

Governance, Negotiations, and Alliance Dynamics: Explaining the Evolution of Relational Practice

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ABSTRACT This paper explores relational practice in strategic alliances. Focusing on how governance mechanisms and negotiation strategies evolve and form patterns of interaction that are under influence of both recursive and adaptive forces, four modes of relational practice are discussed: recursively integrative, recursively distributive, adaptive toward integrative, and adaptive toward distributive. Three longitudinal cases are examined. I find that different contractual conditions enable (or restrain) interaction patterns. Negotiation behaviour, in turn, affects future contractual conditions and their combination and recombination form the evolution of relational practice. As relationships progress, initial governance mechanisms are complemented and negotiation behaviours change. I explain how perceptions of both process and relational outcomes influence relational practice. In addition, I explicate why relational practices have both recursive and adaptive characteristics, and identify conditions that cause relational practices to move towards more integrative or distributive modes.

INTRODUCTION

Alliance dynamics is not very well understood. In 1994, Ring and Van de Ven (p. 113) called for further exploration of 'how equity, trust, conflict-resolution procedures, and internal governance structures emerge, evolve, and dissolve'. Zaheer and Venkatraman (1995, p. 388) found that 'governance structure explained only a small amount of variance in governance process', and Blois (2002, p. 523) observed that 'the behaviour that occurs within exchanges is not determined by the forms of governance used'. What seems to be seriously left out in empirical research on alliance dynamics is an account of what managers actually *do* to govern alliances over time (Spekman et al., 1998; Wright and Lockett, 2003), and how governance mechanisms enable and restrain action, yet at the same time are being formed by these actions (Boddy et al., 2000; Sydow and Windeler, 1998).

This paper aims to alleviate this shortcoming, and integrates governance with action to understand management practice in alliances. In particular, I argue for including a

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negotiation perspective to understand alliance dynamics and management, as negotiations are at the core of decision making in alliances (Ring and Van de Ven, 1994). It is important to include this perspective because alliances are typically founded on incomplete contracts with a substantial planning gap where renegotiation of initial terms and ongoing negotiation takes place to settle issues and guide further progress (Ariño and de la Torre, 1998). Moreover, alliances involve both joint value creation and value appropriation, and thus represent mixed motive settings involving a tension between shared and private goals (Madhok, 1995). Although research on negotiations in alliances, and in particular the link between governance and negotiations, has been called for (Ariño and de la Torre, 1998; Kumar and Nti, 1998), this area has remained largely unexplored empirically.

In the endeavour to bridge governance processes and ongoing negotiations in alliances, I argue that the concept of *relational practice*, defined as the interaction pattern 'agents typically use for coordinating activities and relations' (Windeler and Sydow, 2001, p. 1041), is particularly suitable.

First, the chosen governance structure an alliance builds on represents a strong context for interaction, as it gives direction and both enables and constrains developmental paths. Second, due to the planning gap and the mixed motives of the two partners, these interaction patterns are in fact negotiation processes. Hence, this paper explores how governance mechanisms and negotiation strategies evolve, how they form the evolution of relational practice, and explains why relational practice changes. The literature distinguishes between equity and non-equity alliances (Wright and Lockett, 2003). Equity forms (e.g. joint ventures) involve common ownership, and non-equity alliances include a wide range of contract-based forms. This paper focuses on vertical non-equity alliances, defined as 'purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence' (Mohr and Spekman, 1994, p. 135).

Alliances evolve through different phases. Some argue that different phases involve different challenges (Larson, 1992; Spekman et al., 1998), while others maintain that although relationships evolve from initiation towards dissolution or reconfiguration, the management of alliances involves cycles of managerial actions (Das and Teng, 2002; Heide, 1994; Ring and Van de Ven, 1994). Either way, of particular interest have been: (1) the importance of contracts (in the broad sense) and governance mechanisms, and the adjustment of these as relationships evolve (Mayer and Argyres, 2004; Ness and Haugland, 2005); (2) the ongoing negotiation that is necessary to deal with the planning gap that characterizes alliances (Ness and Haugland, 2005; Ring and Van de Ven, 1994); and (3) learning efforts that enhance coordination and interaction as relationships evolve (Ariño and de la Torre, 1998; Holmqvist, 2004). In order to understand alliance management by focusing on the emergence and evolution of relational practice, these aspects seem to be of crucial importance. Bell et al. (2006) argued that the practical relevance of much alliance process research is limited, and that little cross-fertilization between perspectives has occurred. Hennart (2006) even argued that structural, as opposed to processual, explanations contribute to both stronger theory and better managerial advice. This paper attempts to meet these challenges by focusing on relational practice. This approach adds value to the current research as relational practice takes centre stage

and evolution is explained by combining perspectives that are core to alliance management.

RELATIONAL PRACTICE: THE DYNAMICS OF ACTING OUT AGREEMENTS

Characteristics of Relational Practice

As alliance partners share a common governance structure and sense of direction, it is reasonable to assume that they will establish a form of collaborative practice which to some extent persists temporally. Such a *recursive* practice often exists as managerial habits or routines (Jarzabkowski, 2004). Initial relational practice is likely to have recursive characteristics because short-term planning is more specific than long-term planning and the initial governance mechanisms (or contract in a broad sense) the relationship builds on represents a strong context for interaction that both enables and constrains developmental paths. Recursive relational practice might also be desirable as it enhances predictability of partner behaviour. However, over time recursiveness might lead to a relational practice that is ‘prone to inertia’ (Jarzabkowski, 2004, p. 531; Walter et al., 2008).

Although alliances can benefit from a stable and predictable managerial practice, they often seek (strategic) change that requires *adaptation* (Boddy et al., 2000), where ‘interaction between agent and structure does not sustain sedimented behaviours – it is “becoming”, not became’ (Jarzabkowski, 2004, p. 535). Longitudinal studies of alliances show that agreements and governance mechanisms are dynamic (Ariño and de la Torre, 1998; Mayer and Argyres, 2004; Ness and Haugland, 2005). Thus, the ongoing structuring (Ring and Van de Ven, 1992) of relationships is important for exploring adaptive characteristics of relational practice.

While alliances are typically based on common goals, it is recognized that partners also have private goals. As a result, partners often face a series of joint decision situations over the course of the relationship in which the private goals of each partner are at odds with the shared goals of the alliance. Hence, to understand relational practice, it is useful to explore interaction as sequences of negotiation incidents where the partners may choose to deal with each decision in either an *integrative* (cooperative) or *distributive* (non-cooperative) manner. Furthermore, as alliance processes involve both joint value creation and appropriation (Ness and Haugland, 2005; Zajac and Olsen, 1993), and both stable and contested states (Kumar and Nti, 1998), relational practice is likely to *move between* recursiveness and adaptation, as well as between integrative and distributive interactions.

