

Contracts as Cornerstones in Relationship Building

Work in Progress Paper

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ABSTRACT

Aim of the paper and literature addressed: The aim of this paper is to investigate the significance of contracts in long-term relationship building comparing public and private contexts. In order to investigate this we have addressed literature about relationship building, negotiation process and the role of contracts.

Research method: This paper takes a qualitative approach and is based on comparative studies between the private and public sectors with the main focus on four companies within the public transport and paper industry. The unit of analysis is the company's use of contracts in relationships. The analysis is based on the empirical material received from interviews and contextual analysis of the actual contracts. Internal and external documents have also been used in the analysis. We have categorized the material into different areas in relation to the relationship building.

Research findings: In this paper we highlight the importance of contracts in the interaction between companies in different business situations. The findings in this study show that contracts function as cornerstones in relationship building. Our conclusions also indicate that the type of contract used is depending of the uncertainty in the business relationship due to the relationship lifecycle.

Main contribution: A main contribution from the study is that contracts affect the relationship building. In the private sector the relationship forms the contract while in the public sector the contract forms the relationships.

Keywords: Contracts, relationships and relationship building

INTRODUCTION

Traditionally, most business relationships include different forms of formal contracts. The reason for using a contract is usually one of the following: (i) to function as a communication tool for the transmission of information from one party to another; (ii) to reduce uncertainty and risk by stating each party's contribution to the relationship; and/or (iii) to fulfil the requirements of accepted practice in a given business setting (Roxenhall and Ghauri, 2004; Roxenhall, 1999). Whatever the reason for choosing to use a contract, the actual role played by the contract in a business relationship varies depending on the particular business context (Roxenhall and Ghauri, 2004; Narula and Hagedoorn, 1999). In many cases a contract is seldom (or never) conferred with once it has been drawn up; in these occasions, the contract exists mostly to give an overall governance structure to the evolving business relationship between the interacting parties. Macneil (1978) has used the term 'relational contract' to describe this situation, in which the real focus is less on legalities and more on reaching mutual understanding about the true meaning of the relationship and what the parties will gain from the arrangement. In these situations, a formal written contract is usually complemented with other mechanisms (often certain aspects of so-called 'relationship management') to manage the day-to-day interaction between the parties (Brown et al., 2006; Seshadri and Mishra, 2004).

In other business contexts the contract plays a more explicit role in governing the relationship between the parties. This is for example the case if the contractual relationship is created by public tendering. At these occasions, the contract plays a prominent role by stating the explicit guidelines that govern the purchasing arrangements (Laing and Lian, 2005). Despite the context, trust is according to Håkansson et al (2004) a necessary requirement and a determinant of sound business relationships. Trust plays a significant part in most business relationships since one not can control everything in a contract (Mouzas et al., 2007). Mouzas and Blois (2008) argues that there is a lack of empirically based scholarly work on understanding the nature and form of contractual arrangements between organizations. The need for understanding the nature and form of contractual arrangements is according to Mouzas and Blois (2008) an important issue central to the IMP research work. Based on this the aim of this paper is to investigate the significance of contracts in long term relationship building comparing public and private contexts.

This paper is based on a comparative study between the public and private sectors with a main focus on companies within the public transport and paper industry. The unit of analysis is the company's use of contracts in different relationships. The analysis is based on the empirical material received from interviews and a contextual analysis of actual contracts. Internal and external documents have also been used in the analysis. The material has been categorized into different areas in relation to the relationship building.

THEORETICAL POINTS OF DEPARTURE

Relationship Stages

A business relationship exists if there is a repeated business transaction and a contract between the parties (Blois, 1998; Liljander and Strandvik, 1995). Traditionally business relations develop over time, and the development process for a relationship could be described as passing through different stages or steps (Dwyer et al. 1987; Ford et al., 1998). The relationships continue to exist only if the parties involved yield rewards that exceed the costs of the relationship. If not, the relationship is dissolved or at least re-evaluated and/or transformed in the long run (Dwyer et al., 1987). Dwyer et al. (1987) describes this development of the relationship passing through five stages, from awareness to dissolution. Ford (1980) uses a development model that suggests that a relationship also follows five stages. The stages in this process are pre-relationship, early relationship, development, long term and the final stage. While a relationship develops into another stage, it is important to realise that all relationships does not have to pass through all the phases, they can fail or regress to an earlier stage without passing through all the different stages.

