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The Role of Norms in Early Stages of Business Relationships: An Action Research Approach

Christoph M. Ott

Abstract: Long-term business relationships between actors are a common mode of exchange in business markets. There has been increasing interest in the governance of long-term business relationships. However, little is known about governance issues in early stages of relationships. The goal of this paper is to put forth a seldom-used methodological approach in marketing to contribute to understanding the role of behavioral norms during the pre-contractual phase of a long-term business relationship. The background of this research project is the initial stages of two case studies of long-term business relationship between a school and investment partners prior to the contract signature with the intent of establishing a new school. Results of the occurrence of norms show that both parties first need to define the framework of their relationship before beginning joint value creation. Furthermore, a gradual increase of usage of norms seems to have a positive effect on a nascent business relationship.

Keywords: Behavioral norms · Norm dimension · Action research · Relational exchange theory · Long-term business relationships

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Introduction

Behavioral or relational norms are one of many governance mechanisms to regulate inter-firm relationships (Heide, 2003; Williamson, 1975). The concept of governance "includes elements of establishing and structuring exchange as well as aspects of monitoring and enforcement" (Heide, 2003, p. 18). The design and implementation of effective governance structures is therefore a challenging managerial task, especially since there are many control mechanisms available (Bradach & Eccles, 1989). In addition to behavioral norms, a concept used as basis for empirical studies in marketing (Dant & Schul, 1992; Heide & John, 1992; Pilling, Crosby & Jackson, 1994), some typical governance mechanisms are formal contracts (e.g. Cannon, Achrol & Gundlach, 2000; Lusch & Brown, 1996; Stinchcombe, 1985; Macaulay, 1963), and specific investments (e.g. Gundlach, Archol & Mentzer, 1995; Jap & Ganesan, 2000; Anderson & Weitz, 1992). Of the mechanisms listed above, behavioral norms provide an informal and 'soft' governance mechanism, which is embedded in the relational expectations built up through numerous interactions between both parties. As Macneil states, norms enable cooperation among individuals and serve as guiding principles of right action with a binding character for the members of a group (1980a, 1980b). With extensive studies in the field of marketing on the role of these norms in existing relationships (e.g. their role on performance as in Noordewier, John & Nevin, 1990; Ganesan, 1994; Gassenheimer, Catalone & Scully, 1995; Cannon et al., 2000), this paper focuses on an uncharted area of the literature on relational norms, namely the use and impact of norms at the beginning of a business-to-business relationship.

The approach taken will concentrate on long-term business relationships (LTBR), where norms play a crucial role (Macneil, 1980b, 1981, 1983). LTBR are a phenomenon of high empirical relevance (e.g. Easton & Araujo, 1986; Dwyer, Schurr & Oh, 1987; Håkansson & Snehota, 1995) and are also referred to as hybrid form (Williamson, 1991), domesticated markets (Arndt, 1979, p. 70), relational exchange (Macneil, 1980b), or clans (Ouchi, 1980). The key feature of a long-term business relationship is the breadth and depth of the exchange where both parties commit to, trust each other and maintain their relationship (e.g. Sirdeshmukh, Singh & Sabol, 2002; De Wulf, Odekerken-Schröder & Iacobucci, 2001).

Dwyer, Schurr and Oh define commitment as "an implicit or explicit pledge of relational continuity" (Dwyer et al., 1987, p. 19). They also identify three measurable criteria of commitment (1987, p. 19): (1) significant exchange of "economic, communication, and/or emotional resources", (2) durability of the association and (3) consistency of behaviors. In other words, "organic solidarity consists of a common belief in effectiveness of future exchange" (Macneil, 1980b, p. 95).

The context of this project is the expansion plan of a private international secondary boarding school. This institution envisions its goal for growth through providing school start-up, planning and management services. The way to realize this active internationalization chosen by this school was to focus on greenfield projects i.e. opening up new schools including the planning for the required real estate. The duration of such a school project is necessarily long-term with 25-30 year contract durations. This long timeframe can be explained by the payback or return on investment of such projects. The goal is to eventually create an integrated network of

schools based on its educational philosophy. This vision led to the creation of a management group (MG), a separate department within the school, which included the author of this study, with the objective of realizing this growth strategy.

The data of this project are two school prospects in South Korea and Kazakhstan, selected on the premise of 'most-similar cases' (Gerring, 2007) with the purpose of revealing differences between two similar situations with dissimilar outcomes. Each project resulted in contract signatures, but while the relationship in South Korea deteriorated and ended with the first planning fees due, the first payment of fees took place in Kazakhstan.

In summary, this paper intends to offer a seldom-used methodological approach in the field of marketing to understanding the role of one specific governance mechanism, relational norms, at one particular stage of a long-term business relationship, its initiation, through an action research project and content analysis in the educational industry. The goal of this paper is to explore this area in the knowledge base of marketing literature through this specific methodological approach.

Results show that both parties need to establish common expectations and structure the relationship through norms aiming at controlling the value creation process before using norms that create value.

The remainder of the paper first presents the research perspective followed by the description of the research design of this project. The subsequent section outlines the research setting and the two case studies before presenting and discussing the results of the data analysis prior to closing with some concluding remarks.

Theoretical Background

Three elements constitute the basis of the research perspective of this paper: (1) relational exchange theory (RET), a framework describing economic and social transactions, (2) behavioral norms, a concept used to operationalize the different aspects of these transactions and (3) long-term business relationships (LTBR), a specific setting where both economic and social transactions and norms play a predominant role.

As Bagozzi puts it, marketing is the discipline analyzing "all activities involving 'exchange' and the cause and effect phenomena associated with it" (1975, p. 32). One theoretical framework to study exchange is Macneil's (1980b) 'relational exchange theory' (RET) where, exchange is classified along a continuum of exchange acts or transaction:

- Discrete exchange with limited relational interaction such as a one-time purchase from a vendor.
- Relational exchange where "individual transactions are of relatively little importance compared to the relationship itself" (Kaufmann & Stern, 1988, p. 535), such as an intertwined long-term commercial relation between several parties.

In other words, relational exchange is not only an individual exchange act, but an interactive process where commitments are made, outcomes are observed, and further resources allocated, if outcomes meet or exceed expectations (Håkansson &

Snehota, 1995). Therefore, Macneil not only considers 'hard' relational governance mechanism such as formal contracts, or economic investments analyzed in contract law (e.g. Cannon et al., 2000; Macaulay, 1963), or in transaction cost analysis (e.g. Anderson & Weitz, 1992), but adds 'soft' relational components anchored in the sociological tradition to the relational governance mechanisms.

In order to capture and analyze the complexity of exchanges, Macneil uses the concept of behavioral norms. The work of Heide and John shows that "norms play a very significant role in structuring economically efficient relationships" (1992, p. 32). Two components defining a norm are identified by Opp (2001) and adapted by Ott and Ivens (2009):

- The expectation definition: "how a person [moral or legal], or a group of people, is expected to behave in a given circumstance" (adapted from Homans, 1974, p. 96).
- The sanctioning definition: "a norm exists only if there is some probability that non- conformity is sanctioned" (Opp, 2001, p. 103).