Governance Mechanisms as Structuring Means

Governance is ‘the means by which *order* is accomplished in a relation in which potential *conflict* threatens to undo or upset opportunities to realize *mutual* gains’ (Williamson, 1996, p. 12). Such order is normally attained through the implementation of various mechanisms often referred to as formal and social controls (Fryxell et al., 2002; Gulati and

Singh, 1998; Inkpen and Currall, 2004). Research has in particular identified three different kinds of mechanisms that 'operate in conjunction' (McEvily et al., 2003, p. 92): price, authority, and trust (Adler and Kwon, 2002; Bradach and Eccles, 1989).

A basic form of governance is accomplished through use of incentives, and *price* (a shorthand expression) refers to the economic structure of relationships (Bradach and Eccles, 1989; Ghosh and John, 1999; Ring and Van de Ven, 1992). Under market governance, incentives 'are inherently short term in nature', while in a relational context 'incentive systems become inherently long term in nature, and parties could forego present rewards on the basis of expectations of long-run equity' (Heide, 1994, p. 77). The incentive structure might also include relation-specific investments (Dyer and Singh, 1998), bonus structures, sharing of costs, and principles for future compensation (Ness and Haugland, 2005).

Hierarchical features, often referred to as *authority*, are 'written into contracts and also exist implicitly by virtue of industry practice' (Bradach and Eccles, 1989, p. 103). Stinchcombe (1985, p. 126) observed that a 'structure with legitimate authority, with a manipulable incentive system, with a method of adjusting costs, quantities, and prices, with a structure for dispute resolution, and with a set of standard operating procedures, looks very much like a hierarchy, very little like a competitive market. Yet all these features of hierarchy are routinely obtained by contracts between firms'. Elements of authority include oversight committees and joint teams (Reuer et al., 2002), joint administrative rules and procedures, and assignment of decision rights (Heide, 1994; Larson, 1992).

Trust and norms are important to understand governance in alliances (Blois, 2002; Hagedoorn and Heslen, 2007), and trust has in particular been defined as goodwill trust, i.e. 'one party's confidence that the other party in the exchange relationship will not exploit its vulnerabilities' (Dyer and Chu, 2003, p. 58). In addition, alliances involve competence trust, which is a belief that the partner is technically competent to perform their role in the relationship (Das and Teng, 2001). Furthermore, norms, defined as 'a principle of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behaviour' (Macneil, 1980, p. 38) has been considered a related mechanism (Cannon et al., 2000; Ring and Van de Ven, 1992).

Although cross-sectional research has shown that ex-post governance changes are common (Reuer and Ariño, 2002; Reuer et al., 2002), contractual dynamics and their implications for relational practice remain unexplored. Two dynamic aspects are important: (1) governance mechanisms may change *per se* (e.g. trust may emerge or erode); and/or (2) their *relative importance* may change. The long-term nature of alliances makes both kinds of dynamics likely, and both are important in order to explain the evolution of relational practice.

Negotiations: Joint Decision Making to Close the Planning Gap

Negotiation is defined as 'a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise' (Lax and Sebenius, 1986, p. 11). Research on strategic alliances has differentiated between integrative and distributive negotiation strategies

(Kumar and Nti, 1998; Larsson et al., 1998). Integrative strategies contribute to value creation and goal realization in alliances, while distributive strategies are linked to realization of private goals and value claiming. In negotiation research (see, e.g. Pruitt and Carnevale, 1993), two different strategies are considered integrative: problem solving and inaction. Problem solving tactics (trading on issues by identifying different priorities, contributing resources, offering (future) compensation, solving underlying concerns, and extensive information sharing) aim at securing both parties' primary interests in the decision that is made. Inaction (avoidance, withdrawal) is a passive strategy, which is often used to deal with unimportant issues or when concern for immediate outcomes of the incident is low. While both problem solving and inaction reflect an integrative dimension, they have different implications. Problem solving implies active value creation. In contrast, inaction implies a passive response, which creates little value.

Distributive negotiations also involve two primary strategies: contending and concession making. Contending is aimed at securing one's own interests without concern for the other party. Key tactics include threats, positional commitments, and persuasive argumentation. Concession making reduces demands and goals. Consequently, these strategies represent actions of claiming and abstaining from value, respectively. What basically sets integrative negotiations apart from distributive is the value creating potential that follows from addressing several issues simultaneously; integrative negotiations are variable-sum situations, while distributive are fixed-sum situations that deal with one issue at a time. However, as integrative negotiations deal with several issues simultaneously, value sharing aspects might be one of the issues. Thus, integrative negotiations might also involve a distributive aspect if they also assign sharing solutions. Cross-sectional research on alliances suggests that both integrative and distributive orientations are commonly used (Ganesan, 1993; Lui and Ngo, 2005; Mohr and Spekman, 1994). Furthermore, Madhok (1995), exploring the relation between contracts and conflict resolution in alliances, argued that when trust is present more information is shared and enhance integrative decisions. Thus, governance structures matter, and alliance processes are likely to include a range of integrative and distributive behaviours when viewed over time.

The Evolution of Relational Practice

The conceptual idea that is explored in this paper is summarized in Figure 1. The process of reaching an initial agreement is considered important because early events foreshadow how subsequent interaction will be conducted (Doz, 1996; Inkpen and Currall, 2004). Studies have emphasized the importance of identifying mutual economic advantages (Larson, 1992), including the distribution of costs and revenues (Ariño and de la Torre, 1998). This reflects a focus on economic incentives ('price') as a governance mechanism, and the distribution of money tends to be a contentious issue involving opposing interests. However, if aspects of value claiming are left for future settlement, it may be easier to adopt a more integrative interaction mode that focuses on joint value creation (Ness and Haugland, 2005). Furthermore, if several economic issues are addressed simultaneously, different priorities between the partners enable trading on