- Stage one; the Pre-relationship stage: In this stage the focal company starts to evaluate a new potential supplier. The reason to search for a new supplier could be a part of the usual evaluation process of existing suppliers, the fact that the demand and/or supply (offering) has changed, another supplier has become active, changes in markets etc.
- Stage two; the Early stage: This is the early stage were the parties start to interact, for example to negotiate a purchase of some goods. In this stage the parties have little experience about each other, the uncertainty will be high, the distance between the parties considering the technical, social, cultural, geographical and time dimension is high and the commitment between the parties are still low.
- Stage three; the Development stage. In this stage, the delivery starts to increase or, if it is capital goods, the signing of the contract has taken place. In this stage the parties have developed some mutual experience; the uncertainty is reduced as well as the perceived distance between the parties. The commitment between the parties has increased.
- Stage four; the Long-term stage. This is a sliding phase were it is difficult to exactly state how the relationship has matured to this specific stage. The stage is characterised by the fact that the companies' mutual importance towards each other's has increased. This is often done after deliveries that are more extensive or repeat by of capital goods. In this phase, the mutual experience is even higher, uncertainty, distance is perceived to be even smaller, and the commitment is on its maximum.

Stage five; the Final stage. Here the relationship is long-term and has reached a point where it has become extensive institutionalised and the parties have more or less fixed roles. This might cause problems if one of the parties want to make changes, and the other party do not want to change the way they do business and therefore react slowly to the demands of change.

From this the development of a relationship could in a traditional business-to-business setting be seen as an investment process in which the parties freely select their counterpart and gradually develop trust and commit resources to each other in order to receive benefits in the

future (Ford et al, 1996; Turnbull et al. 1996). Based on this, time is an important factor describing the development of relationships (Seshadri & Mishra, 2004). As time goes by the relationships tends to become deeper and the uncertainty between the parties decreases. During the development of the relationship modifications and adaptations are done on both sides (Håkansson & Snehota, 1997). The parties tends to be more committed to each other and over time the relationship will be routinized and institutionalised roles are established (Ford et al. 1998).

The Distance Concept

In the above-described model by Ford (1980) the concept of distance was used. This concept could also be used as descriptive characterisation of the relationships (Liljander & Strandvik, 1995). The distance concept consists of five differences, which will be described below.

- Social distance; the degree of unfamiliarity between the parties.
- Cultural distance; the difference in norms, values and/or working methods between two companies due to different national or cultural characteristics.
- Technological distance; differences in product- and process technology.
- Time distance; the time between placing an order or establishing of a contact and the delivery.
- Geographical distance; the physical distance between two companies.

(Ford, 1980)

Those different distance measures could be used to characterise the type of relationship between the parties. This is done partly integrated in the above stage model by Ford (1980), but they could also be used separately.

Trust and Commitment

Two important aspects in the progression between different relationship stages are the development of the commitment and trust between the parties. If the trust and/or commitment between the parties are believed to be strong the co-operation between the parties tends to be long term (Hunt and Morgan, 1994). If the trust is high between the parties, conflicts that arise between the parties could be more of a functional kind. The uncertainty seems to decrease as a consequence of high trust between the parties. In order to build high trust and commitment it is important to create shared values, or common culture between the parties. Morgan and Hunt (1994) defines commitment in the following way; “*Commitment; as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely*” (p. 23). The other concept, trust, is perceived to be very important as prerequisite for increased commitment. If one party is not believed to be trustworthy, the other party might chose to not increase the commitment in the relationship if there is any possibility avoiding doing that. From a relationship management perspective the need for a specified and detailed contract is lesser if the trust between the parties is high (Macneil, 1978). In those situations the contract focuses more on creating a mutual agreement and the meaning of the relationship and what the parties will gain from the contractual agreement. The process and the structure of the relationship are more in focus rather than the problems that need to be solved before the contract is signed. This kind of

contract could be labelled as relational contract (Macneil, 1978), a contract type which builds on a different logic in which one recognizes that it is not possible to foresee all future occasions and thereby it is not possible to regulate all aspects in the contract.