Marketing literature focuses chiefly on ten key norms that play a role in exchange processes. Further analysis by Ivens (2006), uncovers two underlying dimensions:

- Norms that control value creation, in other words the process of value distribution (Kaufmann, 1987)
- Norms that create value, also referred to as 'pie sharing' (Jap, 2001b)

This underlying dimensional structure permits a classification of these norms as follows:

Dimension	Norm	Description
Norms that control value creation	Conflict resolution	Application of flexible, informal and personal mechanisms to the resolution of conflicts
	Restraint in the use of power	Expectation that no actor will apply his legitimate power against the partner's interest
	Monitoring behavior	<i>Ex ante</i> and <i>ex post</i> control or supervisory actions in business relationships
Norms that create value	Long-term orientation	A desire for utility of having a long-term relationship with a specific exchange partner
	Role integrity	Maintenance of complex multidimensional roles forming a network of relationships
	Relational planning	Proactive and bilateral goal setting for joint future action; plans subject to adaptation
	Mutuality	An attitude that the realization of one's own success passes through the partner's common success
	Solidarity	Preservation of the relationship, particularly in situations in which one partner is in predicament
	Flexibility	Readiness to adapt an existing implicit or explicit agreement to new environmental conditions
	Information exchange	Readiness to proactively provide all information useful to the partner

Table 1: Macneil's norms and their underlying dimension (adapted from Ivens, 2006, p. 97)

The RET literature has focused on the analysis of the influence of various norms in existing relational exchange business partnerships (Heide & John, 1992;

Gassenheimer et al., 1995) and specifically on long-term business relationships (LTBR) (Ganesan, 1994). A LTBR is a relationship between one or several entities that not only stretches over a long period of time, but also involves extensive collaboration, coordination of efforts between the entities in view of joint value creation. Thus, an LTBR is an intertwined relation between several parties (Macneil, 1974) where relationship goals and contracts are formulated in a rather vague and open manner in order to permit an easy and quick adaptation to changing circumstances (Macneil, 1978; Milgrom & Roberts, 1992). Both parties commit to reaching these jointly defined goals without an exact definition of the path leading to them. This commitment and trust to act in the interest of reaching these goals comes into existence through repeated interaction, a definition of each party's expectations and are in part enforced through the informal and 'soft' relational governance mechanism.

In view of the focus of this paper on a specific stage of a long-term business relationship, one has to review the different stages in the relationship put forth in the marketing literature. The most prevalent LTBR development framework encompasses five stages (Scanzoni, 1979; see also Dwyer et al., 1987):

1. Awareness: each entity recognizes the other as potential partner for exchange
2. Exploration: both parties get to know each other and first negotiations take place
3. Expansion: long-term contracts are negotiated and substantial resources get committed by both sides
4. Commitment: both partners are satisfied with each other and directly or indirectly express their willingness to make sacrifices to maintain their relationship
5. Dissolution: the termination of the relationship in more or less good terms.

While the stages used in this research project emerged from the data, there are strong similarities with the first three stages described by Scanzoni (1979).

Based on the LTBR phases described above, one might ask oneself the question, if norms do exist at such an early phase of a long-term business relationship. To answer this question one has to differentiate between norms per se and their manifestation through norm-oriented behavior. Whereas norms originate through repeated interaction and the definition of relational goals, norm-oriented behaviors are either based on norms (a consequence) or based on the expectation of future interaction (a cause of norms). In the second case, the commitment to the relationship is a necessary prerequisite for repeated interaction and norm-oriented behaviors signal this commitment to the other party. Thus, norm-oriented behavior is at the basis of norm development as Gundlach, Archol, and Mentzer put it: "Our argument is that credible commitments [...] provide an impetus for the development of relational social norms" (1995, p. 81). Based on the different relational stages outlined above, one can infer albeit only with great uncertainty as to at what point behavior is the cause or the consequence of norms.

In short, both norms and norm-oriented behavior plays a role from the beginning of an LTBR as an initial commitment to a partner is necessary to pursue a relationship that will result in an LTBR. Norms being a guiding force behind behavior, they are difficult to observe directly, furthermore, due to the action-research design of this research project, only direct norm-oriented behavior is observed. Thus, for the sake of

simplicity, this paper will not differentiate between norms, behavioral norms and norm-oriented behaviors.

Pro memoria, the goal of this study is to further the understanding of the use of these norms or norm-oriented behaviors prior to contractual commitments. The methodological approach chosen for this research topic is focused on theory building as it aims at offering first insights into this uncharted area of marketing theory. In this vein, a more exploratory and qualitative approach has been deemed best suited within the context of this study.

After considering the theoretical components of this paper, the following passage will briefly outline the literature and methodological gaps identified and what research topics underlie the subsequent sections.

Two approaches form the base of this research project and need to be considered when looking at the literature and methodological gaps that this study intends to address: (1) the use of qualitative research methods, specifically case study research in an action research setting and (2) the initial stages of relational development. Based on a review of the literature on norms by Ivens (2002), one can see that four out of the 34 papers examined employ qualitative research methods and among them only one uses case studies (see Palay, 1984). In their discussion on clarifying the norm concept, Ott & Ivens (2008) review the use of this term across the social sciences and their paper shows that there is very limited evidence of research on the origin of norms or their role in nascent relationships. Thus, two observations regarding the literature and methodological gap can be made:

- Little attention has been given to creation, development and role of behavioral norms in the initial stages of a business relationship
- There is a strong predominant use of empirical studies and specifically surveys for research on norms especially in the field of marketing

As a result, this study will focus on narrowing especially this methodological gap, but also this knowledge gap by analyzing behavioral norms during the pre-contractual phase of long-term business-to-business relationship through two case studies in an action research setting.

In summary, the objective of this section is to foster a common understanding of the semantic and conceptual framework of this research project. The next section outlines the research method, followed by the research setting.

Research Design

The methodological framework of this study is action research, a methodology defined by Coughlan and Coughlan (2002) as “research *in* action, rather than research *about* action”. Thus, the researcher is involved with members of an organization with regards to a subject of genuine concern to them (Eden & Huxham, 1996). Furthermore this research setting offers all crucial elements identified for action research by Argyris, Putnam, and MacLain-Smith (1982) namely (1) a collaborative process, (2) a process of critical inquiry, (3) a focus on practice, and (4) a deliberate process of reflective learning.

With the extensive involvement of the members of this project team with the researcher at all stages of the process, the best-suited approach within the variety of action research schools of thought (Dash, 1999) is participatory action research as defined by Greenwood and Whyte (1989, p. 380): “Participatory action research (PAR) is a form of action research in which professional social researchers operate as full collaborators with members of organizations in studying and transforming those organizations”.

Within the spectrum of emphasis on generating practical knowledge versus advancing more general knowledge, the methodology of this article combines the frameworks of the pragmatic action research approach of Huxham (as described in Eden & Huxham, 1996; Huxham, 2003; Huxham & Vangen, 2003) and the case study methodology developed by Eisenhardt focused on building theory (1989). In this vein, the following five phases, illustrated in the figure below, are identified: (1) Planning, (2) Action, (3) Analysis, (4) Reflection and (5) Closure. The iterative aspect of this process is indicated by the loop between the different phases. These phases are organized to fit the ‘recoverability’ (of processes)¹ criterion defined by Checkland and Holwell (1998) to sustain the validity of action research findings and avoid the critique of methodological opacity often uttered towards qualitative studies (e.g. Cassell & Symon, 2006; Rynes & Gephard, 2004).

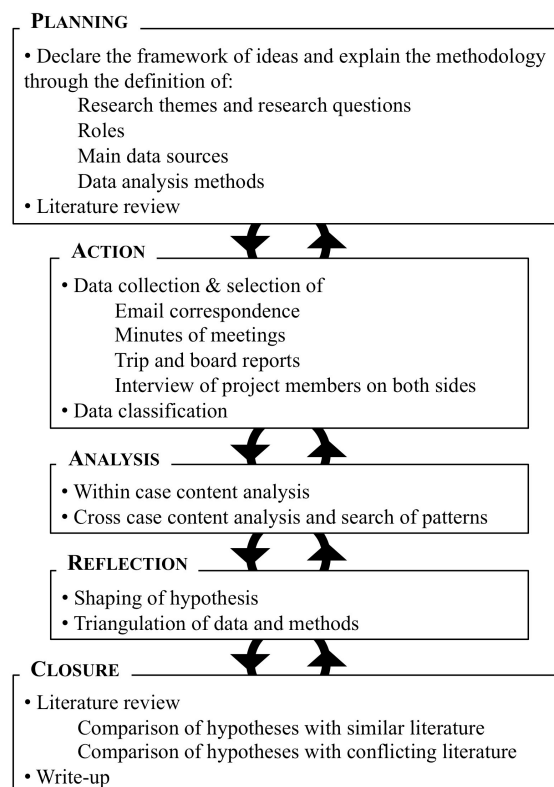


Figure 1: Overview of the five phases of the project

The content of the first planning phase described in the diagram, namely that of declaring the framework of ideas, the methodology and the literature review, is mostly covered in the previous sections. The segment about the research setting followed by the data sources and data analysis method describes the action and analysis phases. The results then proposes possible first hypothesis that will be further reflected upon in the discussion section.