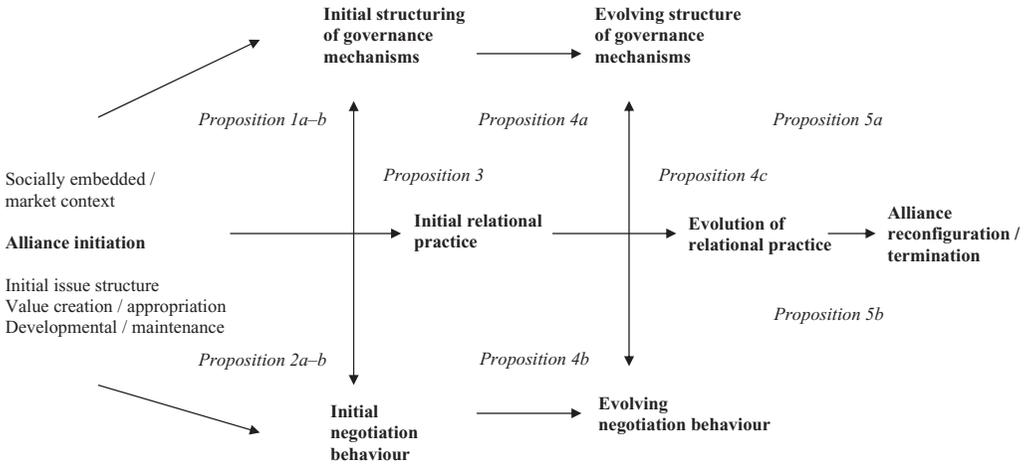


Figure 1. The evolution of relational practice

issues and increase the value of the agreement. Hence, depending on the issue structure and expectations for future interaction, initial interactions can initiate either an integrative or distributive relational practice. This suggests that the establishment of an initial governance structure is strongly linked to negotiation behaviour.

Although alliances can be initiated from a predominantly market context, which emphasizes transaction value in the narrow sense, alliances may also be initiated to gain access to knowledge, combine capabilities, and stimulate learning. As closer integration and coordination is required, some hierarchical features (‘authority’) such as joint work groups and routines for information sharing may be perceived as useful (Vlaar et al., 2007). Assuming that neither party can unilaterally force such arrangements into the relationship, the introduction of authority elements is likely to reflect problem solving (an integrative practice). Furthermore, this can enable further integrative interaction or, given that shared decision rules often restrain contentious behaviours and secure procedural justice, move a predominantly distributive practice towards a more integrative mode.

While alliances may initially involve competence trust, goodwill trust and norms often emerge from problem solving interaction. If early interaction patterns focus on economic structures and involve a ‘substantial’ use of contentious tactics, suspicions and perceived risk of opportunism may arise, which can constrain the development of goodwill trust. In such a situation, relational practice may become recursively distributive and constrain joint value creation if successful implementation of authority mechanisms does not foreclose such behaviours. On the contrary, if relational practice emerges as predominantly problem solving, formation of goodwill trust is enabled, and can in turn serve as a basis for further integrative relational practice.

As alliances evolve, they are frequently evaluated with regard to efficiency and equity (Ring and Van de Ven, 1994). A key challenge is to balance value creation and appropriation concerns in order to sustain relational rents. Hence, the partners need to keep the alliance in a state of relative equilibrium, and avoid negative outcomes and process

discrepancies (Kumar and Nti, 1998). Research suggests that partners learn and improve their contracting practice over time (Mayer and Argyres, 2004; Vlaar et al., 2007), incrementally create more functional structures, and accumulate experience with regard to how to deal with unexpected issues and adapt their actions accordingly (Ness and Haugland, 2005). Holmqvist (2004) found that learning processes in alliances involve relatively stable and rule-like behaviours that enable activities to be carried out effectively, and that such recursiveness enables the formation of accurate outcome expectations and the identification of beneficial adaptation. Holmqvist also suggests that when outcome expectations are not met, dissatisfaction triggers adaptation of learning patterns. Such learning might be related to both the ongoing structuring and the use of negotiation strategies. As governance structures increasingly combine different governance mechanisms into a common framework for interaction, flexibility is likely to increase, and create a greater potential for different practices to emerge. As the partners over time experience the effectiveness of different interaction patterns in different situations, they might over time develop a broad repertoire that might be put to use in a given situation. Thus, different observations and experiences over time might constitute a set of *potential practices* available for use. Such relational practices can be defined as 'those traditions, norms, rules, and routines through which' the alliance is managed (Jarzabkowski, 2004, p. 545). These patterns may operate at different times in the relationship or as simultaneous sub-processes. However, how relational practice(s) emerge, evolve, and influence outcomes remains unclear, and I will now explore these issues empirically.

RESEARCH METHODS

Longitudinal approaches are particularly appropriate to study processes (Van de Ven, 1992). I chose a multiple case study approach (Yin, 2003) as it allowed for an in-depth exploration of relational practice as it occurred naturally. Comparative analysis allowed me to control for idiosyncratic developmental aspects, enabling theory development (Eisenhardt, 1989). I conducted the study in the Norwegian retail sector, as I was able to gain open and sustained access. During the late 1980s and 1990s, Norwegian retailing went through substantial change in terms of horizontal integration (e.g. chain store formats). Vertical integration also increased, but the degree of integration varied substantially. Thus, hybrid organizational arrangements were common, and selection of appropriate firms could be done. Furthermore, the 'non-legalistic', yet often contract based business culture provided an opportunity to explore the aspects assumed to be of importance to relational practice. These aspects are important, as selection 'of an appropriate population controls extraneous variation and helps to define the limits for generalizing the findings' (Eisenhardt, 1989, p. 537). However, the selected cases are not drawn for statistical reasons, and generalization is made 'from one case to the next on the basis of a match to the underlying theory, not to a larger universe' (Miles and Huberman, 1994, p. 29). A 2×2 sampling frame (see Figure 2) was developed to guide case selection and distinguished between cases on dimensions that are conceptually meaningful (Miles and Huberman, 1994). The degree of formalization of contracts (formal/informal) is one dimension. This allowed for selection of cases that varied with regard to governance

		COOPERATION TO	
		Maintain	Develop
CONTRACT	Formal	Esthetique – L'Oréal	Scandinavia Online – Europay
	Informal	(Not selected)	COOP – Lilleborg

Figure 2. The selection frame

mechanisms. As negotiation behaviour is difficult to observe prior to interaction with the research context, 'kind of cooperation' was chosen as the other dimension. 'Kind' referred to the basic intent of the cooperation, and I assumed that relationships that required development of new solutions or processes would differ with regard to negotiation behaviour compared to maintenance-focused relationships. As discussed earlier, relationships can emerge from a predominantly market based interaction, or as a result of identified learning and innovation opportunities that follow from resource complementarities. I initially contacted 14 firms. Some of these responded negatively, but when the first access agreement was made, I changed my dialogue towards the remainder in order to gain access to secure sufficient variation.

Three dyads were selected for the study: Esthetique and L'Oréal (hereafter, E–L), COOP and Lilleborg (hereafter, C–LB), and Scandinavia Online and Europay (hereafter, SOL–EP). While no case was exclusively selected to explore an informally founded and maintenance oriented relationship, both the E–L case and the C–LB case also relate to this combination. The E–L dyad was initially based on extensive formal contracting, but over time, governance became increasingly relational. Similarly, the cooperation between C–LB also intended to maintain the corporate relationship.