The Negotiation Process

One way to develop commitment and trust could be during the process where the parties discuss the conditions for the relationship. This could sometimes be done in a more formal process in form of negotiation between the parties. Negotiation is a process where at least two parties try to reach an agreement on issues of mutual interest. Herbig and Gulbro (1996) argue that the negotiation process proceeds as an interplay of perception, information processing and reaction. The negotiation process is also relying on images of reality, assumptions about the issue being negotiated, conventional wisdom and social expectations. This is even more complex when this process is taking place between parties with different culture contexts (Lin and Miller, 2003; Reynolds et al., 2003). Negotiations involve diverse dimensions relating to a matter of substance and the process itself (Herbig and Gulbro, 1996). The negotiation process has been defined by different scholars containing diverse stages (Keiser, 1988; Ertel, 1999). A classic view of the negotiation process is that the process contains four stages (i) nontask, (ii) task, (iii) persuasion and (iv) agreement (Herbing and Gumbo, 1996). Whereas the international process of business negotiations can be divided into five stages: the offer, informal meetings, strategy formulation, negotiations and implementation (Peveze, 1986). Ertel (1999) discusses four stages in his model. All these models can be summarized by (1) a pre-negotiation stage, (2) specifying stage, (3) bargaining stage, (4) agreement stage and a (5) post-negotiation stage. The negotiation process functions as a bridge between the parties for reaching a contract and relationship building.

Uncertainty and the Role of Contracts

As described above, the parties in a business relationship often experience an uncertainty of the future. One way to reduce or minimise this uncertainty and the risk between the parties is to use a contract (e.g. Williamson, 1975, Roxenhall and Ghauri 2004). A contract specifies the duties and obligations between two or more parties concerning the exchange of goods or services and is also enforceable by the law (Macaulay, 1963). In general, formal written contracts have three main functions: (i) to bind parties together; (ii) to specify the content of the transaction; and (iii) to provide evidence of the nature of the agreement and its enforcement (Blomqvist et al., 2005). Contracts act as communication tools for the transmission of information from one party to the other, thus reducing uncertainty and risk by stating each party's contribution to the relationship and/or the requirements of accepted practice in a given business setting (Williamson, 1975; Roxenhall, 1999; Malhotra and Murnighan, 2002; Roxenhall and Ghauri, 2004). Due to this, most business relationships include traditionally some form of formal contract (Roxenhall and Ghauri, 2004). Despite the existence of a formal contract, the role the contract actually plays in a business relationship varies depending on the business context (Roxenhall and Ghauri, 2004; Narula and Hagedoorn, 1999).

In many cases the contract is seldom or never used once it has been drawn. The contract just exists as giving the evolving governance structure in which the relationship exists and develops. In other cases the contract becomes the instrument by how the relation between the parties are managed and regulated. One way to use a contract as a management tool is to use a higher degree of formalized writing with the purpose to control the counterpart and to

guarantee a certain level of the counterpart’s contribution to the exchange. This kind of contract could be labelled a transactional contract (Macneil, 1978) in which formal rules, and measurability are prioritised issues (se also Lindvall, 2001, Sjöstrand 1985). These kinds of contracts are often written, impersonal to its nature and have a preventive purpose since sanctions for not fulfilling the contract clearly are stated in the contract. A transactional contract is also characterised by that there is a clear start and end of the contract and the content of the contract is measurable and quantifiable. By using this more regulative writings the contract could be used to control and govern the counterpart to a higher extent and therefore the need for trusting the other party decreases.