The objective for the knowledge generated by this research design in the research setting outlined below is to (1) bring forth a seldom used methodological approach to the field of marketing, (2) satisfy the needs for the researcher to build a first basis for the understanding of this overlooked topic and (3) offer to the manager useful insights on how to use norms to orient behaviors in comparable situations.

Research Setting

The backdrop of this research is the implementation of an expansion plan of a private international secondary boarding school. The identification, analysis and evaluation of the core competencies of this organization lead it to develop a vision for future growth by providing services for school planning, start-up and management. The goal is to mirror its educational philosophy, structure and systems in other schools and, eventually, to create an integrated network of schools. This vision led to the creation of a separate department within the school called management group (MG) with the objective of realizing this growth strategy.

The challenges associated with the implementation of this strategy motivated the school's administration to start a project involving a researcher's perspective to analyze, evaluate and contribute to these efforts. The setting briefly summarized above makes for a unique and rich situation for the practitioner and for the researcher. For the manager, this project calls for insights from different subject areas outside of the field of education such as business modeling, partnership structure or cultural dimensions in negotiation. For the researcher, this project offers an opportunity to participate, analyze and contribute to the start-up of long-term business relationships in which RET and behavioral norms play a role. What is the exactly role of the researcher in this setting? As Cassell and Johnson (2006) note, the researcher's role is not that of an expert but rather of an enabler: the author of this paper is an integral part of the management group (MG) bringing academic findings to the team efforts and enabling project members to reflect on past events in view of future decisions. In this vein, the key team members were regularly used as resources during the research and analysis process.

This research setting has and still is generating prospects that could serve as basis for case studies, but many of these prospects halted before contract signature. Thus, the case selection principle is that of 'most-similar cases' often used in explanatory research aiming at producing hypothesis that can then be used as basis for further research (Gerring, 2007). The goal is to reveal the factors that differ between various situations in view of outlining lessons that can be learned. In this vein, this report will focus on two case studies for school projects, one South Korea and the other Kazakhstan that both resulted in contract signatures but with different outcomes

thereafter. Whereas the relationship in South Korea deteriorated and ended, the first payment of fees took place after the contract signature for Kazakhstan. Although both cases occurred within a similar setting, namely international private education, striking differences and changes permit a rich within-case and cross-case analysis.

Case Study 1: South Korea

Between 2005-2006, extensive negotiations lead to the signature of a contract for the start-up of an international school in Daegu, South Korea, for around 330 students including 40 boarding spaces to be opened for the academic year 2008. Soon after the official contract signature, planning work began and, as soon as the financing for the project was to be carried out by the Local Partner (LP), the relationship started stalling and eventually was terminated by LP.

The structure of the project in Daegu was a private-public partnership where the local municipal government would build the facility and make it available rent-free to school operators chosen through an international competition. The goal for the government was to create favorable conditions for foreign direct investments and, thus, stimulate the local economy.

The submitted project encompassed two entities, on one hand, the management group (MG) from Switzerland bringing the expertise and skills needed to start-up and plan a school of this nature and, on the other, a Local Partner (LP) bringing the know-how of the local market, the financing and the contacts to the local government. The collaboration between MG and LP originated through the attendance of the LP's children at the school in Switzerland. Furthermore, the business experience of the LP in education was seen as a great asset of the project as the person in question successfully ran several English language schools in Korea. An outline indicating the key events marking the evolution of this project is available upon request.

Based on this initial experience the Swiss-based Management Group drew first lessons prior to the beginning of its action research project. The following section is adapted from an internal MG memorandum about the Daegu project:

“The analysis of the causes of the failure of this project identified one main issue: the lack of funding by the Local Partner for the start-up and equipping of the school. As soon as MG was pressing for a firm financial commitment by LP, problems arose that lead to the disintegration of the relationship and the failure of the project.

Beyond this key issue, several mistakes could have been avoided and lessons learned to improve the chance of success of future projects:

Calendar & Deadlines: clearly defining and communicating deadlines for the negotiation, modification and signing on principles of cooperation builds a firm basis for the relationship prior to advancing further in the process.

The error in the Daegu project was that no explicit date was set after which the agreed and tentatively signed principles could not be modified.

Lex parsimoniae (law of succinctness): the simplicity in the structure and the documentation helps the local partner to understand and agree to the concept.

The documents that were sent to Daegu were too detailed in their scope and may explain why, at first, LP only tentatively initialed and then only signed all the agreements. Furthermore, simple documents permit a more focused negotiation and facilitate the reaching of a mutually acceptable agreement.

Sign less but sign better: in the same vein as the *lex parsimonia* having the local partner sign as few documents as possible such as an MoU and then a contract, gives more importance to each agreement.

The Daegu LP initialed and signed a total of 67 pages distributed into 8 separate documents ranging from a non-disclosure agreement to a board and committee structure agreement. Asking the local partner to sign all the above-mentioned documents dilutes the importance of each signature.

Face Saving Devices: The golden Bridgeⁱⁱ concept by Ury is a key negotiation technique and can be summed as follows: ‘Build your opponent a golden bridge to retreat across’. This technique encourages asking the counterpart for constructive criticism and helps him to save face giving him the feeling of victory. Thus, encouraging the local partner to question the structure and hold discussions early on in the relationship will create an open and trustful connection.

Especially in the Asian culture face-saving is essential. This might explain the questioning of the relationship to hide the lack of investors. Pushing LP to start looking for investors early on and preparing an exit strategy could have preserved a friendly relationship and allowed the search for a new local partner prior to losing the project.”

MG project manager, 2006, Lessons learned from Daegu

Although this internal memo was written prior to the beginning of the action research project, it illustrates the willingness of the Management Group organization to learn and to incorporate these lessons for future use.

Case Study 2: Kazakhstan

The negotiations and signature of the contract for Kazakhstan occurred between 2007-2008. As part of a large real estate project, an international school for 660 students was planned to open summer 2010. The local partner had been actively supporting the planning process and followed the agreed-upon payment schedule for the planning fees until the beginning of the financial crisis that hit Kazakhstan particularly hard. Since 2007, economic growth has strongly slowed down with lower oil prices and the world financial crisis that forced Kazakh banks to seek financial support from the government due to poor asset quality and large foreign loans (adapted from the CIA World Factbook, 2009). At this point this project is on hold until the recovery of the local banking system permits further financing.

The school in Almaty was planned to be part of a high-end real-estate development project. The goal was to build a gated community around a prestigious golf course, five-star resort hotel, 1175 apartment and villa housing units for a total of

around 3'300 inhabitants. For real-estate developments of this magnitude, Kazakh law requires to include a school on its premises. Thus, the LP contacted a local educational consulting agency that then in turn got in touch with MG.

The local partner for the school in Kazakhstan is a very successful entrepreneur with interests in areas as divers as auto import, dairy products or real estate. His general manager in charge of the real estate branch of his holding and the main discussion partner of MG was a remarkable person who was named Kazakh businessperson of the year shortly before starting the school project. An additional key player in this setting was the headmaster of the school in Switzerland whose Slavic origins were of great help in his overt and covert negotiations in this project. An outline indicating the key events marking the evolution of this project is available upon request.