Data were collected from both sides of the dyads. Informants had intimate knowledge of the relationships and were key participants in the joint decision-making processes. A total of 37 semi-structured interviews were conducted, recorded, and transcribed *verbatim* (Table I). The cases were followed in real-time from February 1997 to autumn 1998, and archival data were used to extend the case histories. Extensive archival data were collected on all cases, and were actively used to shape the interviews and to establish detailed and exact case chronologies. Archival data included contracts, project handbooks and reports, internal and joint memos, agendas, status reports and minutes from meetings, letters, and annual reports. Archival data enabled me to gain credible interview data on former interactions. It was possible to use, for example, agendas, status reports, and minutes from meetings to enhance informants' memories and also to examine accounts of incidents, as they were experienced, for corroboration. Finally, press clippings and statistical information on the businesses and their respective markets were used to increase understanding. Although the data were collected in 1997–98, they have been preserved in a systematic and complete form and serve to illuminate an

Table I. Interviews

<i>Date</i>	<i>Company</i>	<i>Informant</i>	<i>Duration (minutes)</i>
SOL-EUROPAY			
970421	SOL	Espen Grimmert Helge Zimmer	75
971103	SOL	Sonja Fiskum	60
971125	SOL	Sonja Fiskum	105
980603	SOL	Sonja Fiskum	60
980611	SOL	Sonja Fiskum	90
980729	Europay	Jørgen Myhrer	120
980814	SOL	Sonja Fiskum	90
980827	Europay	Jørgen Myhrer	60
COOP-LILLEBORG			
970403	COOP	Dag Schøyen	70
970404	Lilleborg	Jon Jacobsen	75
970630	COOP	Dag Schøyen	60
970630	Lilleborg	Jon Jacobsen	60
971003	COOP	Dag Schøyen	75
971103	COOP	Dag Schøyen	60
971125	Lilleborg	Jon Jacobsen	120
980216	COOP	Dag Schøyen	80
980216	Lilleborg	Jon Jacobsen	150
980309	Lilleborg	Jon Jacobsen	75
980309	COOP	Beate Storsul	70
980320	COOP	Dag Schøyen	75
980323	Lilleborg	Jon Jacobsen	70
980403	Lilleborg	Jon Jacobsen	60
980403	COOP	Dag Schøyen	60
ESTHETIQUE-L'ORÉAL			
970228	Esthetique	Thor Hauge	60
970404	Esthetique	Thor Hauge	45
970422	L'Oréal	Sigurd A. Hauge	75
970606	Esthetique	Thor Hauge	70
970701	L'Oréal	Sigurd A. Hauge	80
971008	Esthetique	Thor Hauge	75
971126	L'Oréal	Sigurd A. Hauge	60
971126	Esthetique	Thor Hauge	30
980223	L'Oréal	Anne R. Larsen	80
980302	Esthetique	Thor Hauge	75
980313	L'Oréal	Sigurd A. Hauge	60
980330	L'Oréal	Sigurd A. Hauge	80
980806	L'Oréal	Bernhard Claudel	75
980821	Esthetique	Thor Hauge	60

important aspect of alliance dynamics. In addition, the recent practice-turn in strategy research (Whittington, 2006; see also the special issue of *JMS*, 2003, **40**, 1) makes this exploration particularly relevant.

Analysis and coding, using HyperResearch, were conducted throughout the data collection period. Codes were both emic and etic to avoid the pitfalls of context-stripping and contextualizing strategies (Maxwell, 1996). Event chronologies were produced on three levels of detail. In particular, time ordered matrixes and case dynamics matrixes were developed for each case (Miles and Huberman, 1994), and integrated as *different data points* in the comparative analysis (McPhee, 1990). In line with the research question, time ordered displays (scatterplots) provided a detailed analysis of dominant governance mechanisms and negotiation strategies for all event histories. In order to develop explanations, predictor–outcome consequences matrixes were developed (Miles and Huberman, 1994).

Tape-recordings, verbatim transcriptions, and accuracy checks with respondents were used to safeguard the credibility of the data, thereby enhancing descriptive and interpretive validity (Maxwell, 1992). Theoretical validity was enhanced by using well-established concepts (Maxwell, 1992). Reliability was enhanced by creating a systematic database for the study and providing detailed descriptions of the analytical steps taken. In addition, multiple data sources were used and efforts were made, throughout the study, to build and maintain a chain of evidence (Yin, 2003).

CASE DESCRIPTIONS

In order to ease the description of the cases and to enhance analysis, the case histories are divided into initiation, maintenance, and dissolution/reconfiguration phases.

Esthetique–L'Oréal

When Narvesen acquired nine perfumeries in 1992, its perfume chain, Modena, almost doubled in size. Soon after, Modena started to renegotiate its supplier contracts. The plan was to reintroduce Modena, a chain of heterogeneous stores with mediocre reputation, into Esthetique, a homogenous chain which would focus on the selective high-end segment. To succeed in implementing the strategy, they needed cooperation from their key suppliers, such as L'Oréal, which controlled key selectively distributed products and brand names. However, the relationship between the two firms was transaction-based and relied extensively on formal contracts, as an important element in L'Oréal's marketing strategy was to have multiple contracts with the various entities within Esthetique (e.g. with Esthetique's head office, with each Esthetique store, and for each stand in department store shops). In 1998, Esthetique operated 45 stores, and both Esthetique and L'Oréal experienced growth above the industry average.

Initiation: preparing for new chain introduction (spring 1992–May 1993, 14 incidents). From the spring of 1992 to the summer of 1993, Narvesen planned to launch Esthetique. They initiated discussions with L'Oréal (and other suppliers) to open the door to more

cooperative relationships, as the interaction was highly contentious: *'There was not a conversation without threats being set forth, right. Either you take this in, or else . . .'* (Esthetique CEO, speaking of a L'Oréal director responsible for selective distribution). From the autumn of 1992 until March 1993, several contract meetings were held between the parties, and focused on: (1) the economic terms for future transactions; and (2) a new contract supplement designed to regulate seven issues typically causing conflicts. The supplement was signed, and the firms hoped to reduce conflict and improve interactions by relying on standard operating procedures. Thus, the parties used authority to mitigate conflict. Furthermore, during late winter Modena offered L'Oréal the possibility to have one brand represented in the chain's basic assortment (six brands that at least 80 per cent of the stores were required to carry). This was instrumental to reaching an agreement. *'Naturally, we attempted to make it as attractive as possible to be in the basic assortment'* (Esthetique CEO). During spring 1993, L'Oréal invited Modena to participate in a campaign for a key brand. However, they refused as it was perceived as a supplier initiated activity, and *'we were at the time interested in developing our own brand name'* (Esthetique CEO).