A Conceptual Model

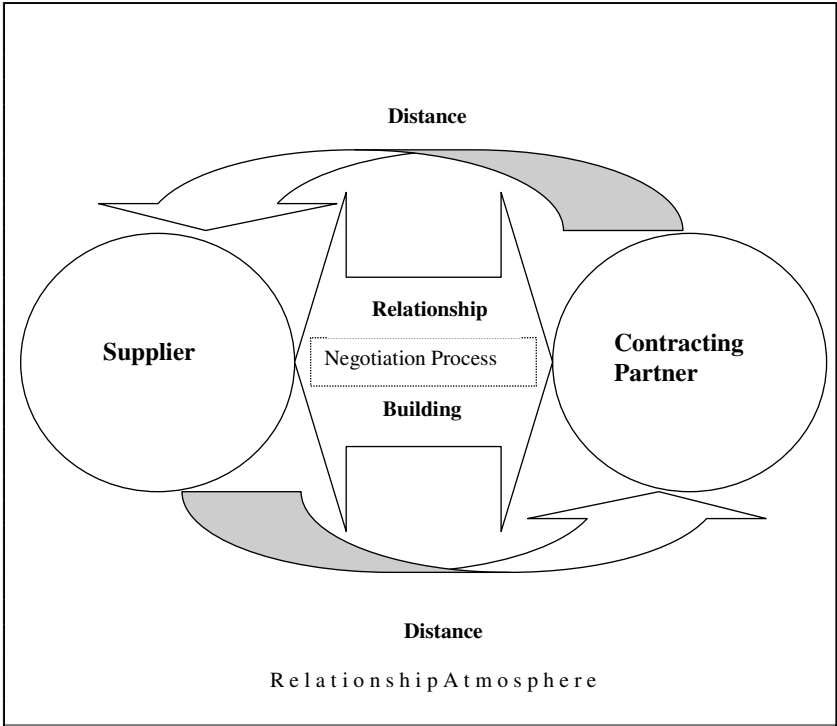


Figure 1: A Conceptual Model

The negotiation process is an important ingredient in building relationships between the actors. The different stages in the negotiation process can function as episodes in the relationship building. They will also influence the distances between the actors as described in the conceptual model above.

RESEARCH DESIGN

In order to investigate the significance of contracts in the long-term relationship building comparing public and private companies, we based this paper on a comparative study with a main focus on companies within the public transport and paper industry. The unit of analysis is the company’s use of a contract in the relationship.

Sample and Data Collection

Since there have been few previous studies of the significance of contracts in long-term relationship, we wanted to gather as much information as possible in order to create a deeper understanding of the matter under investigation (Patton, 1990). With this ambition, an in-depth case study (Yin, 2003) seemed to be the most suitable alternative since using an in-depth case study gave us the possibility “...to collect a rich and detailed information across a wide range of dimensions about one particular case” (Daymon and Holloway, 2002, p 106). The studied cases are dyadic contract relationships between suppliers and buyers, within the paper and the public transport industry. For this study we have chosen four cases and the selection of these four cases was based on the intentional sampling of information-rich cases (Patton 1990).

The data was gathered through a combination of in-depth interviews and documentary analysis of the actual contract between the parties, and the documents related to the contract. The respondents were selected on the basis of their position during the process of creating and relationship building between the parties, including the contract, which means that they have valuable insights and knowledge regarding the process of developing and building the relationship. Practically this means that we mainly have interviewed business managers at the different studied organizations. Since we wanted to obtain as much information as possible about the contract and the relationship between the parties, we used an exploratory approach with opened-ended questions. To provide some structure to the interviews, but still allowing the informants to speak freely, a semi-structured interview guide was used. Themes that were discussed during the interviews included the contract process, the content of the contract, the relationship between the parties in the contractual dyad, and the negotiation process.

The written internal material and the external material were primarily used as supplementary sources for understanding the events and the various consistencies and inconsistencies between the contracts, but the material were also used to obtain a better understanding of the organizations under study.

Data Analysis

The aim of the analysis was to identify how the managers described the relationship between the contractual partners and how the relationship was actually managed. The analysis was carried out using traditional steps in the analysis of qualitative data (Miles and Huberman, 1994). The analysis was based on the empirical material received from the interviews and a contextual analysis of the actual contracts. The material has been categorized into different areas in relation to the relationship building.

The studied case

Case A is a global actor within the pulp and paper industry. The firm has a long tradition of producing products with different added value levels, within three major areas. One of these areas is the production of different paper products subject for further converting in the domestic market, or within diverse international markets. The firm is a leading producer of packaging board subject for additional coating, printing and cutting in a converting plant in the local. The length of the supply chain is depending on the end use of the product. An important market segment for board products is the food industry, either for the purpose of packaging dry products such as cereals, or for deep frozen products. Another important market segment is the liquid sector for milk, juice or other soft drinks. This is a market segment dominated by big actors on the buying side.