In order to favor cross-case learning within this action research project and to “link scientific understanding with [...] action” (Greenwood & Whyte, 1993, p. 177), a summary memo of the Almaty project was written in the same format as the Daegu memo:

“With the reception of the first payment for its services, MG entered a new phase in the realization of its ambitious plan to establish a network of schools around the globe. The most surprising aspect is the speed at which the project realized itself, namely five months. Many aspects played a role in reaching the current status but the main one seems to be cultural:

Cultural Awareness makes a Difference: understanding the local cultural and way of conducting business can make or break a project. The lack of feedback during the period of time between the email with the MoU and the trip to Kazakhstan can be interpreted in many ways. Having a sense of how people do business allows eliminating unreasonable scenarios and preparing for sensible alternatives. It will also permit to conduct negotiations optimally in view of a favorable outcome.”

MG project manager, 2008, Lessons learned from Almaty

The following table gives an overview of the similarities and differences of both cases:

	Daegu, South Korea	Almaty, Kazakhstan
School Size	330 students incl. 40 boarding spaces	660 students incl. 60 boarding spaces
Enrollment Type	Expatriates and locals that lived abroad	Population of the gated community, local population and expatriates
Partnership Type	Private/Public	Private
Project Rationale	Attracting foreign direct investments	Combination of legal requirement and a value-added to surrounding real-estate
Project Source	Former parent of the Swiss school	Educational consultant
Time-to-contract	9 months	5 months
Outcome	No payments & relationship termination	First payments & project halt due to external factors

Table 2: Comparison of both case studies

Prospecting	01/08/05:	First discussions by LP with MG regarding the plans of the city to attract an international school to Daegu.
	02/12/05:	Visit to Switzerland of two representatives from the economic development office of the city.
	2/12/05 - 13/01/06:	Local costing information request was sent to both LP and to the city officials for completion.
	13/01/06:	A visit to Daegu by MG representatives and meetings with the international school project team in the city's economic development offices.
Principals of Cooperation	27/01/06:	Sending of the initial proposal to LP and the city
	27/01/06 - 08/02/06:	Clarification of the initial proposal in view of the visit by MG representative.
	10/02/2006:	Submission of the candidature for the Daegu international school project and signature of principles of cooperation between MG and LP.
Memorandum of Understanding	16/03/06:	Official presentation of the proposal to the city
	20/03/06:	Announcement of the project being the chosen partner for the Daegu International School
	16/04/06:	Sending of the memorandum of understanding (MuO) to LP with copy to the city
	27/04/06:	Signature of the MuO by LP and initialing of the contract proposal
Contracting	28/04/06:	Official signing ceremony between the facility owners, the city of Daegu, and the school operators, LP and MG.
School Planning Phase	27/05/06:	First questioning of the principles of cooperation by LP and request for additional time
	02/06/06:	Deadline for submission of a contract draft to the city. Sending of a agreement draft by MG to the city of Daegu
	09/06/06:	Request of major changes in the relationship structure and fee structure by the lawyer of LP
	19/06/06:	Request by MG to the city for a new local partner as LP is negating previous agreements
	27/06/06:	After intervention by the Swiss Ambassador, extension by the city of the final contract deadline from 30/06/06 to 27/07/06 in an effort to mediate the differences between MG and LP
	25/07/06:	The city of Daegu excluded the project and started negotiations with the candidate that came second in the competition.
	28/07/06:	Sending of an invoice to LP for partial reimbursement of costs borne by MG with a payment deadline of August 30 2006
	15/08/06:	Accusations by LP of forgery of the signature
	06/12/06:	Letter by MG's Korean lawyer for payment of the invoice with no response by LP to this day

Table 3: Summary of events Daegu case study

Prospecting	24/04/07:	Email by the educational consultant in Kazakhstan informing MG of investors seeking a partnership to open a school in Almaty
	25/04/07:	Sending of MG documentation to the agent to forward to potential investors
	19/05/07:	Student recruitment trip to Almaty by Headmaster and MG representative. The opportunity was used to meet with the potential investors interested in the project.
	31/05/07:	First information by LP about the school structure and request of local costing data by MG.
	07/06/07:	Reception of the local cost structure sheet from LP.
Principals of Cooperation	21/06/07:	Visit by two LP representatives to Switzerland.
	02/07/07:	Principles of Agreement sent by MG.
Memorandum of Understanding	09/07/07:	MoU sent in view of MG visit to Kazakhstan.
	27/07/07:	Contract proposal and updated financial and facilities studies sent.
	02-03/08/07:	MG visit to Kazakhstan to finalize discussions, sign the MoU and discuss contract draft.
Contracting	06/08/07:	Invoice and final version of the contract sent
	22/08/07:	Receipt of the first installment of the start-up fees charged by MG for its planning services marking the beginning of the school planning work.
	29/08/07:	Selection of architect
	03/09/07:	First notification of LP of financial difficulties due to the effects of the subprime mortgage crisis.
	01/10/07:	Almaty headmaster selection process begins
	11-13/10/07:	Meeting in Frankfurt with LP, architect and MG for contract signatures.
School Planning Phase	28/12/07:	Second notification of difficult financial situation in Kazakhstan with bankruptcy of the largest Kazakh commercial bank.
	17/01/08:	Cancellation of trip for the 3 finalists for the Almaty Headmaster position to Switzerland and then to Almaty.
	15/02/08:	Email by LP notifying MG of halting of the Almaty real-estate project due to the world recession and the local financial situation.

Table 4: Summary of events Almaty case study

Interestingly, in view of the different outcomes of both case studies, the lessons learned from both case studies are complementary: whereas Daegu offers an insight into the importance of managing expectations and roles through good communication and clear milestones, Almaty enhances these findings with a cultural awareness dimension that did not seem as a critical point in South Korea. The following section outlines the type of data and analysis method to derive the findings of this paper.

Data Sources & Data Analysis

The key data source is the email correspondence between the MG project members and between MG and LP. This source has played an essential role in the development of the project due to the geographical separation between the partners. Throughout the project advancement emails (241) and email attachments (128) have been collected, offering not only a reliable trace of the evolution of the project, but also a representative data sample for the subsequent analysis. Specifically, email attachments, such as reports, memos, or agreements, sent internally to team members or to the external project members represented a dependable data source. It is estimated that over 95% of exchanges between the project partners are accounted for.

The volume of data represents a total of approximately 430 pages of textⁱⁱⁱ. A clear difference in the data distribution between the two cases has to be noted as the Daegu project represents 74% and the Almaty project 26% of the data. The main reason for this difference in data volume is the speed of progress of the projects until contract signature (Daegu 9 months versus Almaty 5 months)^{iv}. This strong data distribution difference does not hinder the cross-case comparison as, first, both the ‘Lex parsimoniae’ and ‘Sign less but sign better’ lessons learned from Daegu were applied to Almaty and, second, both cases have occurred within the similar setting of international private education.

To facilitate the cross-case analysis and the identification of underlying patterns, all the data of both cases is organized within the same scheme to minimize some of the information-processing biases and enable “select(ing) categories or dimensions, and then to look for within-group similarities coupled with intergroup differences” (Eisenhardt, 1989, p. 540).