Maintenance: new chain introduction (June 1993–June 1995, 59 incidents). Modena released their plans for Esthetique and invited its suppliers to a meeting. In a memo, L'Oréal stated that it perceived the chain concept as *'a good foundation . . . and the best concept that is presented in the business'*. During autumn 1993, as Esthetique was introduced, L'Oréal was invited to participate in product meetings and to present new products. L'Oréal was also invited to draft joint budgets and sales forecasts with individual stores, making it possible for them to influence store activities. In December 1993, the contract supplement was adjusted, based on experience. Overall, the contract supplement was considered a success in reducing the conflict level. As a result, interaction became less distributive than previously. In addition, Esthetique invited L'Oréal to discuss possible changes in the spacing of stands in a key department store shop. Department store shops presented brand-dedicated stands that were store-specific, and paid by the suppliers. This was an important cooperative signal, but Esthetique had been experiencing a worsening relationship with the L'Oréal director for selective distribution because of his reckless behaviour. Esthetique's CEO explained: *'we tried to make it work by means of normal conversations, but it did not. So I sent a letter where I stated that if we did not receive an unconditional apology for, there were three different issues . . . and further that he and one of their salespersons were to stay away from Esthetique, both the head office and the stores, for at least one year. We were prepared to cease all further collaboration with L'Oréal'*.

L'Oréal's CEO complied fully: *'You do not do these things unpunished. And he was declared "persona non-grata" in writing. And I completely agree'*. Subsequently, the two CEOs met to work out how to preserve the relationship until the director was replaced. For almost a year, cooperative initiatives were at a minimum. However, in the summer of 1994, the two parties signed two new stand contracts for two key L'Oréal brands. By then, L'Oréal had good stand spaces for three of its top priority brands in Esthetique's most important department store shop. In October, a new director for selective distribution arrived, *'so I went there and . . . we had a good contact'* (L'Oréal director). From spring to autumn 1994, several meetings took place regarding contract terms for non-selective products. As these

products were unimportant to Esthetique, and the competition between suppliers was strong, interaction was primarily focused on economic terms, and negotiations were highly contentious.

In January 1995 a contract revision started with the new L'Oréal director, and negotiations ended in June (1995). Several issues were discussed, particularly the economic structure (sales terms, volume-based discounts, bonuses, etc). *'It took time, but it was also a discussion time, and a way to get to know each other better. In a way, because you do not know the person well, you say "what is he trying to have me sign?" you know'* (L'Oréal director). In particular, *'The major issue in that agreement was the split of advertising costs. Getting an agreement with the department store shops was important to us'* (L'Oréal CEO), and the final split *'was tough for them'* (Esthetique CEO).

Reconfiguration: increasing relational commitment (June 1995–September 1998, 65 incidents). The reconfiguration stage evolved slowly, and began with the signing in June of the new contracts for selective distribution for 1995. An important outcome of the process was a substantially improved relationship. In addition, joint activities and the stand agreements paid off: one L'Oréal brand went from a traditional No. 4 to the second best performing brand in the chain, and influenced positively the expectations for the relationship. During winter 1996, new contract negotiations occurred and focused on the possibility that L'Oréal could get a second brand into the basic assortment. After several meetings, they agreed and both parties' major concerns were satisfied: L'Oréal got their second brand into the basic assortment, and Esthetique improved their terms. During autumn 1996, a new discussion related to stands occurred, and L'Oréal was offered a new stand space (a standard five year contract). Esthetique's CEO said: *'They have done several things, since [new L'Oréal director] came in: better terms than we previously had, and that is a development. They certainly will have something in return. And this is more like underlying, there are no formal written agreements on it, but more like principles for what kind of development we see, and that we agree to that development, see joint gains from it'*.

Cooperation in joint product meetings and joint activities in stores increased during winter and spring 1997. The cooperative climate was characterized by a strong sense of shared direction and interaction was primarily based on problem solving. Interaction in joint product meetings became increasingly important, as they established joint six-month plans for the relationship on the operational level. One brand manager in L'Oréal described how the interaction in the joint product meetings had been lately: *'I feel that the interests to a great extent are common, and sometimes I also feel that certain things cannot be done. . . . But we jointly attempt to find solutions'*. However, interaction related to broadly distributed products remained contentious. For instance, after having extracted major concessions (*'We took our pants off'* L'Oréal's CEO commented) in negotiations related to possible distribution of a new hair-dye product L'Oréal was about to introduce, Esthetique chose a competing brand to increase supplier competition. Describing the state of the relationship in August 1998, the L'Oréal director responsible for selective products stated: *'It is not like "I give you this, what will you give me?"'. In fact, today it is a confidence relationship'*. Esthetique's CEO corroborated: *'Currently, we have an oral understanding of our mutual commitments, and the way to proceed'*.

Interpretive summary E–L. The E–L dyad emerged from recurrent contracting in the market, and continued successfully as the data collection ended. Initially, the overriding governance mechanism was the economic structure, and interaction was to a large extent dominated by distributive negotiations where the integrative aspects were minor. The initial issues addressed ‘activated’ these aspects and formed an initial relational practice characterized as recursively distributive. Over time, additional mechanisms were introduced into the governance framework, and relational practice changed as hierarchical mechanisms reduced level and frequency of conflict and constrained use of distributive tactics. Furthermore, as goodwill trust increased, problem solving became increasingly important and relational practice adapted towards an integrative mode. Although the ubiquitous importance of price underscores the importance of value appropriation concerns, the pricing structures enabled trading on issues. However, interaction related to broadly distributed products remained recursively distributive throughout.

COOP–Lilleborg

COOP went public in June 1997 and announced an expected annual gain of NOK100m from automatic replenishment of stores (i.e. sales-information generated in a store is fed back through the distribution channel and initiates machine-generated orders to replenish the store). The estimate was based on experience from a cooperative project with Lilleborg, a major supplier of detergents and personal care products. The competition between grocery chains had significantly increased during the first half of the 1990s, and resulted in efforts to increase efficiency. Based on common interests, common experience, and personal relationships the project was initiated as a ‘gentleman’s agreement’ (no ‘signed contract’). To succeed, substantial process innovations needed to be implemented. However, test results were more promising for the flow between COOP’s distribution centre and its stores than between COOP and Lilleborg, and COOP chose to decrease its relational commitment and increase its internal focus. The case describes their cooperation from 1994 until autumn 1997.