Case B is a dyadic contract relationship between public transport authorities (PTA) and the contracted service provider *i.e.* subcontractors. In this industry, bids for the provision of public-transport services are put out to public tender in accordance with the specific requirements of Swedish law (Swedish Code of Statutes 2007:1091; 2007:1092). In order to categorize the empirical source the dyads could be described as a business-to-business context since the parties in the dyad both are organization (public and commercial). The PTA is a public organization handling local transport. The other party in this contractual dyad is the subcontractor which can be classified as a commercial organization and one of the biggest contracted service providers in Sweden.

Case C is a global supplier of technology and services for mining, constructing, power generation, oil and gas, recycling and pulp and paper industries, where the biggest customer industry is the pulp and paper industry. Case C is a worldwide company operating in over 50 countries and employs about 27,000 professionals. The main market areas for case company C are Europe, North America, South and Central America, but Europe is the biggest market for the company. Today the company focuses more on service and maintenance, the supply of spare parts, rebuilding, process optimizations and consulting. The focus of procurements has shifted from raw materials and basic fabrications components to complex system and assemblies. In this study we have focused on the part of case company C that is located in Europe and has its focus on the pulp and paper industry. This part of the company employs about 500. The company has the competence and the resources to take care of more specialized machines in pulp and papers plants. It also has automated its maintenance from lumberyards to production lines concerning packing. There are two types of contracts in relation to what they are producing. First there is a delivery contract. This means that the customer is buying a paper machine and company C builds, delivers, and puts the machine together. The other contract is more a maintenance and service contract and in this case the company is actually selling a service. In this type of contract the term is about four to ten years depending on the size of the machine that will be serviced.

Case D is private company within the packaging industry. The parent company is one of the largest packaging producers in Europe. The group has converting factories in different parts of Europe and in Scandinavia which gives the company a flexibility and capacity to meet different needs of packaging products. The group is producing both paper and plastic products and to ensure high quality. They do their own extrusion, lamination, flexoprinting and rotogravure to a great extent in house. The company's warehousing and logistics system guarantees quick and reliable delivery to different customers. A network of sales teams are working with the customers to create an optimal packaging solution for them. The affiliated company in Case D is mainly producing coated and laminated paper products primarily for the end-use within the food sector. These products can be converted further, or delivered to the filler for direct use in a production process. There are also many other food items for which the company provides packaging solutions including confectionery and snack food products as well as frozen convenience foods. The possibility to combine different materials also gives the possibility to convert paper and plastic materials into a variety of end-users within various non-food markets. These include products for building products or pet foods. The variety of end-uses is affecting the number of customers in different domestic and export markets and also the types of contracts used.

FINDINGS

Case A

In this case the relationships with the customers often are formed on long-term basis for some main market segments, while customer relationships can be built up within other market areas. This is also influencing the type of contracts used. For the main customers the contracts have the form of frame-work contracts, whereas businesses based on relationship building are using short term contracts specifying prices and quantities. The contracts are often signed with big actors on the buying side and running for a period of 1-3 years. The contracts are signed on a high management level, stating quantities to be delivered, but not specifying which quantities to be delivered to different plants at the customer side. The price is in most cases also specified since price movements are rather small for the period in the contract. Prices can be regulated to an agreed level e.g. by changes in the general price level (e.g. consumer price index). The sales director meets his customers regularly for discussions about deliveries and other customer requirements within a three weeks period of time. The customer relationship is based on a long-term agreement, where the contracts are used to govern, the business..

Case B

The law states that the deciding factors, whether a party should receive a contract or not, should be clearly specified in advance. In order to give all actors the same chance to receive the contract, factors such as previous experience and existing relationships between the parties are not allowed to affect the selection of the sub-contractor. The act states that the price, given a certain level of service, is the dominating factor deciding who will be selected and in the end receives the contract. The contracts between the parties (the PTA and the successful tender) typically run over a long period of time (5–10 years). Further on, there are also a fixed due date, which means that the relationship ends at a specific expiry date and a new public tendering must be held and a new contract needs to be written and signed. This is something that is perceived troublesome, at least from the PTA:s side since they buy what they call a 'promises about a service' not a real service. In order to guarantee an acceptable minimum level of the service they use very detailed and formal contracts. Due to public tendering contexts there are no negotiation between the parties when it comes to central aspects of the contract, the only negotiation is about minor details in the contract that needs to be clarified. From the fulfillers side they argue that what is agreed upon in the contract is the service they will offer, since that is the service level they have based the price on.