The data classification scheme outlined below is a five-step process that emerged from the data during a preliminary review of the data. The various stages are articulated around the documents and agreements culminating with a contract signature then followed by an open-ended ‘school planning phase’:

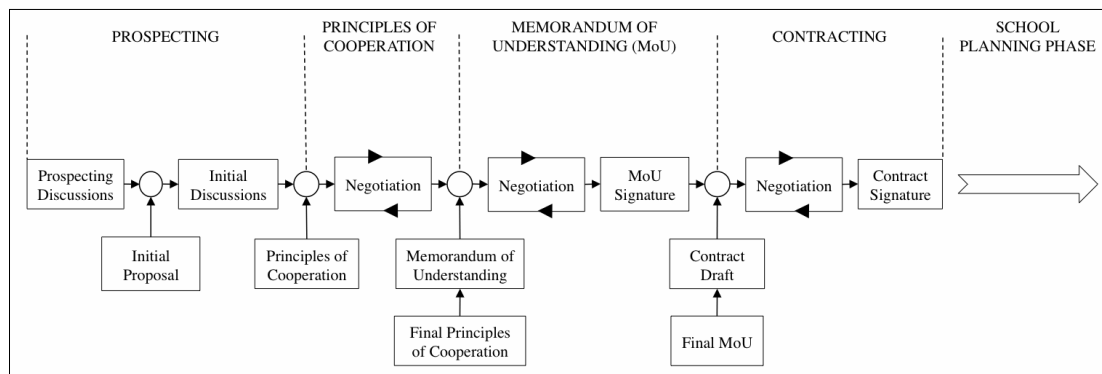


Figure 2: The five stages used to classify the data

All discussions are held between the Management Group (MG) providing the skills and know-how for school management the Local Partner (LP) the local motor, or in other words the partner with the localized know-how and relationship network, for each case study/project.

Stage 1: Prospecting

During these prospecting discussions, the concept is presented to potential local partners using an existing study. The emphasis of these first discussions is on the concept due to the lack of specific structural information. As a next step, LP needs to then convey his vision of the school structure (e.g. school size, grade levels, average class size and tuition levels). The initial proposal is a study adapted and refined to local market conditions to provide a solid discussion basis for further discussions with LP.

Stage 2: Principles of Cooperation

Whereas, the previous stage builds a common understanding of the project, this step defines the framework leading to a Memorandum of Understanding and eventually a contract.

Discussions are preceded by a Principal of Cooperation document outlining the school and relationship structure between LP and MG. The end of this phase is a final version of the Principles of Cooperation that is used as basis for the more extensive Memorandum of Understanding (MoU) document.

Stage 3: Memorandum of Understanding (MoU)

Whereas the Principles of Cooperation is an outline of a possible collaboration, the level of detail of the MoU is sufficient so that it can then be given to a lawyer for rewriting into a contract form without major negotiations.

Stage 4: Contracting

After an agreement on the MoU is reached, final discussions before the signature of the contract can be held if necessary. As the framework of the MoU already covers most aspects of the contract, these discussions should concern only details of the relationship rather than its form.

This is the final step of the process leading to the formalization of the relationship between LP and MG, namely a contract for the establishment of a partner school defining responsibilities, roles and benefits for each party.

Based on the LTBR development stages by Scanzoni (1979), one can note strong similarities between his first three phases of this framework, namely

- Awareness where both parties see each other as a feasible exchange partner
- Exploration as each partner assesses the cost-benefits of such a relationship and tries to maximize their advantages through first negotiations
- Expansion where long-term contracts are negotiated and significant resources get committed

Whereas the 'prospecting' stage described above is identical to Scanzoni's first phase, exploration can be equated with the 'principle of cooperation' and 'memorandum of understanding' stages. A difference between the 'contracting' stage and expansion needs to be noted as this stage ends with the contract signature and thus the commitment of resources is still limited.

Scanzoni (1979) further elaborates his second exploration phase into five sub-processes: (1) attraction, (2) communication and bargaining, (3) development and exercise of power, (4) norm development and (5) expectation development. Two aspects need to be noted regarding these five sub-processes: first, as Dwyer put it "though convenient for discussion, separating the adjoining processes of bargaining and power is impossible in reality" (1987, p. 17) and second, based on the norm definition by Opp (2001) the norm and the behavioral expectation cannot be separated either. Thus, it is proposed to consider Scanzoni's (1979) sub-processes from a more practical perspective and summarize it into three sub-processes of (1) attraction, (2) bargaining and power and (3) norms and expectations. Based on this premise, both the principle of agreement and memorandum of understanding stages represent two iterations of these sub-processes where both parties initiate discussions, negotiate and upon completion have a clearer understanding of each other's role.

Content analysis is used to analyze the data of both cases and to determine the presence of the different norms or norm dimensions within the data (Krippendorff, 1980; Weber, 1990). The following diagram illustrates the strategy of analysis and the themes that were chosen:

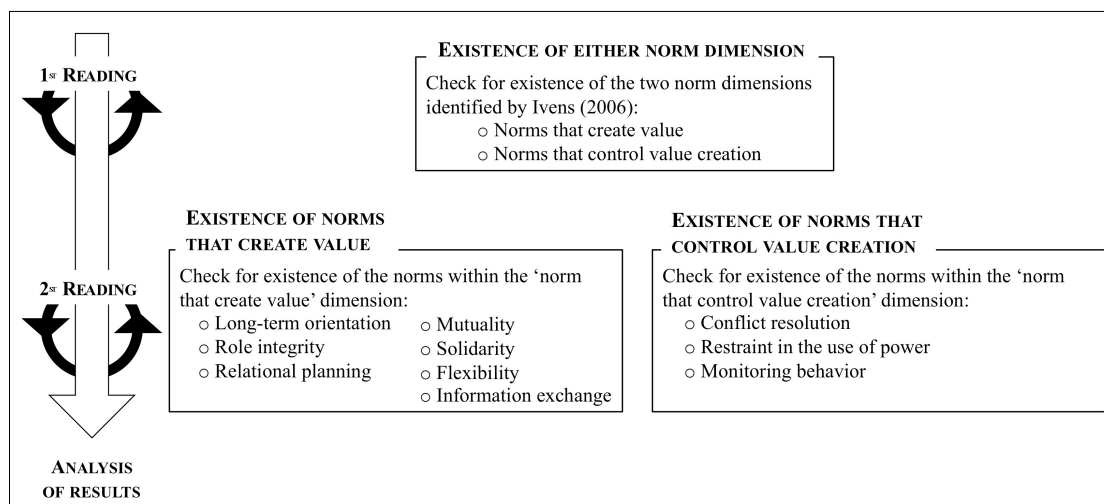


Figure 3: Overview of the within case data analysis strategy

The preparation for the coding process for each case study is as follows: (1) identification of a clear definition based on the literature about norms and specifically the work of Macneil (1980b) and Relational Exchange Theory, (2) classification of the key words of these definitions into separate categories and (3) definition of related concept for each category based on the Wordnet lexical database (Fellbaum, 1998). As illustrated below for the 'monitoring behavior' norm, a summary document was then prepared to support the analysis process and comments were added during the advancement of the coding. A copy of all coding support sheets is available upon request.

In order to assess the validity of the coding results, a second coder received a random sample equivalent to about 10% of the data and was provided with the coding support sheets. A strong correlation between both coding results was observed with the main differences lying in the coding of the role integrity (ROLE) and the relational planning (REL) norms. The difficulty resides in clearly differentiating between references to *role definitions* (ROLE) and (a measurable) *relational goal definition* (REL) as in the following situation where the application of relational planning norm is debatable:

"LP will be responsible for all marketing and the generation of student applications with student profiles and formal admissions by [...] MG. (Both partners will agree to the) market segmentation and the proposing of enrollment targets in each category to meet overall school enrollment goals." – *MG Project Manager, Joint Declaration of Cooperation for Marketing and Student Recruitment, Daegu Email Attachments Stage 1.*

Both coders jointly decided to follow a conservative approach by only including REL if there was an explicit mention of a measurable relational goal.

The primary outcome of this data analysis method identifies the presence of either norm dimensions or of individual norms at this stage of a LTBR. Nevertheless, for the researcher but especially for the manager, gaining insight into how norms have been used along the way to a contract signature is relevant insight for real-world situations.

Findings

The following section presents the results of the analysis in two parts: (1) the occurrence or presence of the norm dimensions and the various norms in the data and (2) how these occurrences or presence are distributed along the four pre-contractual phases. The percentage indicated in the subsequent section corresponds to the distribution of both cases between the occurrences within each norm dimension or norm grouping.