Initiation: preparing the replenishment test (April 1994–end 1995, 42 incidents). The agreement concerned use of POS (scanner) data to implement vendor managed inventory and automatic replenishment in the distribution chain. The parties expected this to increase administrative and economic efficiency (e.g. simplified routines, and reduced control, inventory, stock-outs, and transportation costs). In the initial meetings, the parties explicitly agreed to six principles as a basis for their cooperation: (1) trust; (2) an organizational foundation (not only managerial level); (3) value creation for both parties in a long term perspective; (4) open sharing of information without hidden agendas; (5) operational simplification; and (6) mutual knowledge. With regard to the economic expectations, ‘it was already stated that the project makes so large savings possible that calculating the costs was not necessary’ (Project Manager (PM), Lilleborg). In late 1994 the formal decision to start the project was made. In order to be able to coordinate their activities in this complex task, they jointly created a ‘Project Handbook’ in early 1995. ‘We set up a project organization where both firms participated, and the necessary governing documents. The organization was based on

the premises of the project because we felt that it was a joint project with common goals' (PM, Lilleborg).

The project handbook described, among other things, information sharing and archival routines, rules and regulations for interaction, and routines for conflict resolution. The project organization involved a joint steering group, project managers (one from each organization working jointly), and several working groups. During the first year of preparations (1995), the project organization was changed several times to ease coordination. During the autumn, they agreed on the budget (sharing of costs), and established fixed prices (non-market pricing) to enhance measurement. Other important decisions concerned the selection of test sites and the inclusion of cross-docking. Cross-docking represented a change to more efficient operations at the COOP central terminal, as repacking for the final destination stores would prevent actual shelving of the goods, but required more planning and precision. Interaction on all levels was reported to be problem solving in nature. *'[The PM from COOP] and I had many discussions regarding the content of the project – methods, progression, dedication of employees – and even though we did not always agree on how to do things, I did not perceive it to be caused by political considerations'* (PM, Lilleborg; the term 'political' refers to conflict of interests). A similar practice was identified in the steering group. *'I believe that most people that participated in the project did not perceive it like there were people from two different organizations around the table'*, and *'at the level of the working group leaders there was no politics at all – one just worked on a project'* (PM, Lilleborg; confirmed by COOP's Logistics Manager).

Maintenance: testing and planning the roll-out pilot (1996, 16 incidents). In early 1996 two test sites were operative, and the results were promising. Compared to the initiation phase, the test phase involved fewer joint decision points. Interaction was reported to largely follow a stable interaction pattern, as the participants had found appropriate ways of dealing with any issues that occurred. While the test frequently met minor operational problems that were solved jointly, and the organization of the work groups represented an organizational challenge, a more critical problem was insufficient resources. *'If we are to finish the project as planned, it is necessary to revitalize the project through agreeing on the goals, creating renewed interest in both organizations, and not least see to that the project is provided with necessary resources'* (Status Report to Steering Committee, May). The issue was not permanently solved, and in early August the Steering Committee stated: *'The main challenge currently is to keep the project alive. Most of the project organization in COOP must be replaced shortly'*. These issues were again addressed in late August: *'A continuance of the project and implementation of continuous replenishment will be best secured through conducting the implementation as two separate initiatives'* (roll-out memo). The suggestion came from COOP's Logistics Manager, who *'understood that Lilleborg were negative. Because of body language and reaction'*. The PM from Lilleborg explains: *'At the moment the idea was presented, replenishment from Lilleborg [to COOP] was in reality dead. Because COOP realized that it was very important for them to continue in the stores, and [COOP] had insufficient resources and perhaps not sufficient faith . . . at least [COOP] did not have any personnel interested in running the other part. We did not fight it at all'*. However, it was decided in the meeting that the pilot should proceed with focus on both flows.

As a result of test measures (that proved more promising for the internal operations in COOP), insufficient resources, and expected turnover, COOP emphasized their

interests at the expense of Lilleborg's, and this proved to be significant for subsequent interaction. For the remainder of 1996, little interaction took place. At the end of October, the steering group again decided to continue the project as a joint initiative. Also during October, Lilleborg's PM and COOP's Logistics Manager were in charge of negotiations as they changed the terms of the agreement to ExWorks (a contract standard meaning that buyer takes responsibility for goods at the supplier site; formerly Lilleborg had delivered to buyer site) due to the increasing cross-docking practice in the industry. These negotiations (as other 'transactional' issues as opposed to 'cooperative' issues in the relationship) took place in separate meetings ('apart' from the project), and involved a detailed documentation of 'the numbers' as neither party accepted smaller margins; interaction was distributive. During late autumn 1996, '*possible solutions started to erode. We [COOP and Lilleborg] had been too ambitious*', and '*(formerly) one was looking forward to working on this project, but then things started to happen as for instance personnel turnover. The enthusiasm disappeared . . . then the development stopped*' (COOP's Logistics Manager). When COOP's PM left, '*we [COOP and Lilleborg] entered a new phase*' (PM, Lilleborg).

Reconfiguration: decreasing relational commitment (January 1997–autumn 1997, 8 incidents). The roll-out pilot was postponed until March, and in April it was split into two separate projects by the Steering Group. As Lilleborg feared that their involvement would diminish, it was interested in participating in the project 'internal' to COOP. As a response, it was offered a seat on the new steering committee for the pilot, which focused on the flow from COOP's terminal out to stores. This pilot involved several suppliers, but only Lilleborg was given this opportunity. Lilleborg perceived this as '*perfectly all right*', and '*an advantage*', and the pilot was started during spring. However, Lilleborg was still hoping to continue the other part as well. Although personal relations did not worsen, key personnel left, and a new Director of Logistics entered the COOP system. In meetings during summer, it became evident that the available resources did not meet the challenges in the project. '*I am completely convinced that stopping the other part of the project was the right thing to do. We did not pay sufficient attention, and concentrated on the first part, because there the gains are largest*'.

Interpretive summary C–LB. C–LB emerged from a socially embedded context, as well as from previous joint experiences. The issues the cooperative initiative raised focused predominantly on the potential for joint value creation. The overriding governance mechanisms were norms and trust, and inclusion of authority mechanisms added to a recursively integrative relational practice where value appropriation concerns were left for future settlement. In particular, the hierarchical elements were several times revised and changed. These changes were expressions of learning and adaptation to further enhance a recursively integrative practice. As value creation, and subsequent appropriation, depended on investments, the parties found ways to share cost over time, but insufficient resources restrained sufficient value creation. In fact, when performance measures came out in favour of COOP, they reduced resource commitment; this resulted in an adaptation of relational practice towards a less integrative, and more distributive, mode. Due to personnel changes, and failure to reach their goals, trust and norms were weakened, and this added to an increasingly distributive practice. Actually,

when COOP decided to close down the 'inflow' in the roll-out, this decision was very contentious. Similarly, a recursive distributive practice existed on related issues that were defined as 'commercial' and not part of the project. However, the continued part of the project represented a continuation of an integrative relational practice.