Case C

In case C two types of contracts are common. The first contract is the delivery contract, concerning the deliverance of a paper machine. This type of contract has a running time of approximately two years. The other type of contract is a maintenance contract. This type of contract is normally about four years. During the early stage of the relationship building customer requirements are specified and necessary adaptations are made. This can include prospecting stages but also different tests in laboratory environments or at customer's plants. In this phase there is low commitment and a long distance between the parties. The phase is more about a problem specification and discussion in order to identify if propensity to initiate a business relationship exists. This first phase could be long-term, in some case up to several years in order to discuss and specify the product or service being bought. From the beginning of the relationship there are no contracts, it is first in phase three that the parties are starting to discuss the terms and content of the contract and negotiate the different clauses. During the process trust and commitment are increasing. During phase four and five the project leaders at both parties have an important role in shaping the day-to-day activities. Besides this, an advice group is appointed in order to once a year evaluate the contracts terms. Based on this the role of the contract increases in the different relationship phases and the terms and conditions of the contracts are mutually developed during negotiation and ongoing interactions.

Case D

In this case we met t an actor in the packaging industry. The customer base is consisting of business with customers at different stages in the relationship. This is also influencing the contracts used depending on the uncertainty between the supplier and the customer. The contracts are often short term contracts, even if long-term contracts can be used in relation with customers with a more developed relationship. In situations with a high uncertainty the company can be using irrevocable letter of credit. One type of contract is in relation to a specific export order, where the contract is specifying the product, price and delivery terms. Another type of contract includes deliveries for a medium period of time (3-6 months), specifying price and delivery terms. The third type of contract refers to a framework contract normally used on a yearly basis. This type of contract is often used in more established relationships where the contract is stipulating quantities for the next budget year. The contract

can also stipulate how prices should be handled during the period of the existing contract (e.g. prices could be discussed every quarter, or on a half-year basis). All three types of contracts are used depending on the relationship in the actual business situation and the end market. In distant export markets customers can also be required to open an irrevocable letter of credit before an export order is executed. This is a fourth type of contract in use.

The analysis of the cases reveals similarities and differences among the companies studied. In case A, C and D there is recognition of the problems in the beginning of the relationship, which cannot be found in case B. In this case the contract functions as a tendering document with sharp demands from the beginning. The analysis also revealed that in case B there is no negotiation of the vital parts in the contract. In this situation the negotiation is about clarifying small details, based on the terms in the contract. The relationship status is something that differs in the cases studied. The cases highlight that there are intensive interactions in three of the studied cases which form the contracts, whereas in case B the relationship is more formal and there is an arm-length distance between the interacting parties. Another thing that is worth noting in the studied cases is that in case B the contracts are used for controlling the business while in case A, C and D the contracts are used for ruling the game. Table 1 below, summarises the outcome of the analysis.

DISCUSSION

The findings in this study show that the contracts function as cornerstones in the relationship building. Within the private sector the uncertainty in the initial phase calls for some sort of contract in order to create a functioning relationship. In the public sector the contract also plays a significant role as the contract is a prerequisite for the relationship, due to the fact that you do not have the possibility to select the counterpart (Laing & Lian, 2005). This is in line with Macneil (1978) who argues that in arm-lengths relationships with low trust, contracts are used to formalize the business. Also at the next level of the relationship, contracts are used, but in somewhat different ways depending on the context. In the public sector (case B) the contracts still function as formalized governing tools that in a very detailed way govern the relationship and the day-to-day interactions. Even in the private sector contracts are used in long-term relationship, but here more in form of frame-work contracts (Mouzas, 2006; Mouzas & Ford, 2006, 2007) or relational contracts (Macneil, 1978) giving an overall governance structure to the evolving business relationship between the interacting parties. This is in line with Roxenhall and Ghauri (2004) who argues that most business relationships include some form of formal contract and that formal contracts play different roles depending on the business context