Occurrences^v

Norm Dimensions:

Norm that control value creation (NCVC), Norms that create value (NCV)

Results show that there is a strong predominance of the NCVC dimension with over 60% of the occurrences for both cases (Daegu 70% and Almaty 61%).

These results could be interpreted as the need for each party to define the necessary relational framework to build a trusting relationship at the early stages of a LTBR. The role of NCVC dimension, where power and transparency play a key role, is to ensure a smooth value creation process and to foster a common expectation of each other's contribution to the relationship. On the other hand, the NCV norm dimension is a non-competitive process where common problem solving is the essential ingredient. Thus, based on these results one could conclude that only once a common *modus vivendi* through norms that control value creation has been established, can the norms that create value or 'pie sharing' (Jap, 2001a) allow the collaboration to flourish.

Norms that control value creation:

Conflict resolution (CONF), Restraint in the use of power (POW), Monitoring behavior (MONI)

Within the norms that control value creation, the frequency of occurrence of both the conflict resolution (CONF) and the monitoring behavior (MONI) norms are over 60% for both cases. On the contrary restraint in the use of power (POW) not present at all in the data.

Based on the observations regarding the presence of either norm dimension, it is not unexpected to see that at the early stages of a relationship both partners seek to define a joint framework of action and thus make strong use of CONF and MONI norms. Furthermore, as the collaboration is still in its infancy and limited resources have been invested in the relationship, the absence of the POW is also not surprising.

The divergence between the occurrences of CONF, MONI in relationship to POW can be attributed to two reasons: (1) an elaborate committee structure is planned to prevent and diffuse critical situations between both partners and (2) the specific characteristic of a long-term business relationship, where both parties value more jointly solving problems together than to monitor each other's actions.

Norms that create value:

Long-term orientation (LONG), Role integrity (ROL), Relational planning (REL), Mutuality (MUT), Solidarity (SOL), Flexibility (FLEX), Information exchange (INFO)

The results indicate that three norms play a negligible role in the early stages of a LTBR as all these norms present for both cases an occurrence equal or less than 5%: flexibility, mutuality and solidarity. There are two possible explanations for this phenomenon: (1) these norms play a role in already existing relationships and/or (2) the difficulty in coding a vague concept as the MUT norm. The low occurrence of these norms seems more imputable to (1) as the common denominator for all these norms is the necessary presence of invested resources and time in building a relationship. Literature on the effectiveness of norms in existing LTBR have shown the value of this

governance mechanism (Heide & John, 1992) nevertheless, as this is only possible as the relationship matures and strengthens and both partners move from a discrete exchange framework to a relational one.

The two norms that play a critical role at this stage of a relationship are the ones that permit to define each partner's role and establish common expectations: relational planning (36%) and role integrity (37%). Both of these norms are the basic ingredients establishing a strong foundation for a flourishing relationship. As mentioned previously, the second coder expressed difficulties in always clearly separating both norms within the data. This issue, although it may not be disregarded, does not majorly affect the results of this study as both norms clearly play a key role in the early stages of an LTBR and that in case of doubt a more conservative approach was taken.

There are two norms that do not offer such a clear picture as the one discussed above. Information sharing (INF) and Long-term orientation (LONG) both present for one of the cases an occurrence above 10%. This peculiar result can mainly be explained by the applications of the lessons learned from Daegu to Almaty.

The occurrence of LONG is 10% for Daegu while its presence is very limited for the Almaty case. This can in part be explained by the application of the 'calendar and deadline' lesson learned from Daegu, where efforts were focused on clearly communicating the milestones and calendar of planned events to the Local Partner. This was one of the main lessons learned from Daegu and was immediately documented by the members of the Management Group team as (1) *Lex parsimoniae* and (2) *Sign Less but Sign Better*. It was thus not necessary to specifically communicate the long-term nature of this project as it was embedded in the relational planning norm.

INFO plays a strong role for the Almaty case (22%) and is negligible for Daegu (6%) and this difference can be explained by two factors: (1) systematically sharing concise studies, reports and agreements and (2) proactively including and mentioning information sharing mechanisms in all agreements between the partners (e.g. periodical reports).

In summary, the two key data analysis cycles concur that both partners need to establish behavioral rules and build a trustful relationship before beginning the value creation process. The last analysis cycle will look at what happens inside the black box of the pre-contractual phases and offer insights as how one can use norm-oriented behavior.

Distribution

After considering the occurrence within and across both cases, the following section will present the results based on the frequency within the data classification scheme presented previously. This section will permit to further highlight the differences between both cases and lessons learned from one project to another. The diagram below illustrates the occurrences of either norm dimension along the four stages used to classify the data. The y-axis refers to the percentages of occurrences of a norm or norm dimension per case and its spread across the different stage. So the sum of percentages across the four stages (the x-axis) for each norm dimension amounts to 100%.

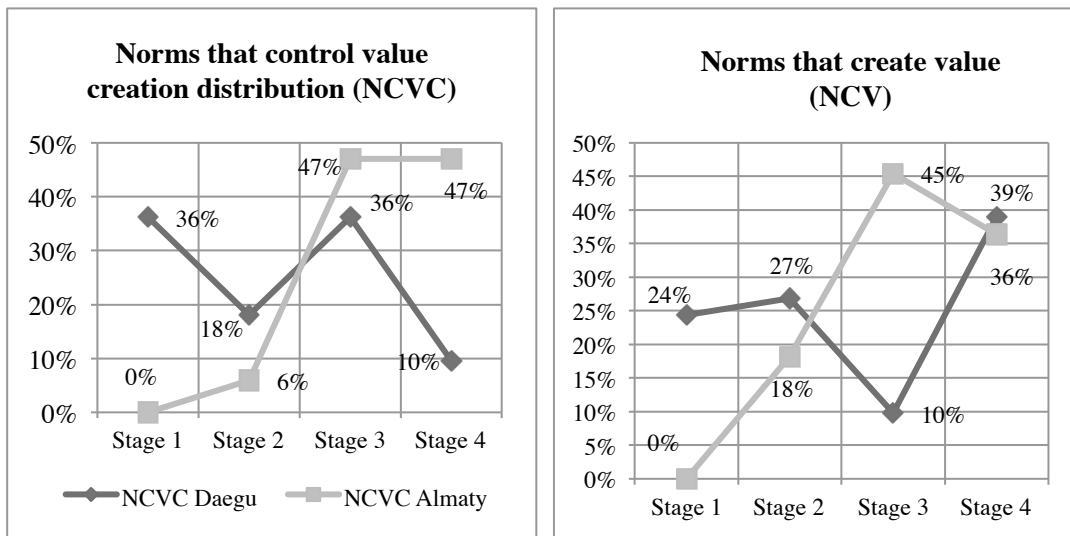


Figure 4: Summary of results for the distribution of each norm dimension

The most striking difference between Daegu and Almaty is two-fold: (1) there are clear stages of focus for each norm dimension and (2) these focus areas differ from one case to another. Most references for Daegu appear at stage 1 and 3 for NCVC and stage 2 and 4 for NCV whereas for Almaty the highest frequency for both dimensions is at stage 3 and 4.

This difference denotes the change in approach from Daegu to Almaty. Whereas the analysis of the data for Daegu brings forth a more scattered approach to communication, the results for Almaty clearly show an increase of references to either norm dimension as the project progresses.

As the outcome of either case shows, the Almaty approach seems more suitable in building a solid foundation for an LTBR as the more serious the relationship becomes the clearer one has to communicate the expectations and define the joint framework of action.

Similarly to the conclusions drawn for the norm dimensions, one can notice a comparable trend for the NCVC norms. There is a clear increase of concentration of relevant norms (i.e. excluding POW with no occurrence in the data) with the formalization of the relationship through first a MoU and then a contract.