Scandinavia Online–Europay

The cooperation between SOL and Europay was an attempt to increase consumer internet purchases, by providing consumers with the possibility to pay safely using their credit card. SOL was established as a prime mover in the 'dotcom-boom' in Scandinavia, and established a 'virtual mall' for traditional stores that wanted to pursue the potential for internet sales. Secure online trade was perceived as being crucial to increase transaction volume. To be able to offer this, they sought out a new partner to SOL: Europay. SOL's revenues would come from charging the stores fees based on sales and software licensing, while Europay's revenues would come from the credit card transactions. This way, separate streams of revenues would be created from the same transaction. The relationship started in winter 1997, and in November 1997 one of the world's first SET (Secure Electronic Transaction) applications was commercially introduced to the consumer market. The cooperation was founded on one general cooperative contract and one specific SET contract. Although formal, the contracts were general and primarily direction giving, as operational issues were not addressed. SOL suffered several years of losses, and the transaction volume proved disappointing during the winter and spring of 1998. As a result, it revised its strategy, sold out the technology, and terminated the relationship in July 1998.

Initiation: development of beta software (February 1997–October 1997, 32 incidents). During winter 1997 initial talks took place between SOL and Europay. In June, a formal but general cooperative contract was signed, followed by a formal contract for the SET project. During initial talks, the relationship was characterized by 'good chemistry', and the parties perceived each other as highly competent. As none of the contracts were specific in operational terms, they depended on joint decision-making throughout their relationship. A project group was assembled and also functioned as the primary joint work group and decisive forum. To reduce conflict, they made decisions by consensus, removing the possibility of highly contentious interactions. They also developed a system for information sharing and project routines. As separate revenues would result from the successful implementation of the technology, value claiming issues were removed from the ongoing interaction. Shared costs were covered based on reciprocity, and 'private' costs were paid by each organization.

Trust was important in the relationship: *'At least on our side we had great respect for those persons in SOL. They had professional knowledge, and they had this straightforward way and openness in the dialogue that – well, you developed trust in them. And it became evident that what they knew of relevance, they told us'* (Europay manager). Similar statements were made by the key informant in SOL. Immediately following the contract signing, software development started and ended in the commercial introduction of a beta-version in November 1997.

In addition, the parties engaged in joint marketing, and discussed possible co-branding of a credit card.

Maintenance: early production and development of 1.0 version (November 1997–February 1998, 11 incidents). After the introduction of the beta software, the development of a 1.0 version continued. Interactions were characterized as joint project oriented: ‘*The project group really worked on the alternatives: sometimes we presented alternatives, sometimes SOL did, and that was a very fertile process. It was much focused on solutions*’, and ‘*if people agree to a decision, then commitment is much stronger*’ (Europay manager). Although technical problems were encountered, they did not evoke conflict of interest. However, the discussions regarding potential co-branding of a card did: ‘*Then again they were approached by SOL. I was not involved in that. And their first reaction was “why bother to do this again”, but then they chose to make another attempt. We worked out a concept, and came back to SOL with it, price tags and all*’ (SOL Manager). The negotiations were highly contentious, and SOL chose a competing offer. This did not delay the development of the software, but impacted on related marketing: ‘*It cooled our initiatives considerably*’ (Europay Manager).

Termination (March 1998–July 1998, 5 incidents). As the 1.0 version was introduced in early March the cooperation changed as the SET contract was fulfilled. The joint project group was dissolved, and interaction relied primarily on initiatives from the two marketing departments. These had not been a part of the project and did not have the same kind of ownership to it. The low transaction volume continued, and some attempts to increase marketing were implemented. However, other SET projects in the industry were delayed, and there was no ‘marketing push’ from the industry from which to benefit. Interaction almost ceased, and SOL revised their strategy. This period of inaction and half-hearted attempts at marketing contributed to the deterioration of the relationship. In July 1998, SOL decided to sell the technology to other actors.

Interpretive summary SOL–EP. SOL–EP emerged out of an analysis of resource complementarities, not from previous interaction. Initial meetings resulted in trust between the parties, and together with two formal contracts and some useful hierarchical elements the cooperation was in fact very quickly up and going. The initial issue structure was complex, but left value appropriation concerns out, as their interactions would create separate streams of revenues. Relational practice was recursively integrative from the start, and the initial governance structure and negotiation behaviour enabled and reinforced one another. Relational practice basically stayed recursively integrative until performance measures and personnel changes co-occurred and changed the governance structure. Trust, norms, and authority elements were weakened, and value claiming increasingly focused. This also changed negotiation behaviour towards a state of inaction which created little additional value, and ultimately led to contention, as inaction only served to reinforce the changed relevance of governance mechanisms. As in the other cases, interactions that were not perceived as integral to the cooperation were predominantly recursively distributive.

DISCUSSION OF FINDINGS

I have argued that the combination and recombination of governance mechanism and negotiation strategies used by the parties are important to understand initiation and evolution of relational practice, and I start out with an analysis and discussion of these. I identify four different modes of relational practice observed in the cases and discuss how relational practice evolved and changed between the phases. Finally, I develop explanations why relational practice change between different modes.

Governance Mechanisms, Negotiation Strategies, and Their Evolution

In order to analyse the evolution of governance mechanisms and negotiation strategies, I developed scatterplots for each phase to search for patterns in the data. The integrity of each case was preserved in this procedure. I created a 3×4 matrix that was defined by the different governance mechanisms (price, authority, trust) and negotiation strategies (problem solving, inaction, concession making, contending). Based on the event chronology of each case, where incidents were consecutively numbered, all incidents were entered into the relevant cell of the matrix (according to the primary strategies in use, and to the primary governance mechanism interaction related to) by entering the incident number. The main patterns observed in the scatterplots are summarized in Table II.