Phase	Case A			Case B			Case C			Case D		
	<i>Negotiation</i>	<i>Relationship status</i>	<i>Role of contract</i>	<i>Negotiation</i>	<i>Relationship status</i>	<i>Role of contract</i>	<i>Negotiation</i>	<i>Relationship status</i>	<i>Role of contract</i>	<i>Negotiation</i>	<i>Relationship status</i>	<i>Role of contract</i>
1	Discussion about specifications with the new customer	Low commitment	Problem recognition	Do not exist	Arm-lengths Long distance Low trust Low commitment	Functions as tendering documents with sharp demands	First discussion with the customer	Prospective	No specific contracts but the sales man has certain frames	Specific negotiation or discussion about the product. Problem recognition	No commitment, no trust created	No contract initial contact
2	Trial order	Interaction takes place	Specifying quality in relation to negotiation	Neg. about small details clarifying	Parties are learning about each other and getting closer	Formal bids in reply to Tendering documents	Starting to discuss the terms of the contract	Distance, trial and error, low commitment	Frame contracts	Trial order and further discussion with the supplier	Initial interaction	Contract that regulate minor part of the relationship
3	Discussion about price and quality	Intensive interaction	Defining contract terms	Negotiation based on the terms of the contract	Closer and more trustful but still formal – roles are clear	Full delivery – contracts governing	First draft discussion and negotiations of the terms of the contract.	Influence of active project leader at both contracting parties. Clarifying how to communicate	First draft of the contract and contracts later signed.	Ongoing dialog and initial negotiation	Closer and more trust-full relationship	First order(s) deliveries
4	Framework contracts	Continues interaction	Defining contracts terms and adjusting price	Negotiation based on the terms of the contract	Negotiation based on the terms of the contract	Contracts central in governing	Checking that everything is working according to plan otherwise adjusting terms	Commitment increases, project leader still important as well as advice group	Specified contracts and agreed terms. Full delivery	Continuous deliveries	Continues interaction including trust and commitment	Continuous deliveries in relation to specification
5	Discussion on a yearly bases	Long-term with few big customers	Running the business	Negotiation based on the terms of the contract	Negotiation based on the terms of the contract	Contracts central in governing	Relationship can change depending if delivery changes to maintenance, new negotiation. Discussion and evaluation on yearly bases	Long-term relationship, project leader still important and the advice group.	Specified contracts and evaluation of the contracts terms once a year	On-going dialog and discussion on framework contracts	Long-term relationship	Framework contracts
6	Ongoing business as long as the business is successful.			The relationship ends when the contracts expire.			Ongoing business as long as the business is successful.			Termination in relation to customers' life-cycle.		

Table 1: A content analysis of the contracts role in the relationship building process.

Interaction is a vital part in all types of relationship building (Håkansson & Snehota, 1997). This is typical within the private sector where the supplier and the buyer interact from an early start in the relationship process even when the first enquiries reach the supplier. The interaction is important in all stages of the relationship. This is in contrast to the public sector where the relationship must function from day one based on the formal contract. The negotiation process is a vital part before reaching a business agreement within the private sector. The negotiation process also influence the relationship building within all types of business context as Keiser (1998) and Ertel (1999) states. In the public sector there is no negotiation processes due to the fact that laws and regulations set the framework for the business relationships and there is only room for minor adjustments in the contract. Within the private sector the negotiation process is a vital part of the relationship building and the contract plays a minor role in order to lower the level of uncertainty in the beginning of the relationship. However, in the public sector the relationships to a great extent are formed by the contract. Table 2 summarise how the negotiation and the relationship building differ in private and public companies.

	Private	Public
Negotiation	From problem recognition to frame work contracts	No negotiation concerning vital parts in the contracts
Relationship process	Intensive interaction forming the contract	Formal, arm-lengths
Relationship building	Contracts for ruling the game	Contracts for controlling the business

Table 2: Negotiation and relationship building.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

In this paper we have highlighted the importance of contracts in the interaction between companies in different business situations. Our cases have indicated that the type of contract used is depending on the uncertainty in the business relationship due to the relationship lifecycle, but also the business situation as such. Based on our findings in the case studies we have found a main difference between the private and the public sector in relation to how the contracts are used and managed. This has also affected the relationship building and we have found a proposition in relation to respective sector. In the private sector *the relationship forms the contract*, whereas in the public sector *the contract forms the relationship*.

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