Specifically, the absence of CONF for either case prior to the stage 3 has to be noted. This phenomenon can be explained by the fact that prior to a MoU, the strength of the relationship and the depth of the agreements do not call for conflict solving mechanisms.

The significant presence of MONI in the first stage of the Daegu case, again illustrates one of the factors that might have contributed to the unsuccessful outcome of the project: namely starting the relationship off on the ‘wrong foot’ by including references to the value creation process too early.

The NCV norms again highlight the difference in both communication strategies with not a single occurrence above 25% in stage 4 for Daegu (compared to 4 for Almaty) and in stage 1 for Almaty (compared to 5 for Daegu).

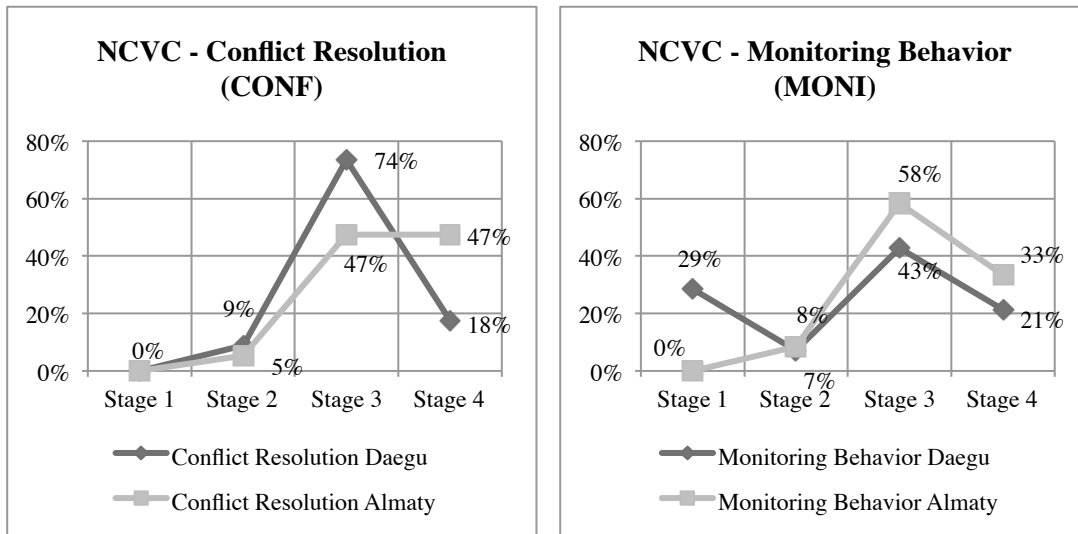


Figure 5: Summary of results for the distribution of key norms that control value creation

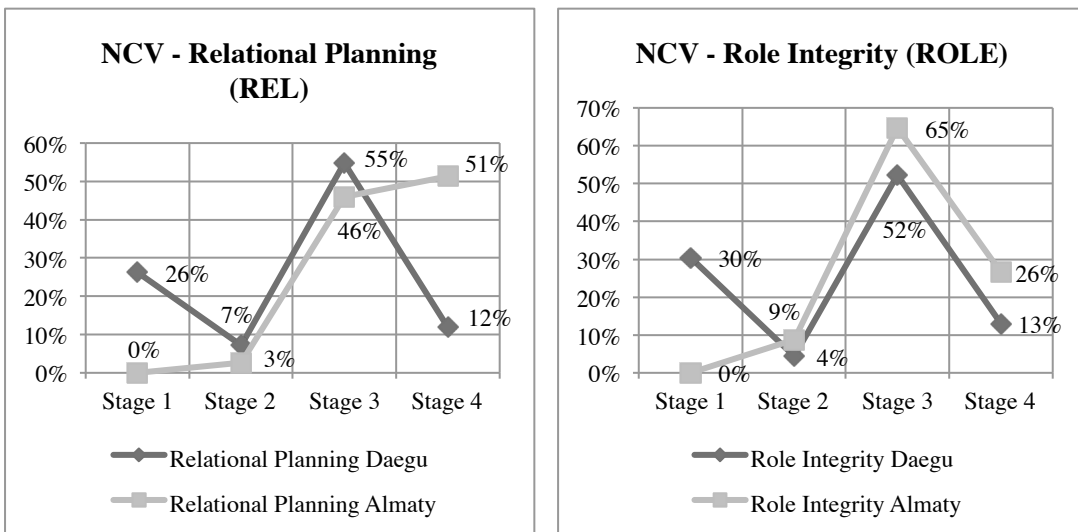


Figure 6: Summary of results for the distribution of the two key norms that create value

As shown in the section about occurrences, two norms play a critical role at this stage of the business life cycle: relational planning and role integrity. Both of these norms are ideal illustrations for the lessons learned from the Daegu case applied to Almaty. The highest frequency of references is for both norms at stage 1 and 3 for Daegu, they are at stage 3 and 4 for Almaty. This once again hints at a possible reason to explain the different outcomes of the projects. Limited references to norms in general and to NCV norms in particular at the beginning of a relationship permits both parties to start building up a rapport prior to starting to investing resources and jointly

creating value together. Overwhelming the other party with information and expectations at the beginning of the relationship seems to have a detrimental effect on future outcomes as the partner might feel coerced into a business venture.

The other two norms that play a non-negligible role at this stage of an LTBR again illustrate the more focused communication strategy applied in the second case as shown in the diagrams below:

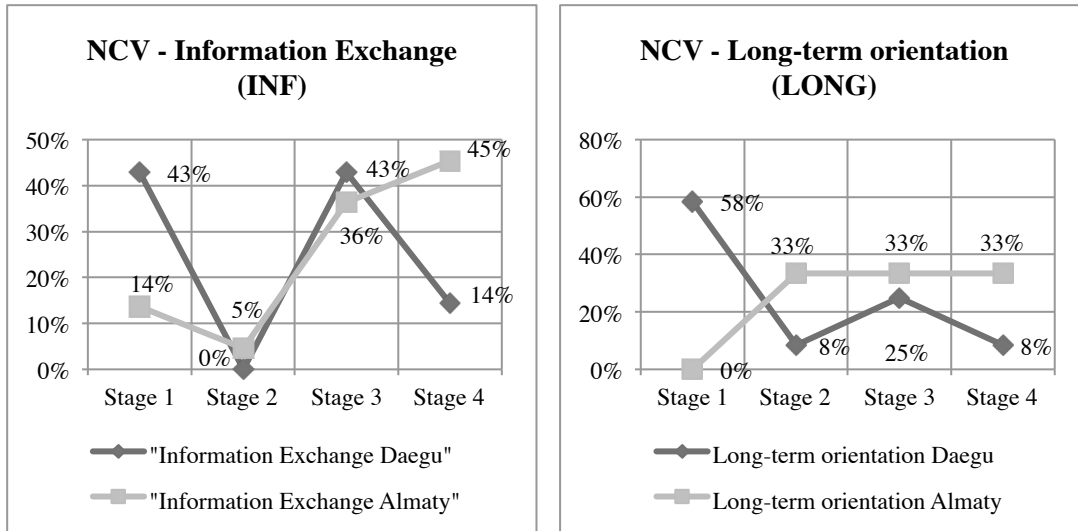


Figure 7: Summary of results for the distribution of two important norms that create value

Whereas the previous section about the occurrence of norms and norm dimensions is the heart of the academic findings presented in the paper, this section illustrates the lessons learned from these cases studies and offers possible recommendation for the manager. Within the action research cycle^{vi}, these results and the sub-sequent discussion represent the reflection aspect of action research.

Discussion

The data analysis results provide insight useful for both the researcher, for the manager and especially the members of the Management Group team members. The reflection and learning that took place within the MG team are on one hand documented in the memos for each case cited above and on the other embedded in the findings of this study. The findings about the occurrences of norm dimensions and individual norms are surprisingly similar for both cases and they build the basis for future research about this governance mechanism. Although the picture of the

distribution along the process is less telling, it offers the manager guidance on what behaviors are detrimental to a long-term business relationship.

