well as the analysis of the consequences of these interactions. The present study has shown the importance of shared systems of conventions in the realisation of interaction practice. Empirical research on how companies in different industries, with different backgrounds, potentials and interests undertake jointly agreed action may improve our understanding of the dynamic interplay between interaction and constitutions and may contribute to a new comprehensive theory. Such a research theme comes at a time when a range of factors, such as globalisation, financial market changes, mergers &

acquisitions and outsourcing are forcing many companies to reconsider their practices. Companies are susceptible to changes in their context and have to negotiate with other companies to protect and advance their own interests.

Therefore, an agenda for further research needs to include an investigation of how companies deal with the security and calculability of interactions in their particular contexts and how companies see this issue as a possibility of exploring and exploiting new opportunities. Looking at the conceptual dimensions of multilateral interaction, focal frames and recursive time, further research may explore how companies negotiate and manifest the achievement of shared systems of conventions and how these conventions are impacted by or impact on their own practices.

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