The results of the data analysis discussions above can be summarized in the following four points:

1. There is a strong predominance of the 'norms that control value creation' dimension in the pre-contractual phase of a long-term business relationship.
2. There are three norms that play a critical role in the early stages of such a business relationship: (1) Conflict Resolution, (2) Relational Planning and (3) Role Integrity.
3. There are three norms that play a limited role: (1) Monitoring behavior, (2) Information sharing and (3) Long-term orientation.
4. There are four norms that play a negligible role: (1) Restraint in the use of power, (2) Flexibility, (3) Mutuality and (4) Solidarity.

The findings of point 1 could seem somewhat surprising considering Macneil's view of relational exchange where both parties commit to a relationship. However, in order to establish a contact where trust and relational elements play a key role, both parties have to establish a *modus vivendi* explaining the predominance of norms that control value creation. The norm dimension that controls value creation enable both partners to outline shared expectations, values and a common language of communication and to move from a discrete transaction setting to a relational one. In other words, as the relationship evolves and matures, both parties begin using 'pie sharing' governance mechanism to enable joint value creation. The relationship strength offers both parties additional leverage through repeated interaction and the forming of expectations from one another.

Based on the premise that at the early stages of a potential long-term business relationship norms structuring the relationship are critical, one can explain the essential role that relational planning and role integrity norms play. These norms are instrumental in defining a common vision and expectations in view of joint value creation. The presence of conflict resolution at this early stage of the relationship can be justified by the specific configuration of the relationship in these case studies where a committee structure defines the interface between both parties. These committees are designed to prevent and solve possible problems before they impact on the relationship.

The norms of the third point are the ingredients of a relationship that need to be considered, but that do form the foundation of the framework structuring two parties in the process of building a long-term business relationship. Specifically, the norms that create value, information sharing and long-term orientation, can be compared to spices necessary for a good meal, but not as one of its basic ingredients. The monitoring behavior norm is a critical part of a strong long-term business relationship as it gives the necessary reassurance of the other partner's efforts, but emphasizing it too early in a relationship can set the wrong tone.

The four norms that play a negligible role in the early stages of a long-term business relationship are norms that require an existing relationship to be an effective governance mechanism (restraint in the use of power and solidarity) or a difficult situation where relational aspects can contribute to preserving the partnership (flexibility and mutuality).

These results form the basis of understanding the origin of norms. The hypothesis that norms that control value creation predominate the initial stage of a long-term business relationship is especially valuable for the researcher as the manager has a natural tendency to resort to this form of governance mechanism. The challenge for the manager lies in identifying the point after the contract signature when norms that create value can be applied with limited risk.

In view of the cross-case elements of the discussion above, a gradual use of norms and norm dimension needs to be followed. Stressing references to norms too early in the relationship seem to have a detrimental effect, whereas a progressive increase in the use of these elements allows both partners to get to know each other before structuring their business partnership. The norm governance mechanism is more effective through repeated interaction as it allows making use of all available facets of exchange, not only the relationship structuring norms. In this vein, using norms too strongly too early in the relationship will not foster a shared vision and mutual trust necessary for the foundations of a long-term business relationship.

An analogy summarizing the discussion above is that of the onion: each relationship needs a strong core, prior to adding a first layer structuring the interactions and defining the expectations, then followed by a layer of transparency through information sharing and monitoring mechanisms. Only then can the joint value creation process begin.

With data from only two case studies, findings about the occurrence and distribution of norm dimensions and norms have a limited normative value. Nevertheless, this study offers to the author's knowledge, an infrequent methodological approach to generate first findings for an unexplored area of the knowledge base. This exploratory study has therefore a descriptive value for both academia and management.

In view of the discussion above, one needs to consider the 'action' aspect of action research, or, in other words, what use is being made with these findings in view of current and future prospects. Three areas have strongly been impacted from one project to another and on subsequent ones:

- Documentation: first through a simplification of all project information sent to local partners and by gradually adding three levels of details of documentation to be sent out as the relationship progresses.
- Communication: by a strong emphasis on the planning calendar deadlines and a clear definition verbally and orally of the respective roles in the project.
- Prospecting: with time invested in establishing cultural understanding at early stages of projects and building and maintaining face saving devices for both parties in view of future conflict resolution.

Conclusions

The goal of this study was three-fold: (1) bring a seldom-used methodological approach to the field of marketing, (2) show to what extent and at what point norms

play a role during the pre-contractual phase of a long-term business-to-business relationship and, (3) illustrate the changes and lessons learned from one case-study to the other. The results of the data analysis shows that, although norms that create value play a critical role in existing long-term business relationship (e.g. Pilling et al., 1994), during the pre-contractual phase norms that control value creation are the key component. These norms enable both parties to build trust and set up a working relationship. Furthermore, a gradual usage of this governance mechanism to regulate behaviors between both parties seems to have a positive impact of the outcome of a long-term business relationship. One cannot stress enough how much reflective nature, the managerial findings and the lessons learned from this study very strongly benefitted the Management Group team members.

In short, contributions of this study to the marketing body of research can be summarized as follows: (1) using an exploratory methodological approach to the field of marketing, (2) offer first insights for the researcher of this overlooked topic of relational norms in a nascent long-term business relationship and (3) offer to the manager useful insights on how to use norms to orient behaviors in comparable situations.

The main limitation of this approach lies in its validity, as the data for both case studies originates to a great extent from the Management Group project members. The data of the counter part (Local Partner) was unavailable for business confidentiality reasons. A possible way to mitigate this issue would be to discuss, analyze and critically review the results with experts in the field of franchising and management contracts. Due to difficulty to access experts in this field and time constraints, this option has not been pursued. In the same vein as the comments above, the 'reflection' step - triangulation of data and methods - of the research design of this project needs to be strengthened for further research in this setting.

The possible issue of recoverability of process (Checkland & Holwell, 1998) and reliability have been addressed through (1) a transparent and replicable data analysis process and (2) a second coder examining and confirming the results.

The challenge of tackling the cultural differences underlying both cases can be viewed as much as a limitation as a strength. The weakness naturally pertains to the difficulty in comparing of both cases, but this issue is secondary due to the action research nature of this project where lessons learned are an integral part of the research process. The strength of cultural differences lies in the fact that it was the catalysis for enhancing the understanding of possible success factors for this project.

Future research in this setting should include additional projects/prospects that did not necessarily result in a contract signature. This would permit to explore the following aspects:

- Review the pre-contractual phases and compare it to other frameworks (e.g. Ford, 1980)
- Further understand the distribution of norms along the different stages of a nascent LTBR
- Investigate the shift from behavioral expectation to sanction at the early stages of an LTBR

- Analyze the contextual/cultural factors impacting on norms and the relationship development as well as consider the importance of norms in different cultural settings
- Introduce quantitative research methods (e.g. Chi Square) to triangulate research methods
- Consider the data from a different research perspective such as entrepreneurship

With additional case studies available in the same setting, the various areas listed above can be explored; nevertheless the understanding of this overlooked aspect of relational exchange theory and behavioral norms needs to be confronted to different research settings and research methods and it is the hope of the author that this article will trigger the interest of other researchers for this topic.

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Endnotes

- i As opposed to the 'replicability' (of results) criterion promoted by the positivists view.
- ii Ury, W. (1993) *Getting past No: Negotiating for Confrontation to Cooperation*, New York: Bantam Books
- iii This calculation is based on an average of 300 words per page.
- iv There is less than 15% difference between both cases based on an average number of words per month.
- v Detailed tables of results are available upon request for all the results discussed
- vi Defined as plan, act, observe and reflect by Kemmis and McTaggart (1988)