Table II. Observed patterns: governance mechanisms and negotiation strategies in different phases for each dyad

	<i>SOL-EUROPAR</i>	<i>COOP-LILLEBORG</i>	<i>ESTHETIQUE-L'ORÉAL</i>
<i>Initiation</i>			
Governance mechanisms	Trust and authority	Trust and authority, supported by price	Price, supported by authority
Negotiation strategies	Problem solving, some contending	Problem solving	Contending, some problem solving
<i>Maintenance</i>			
Governance mechanisms	Trust and price, supported by authority	Trust and price, supported by authority	Price and trust, supported by authority
Negotiation strategies	Problem solving, some contending	Problem solving, some contending and inaction	Problem solving and contending
<i>Termination/reconfiguration</i>			
Governance mechanisms	Price	Price, supported by trust and authority	Trust and price, supported by authority
Negotiation strategies	Contending and inaction	Contending and problem solving, some inaction	Problem solving, some contending

The governance mechanisms and negotiation strategies changed over time in the cases, and the findings suggest that they co-evolve. The data also show that after an initial governance structure is established, governance mechanisms evolve and change in two ways. First, they change *per se*, i.e. pricing policies and economic structures are changed incrementally, trust and relational norms emerge and deteriorate, and authority elements are adjusted and refined to ease coordination. Second, the different mechanisms' *relative importance* also changed over time and between the phases. Such structural change took place in all cases. Research on alliance initiation has pointed to the importance of trust and social control during initiation (Larson, 1992), and how initial conditions foreshadow subsequent interactions (Inkpen and Currall, 2004). Hennart (2006) even argued that the explanations provided by process research on alliance dynamics are by far inferior to explanations of process and outcomes that rest on initial structural (in the broad sense) conditions. However, cross-sectional research shows that ex-post changes frequently take place in alliances as a response to misalignment, strategic change, and when few contractual safeguards are in place (Reuer and Ariño, 2002; Reuer et al., 2002). In addition, Doz (1996) found that early interaction in alliances had impact on subsequent interactions, and that learning is important to understand evolution and outcomes.

The data suggest that the imprints from the initial structure *do not* foreclose developmental paths. Although the initial governance structures were found to have both enabling and constraining properties that impact on early interaction patterns, initial conditions did not predetermine outcomes. Rather, explanations of outcomes depend on the process and how structures and interaction patterns changed over time. The data presented here suggest that regardless of the initial combination of governance mechanisms, complementary mechanisms will be incorporated as the extendedness and expectations for future interaction increase, as well as when the complexity of the relationship increases. Similarly, when complexity, extendedness and expectations for future interaction decrease, the governance structure starts to erode.

Furthermore, this study suggests that governance mechanisms also change as a result of learning and aspects inherent to the process itself, particularly the use of negotiation strategies. The findings presented in Table II show that both distributive and integrative negotiation behaviour were integral to the alliance processes. As was the case with governance mechanisms, the data give credibility to the argument that the initial use of negotiation strategies has both enabling and constraining properties that impact on the initial governance structure. Similarly, the initial use of negotiation strategies does not foreclose particular negotiation trajectories, and regardless of the initial use of negotiation strategies, complementary strategies will be used as the extendedness and expectations for future interaction, as well as the complexity of the relationship, increase. Finally, initial use of negotiation strategies does not predetermine alliance outcomes. Hence, this study shows that explanations for alliance outcomes that rest purely on initial structures oversimplify and overlook important aspects related to process. It also suggests that explanations for alliance outcomes that rest purely on initial behaviours oversimplify and overlook important aspects related to the ongoing structuring. However, combining structure, action, and process might provide powerful explanations.

Four Modes of Relational Practice

The theory section argued that the initial governance mechanisms represent a strong context for interaction, and that relational practice depends on the matching of these mechanisms and negotiation behaviour. It was further argued that two basic orientations, one integrative and one distributive, and two kinds of dynamics, recursiveness and adaptation, formed four basic modes of relational practice. I first discuss the four basic modes of relational practice observed in the data: recursively integrative, recursively distributive, adaptive toward integrative, and adaptive toward distributive. Then, I turn to discussing how structure and action form the evolution of relational practice.

The most frequently observed combination of governance mechanisms and negotiation strategies in joint decisive events is 'trust' and problem solving contributing to an *integrative relational practice*. The combination of 'price' and contending is also frequently observed, contributing to a *distributive relational practice*. However, price is also found relatively frequently in combination with problem solving, contributing to an integrative practice. The explanation the data offer for this combination is that 'price', the economic structure, reflects costs in addition to income. In the SOL-EP and C-LB cases, early resource contributions were solved by taking turns in covering costs, and this enabled value creation. This suggests that when acceptance of costs is related to creating a foundation for future value creation, it is more easily dealt with through an integrative practice. Furthermore, an important aspect of value claiming was removed from the interaction in these two cases: C-LB left the value appropriation issue for future settlement when performance measures and experience had accumulated sufficiently, and the technology developed by SOL-EP created separate streams of revenues from the same transaction. Moreover, the E-L dyad illustrates that incentive structures are sometimes complex, involving different elements, such as bonus structures and marketing contributions in addition to list prices, which have different priorities between the partners. Thus, if they are addressed simultaneously, there is a potential for problem solving by trading on issues. On the contrary, 'pie-splitting' typically involved a distributive practice.

Processes evolved slowly and incrementally. Common to the cases was that initial contractual negotiations influenced subsequent interaction. As many issues evolved through ongoing processes, the parties seemed to pick up along the same tracks that former interaction had laid out. These observed *sequences* of events involved interaction patterns where dominant governance mechanisms and negotiation strategies remained stable, suggesting that relational practice has *recursive* characteristics. The relative importance of different governance mechanisms changed incrementally over time, suggesting that once a structure (or form of agreement) has 'settled' it is not easily changed. Similarly, use of decisive strategies remained stable during sequences of events as the parties gained experience and learned what kind of tactics were effective. As such patterns developed, relational practice tended to develop as self-reinforcing spirals.

On the other hand, the patterns also changed between the different phases, suggesting that relational practice also has *adaptive* characteristics. As trust and relational norms co-evolved with information sharing, trading on issues over time, and implicit compensation practices, relational practice turned either from a distributive mode to an

integrative one, or became increasingly integrative. Similarly, when trust eroded and/or value appropriation concerns became increasingly important, relational practice adapted and became (more) distributive. As such concerns vary in degree, and over time, it makes sense to theorize about adaptive practices in terms of increasingly integrative or increasingly distributive. Furthermore, the interaction patterns in all cases suggest that relational practices move between these modes, and that different relational practices may co-exist as relationships develop.

Relationship Initiation and Emergence of Relational Practice

A relationship emerging from a socially embedded context seems to differ from a relationship that emerges from market interaction in terms of dominant governance mechanisms, negotiation strategies, and the relational practice that these form. In the E–L dyad, which initially relied extensively on formal contracting and emerged from recurrent (market) contracting, the economic structure was the fundamental mechanism. Negotiations were to a large extent contentious, involving tactics such as holding firm positions and aggressive argumentation, and the relational practice that emerged was recursively distributive (predominantly value claiming in nature). However, as the contract supplement was introduced, the conflict level was reduced and removed some contentious interaction as some clear procedures became established. Thus, a problem solving effort added elements of authority to the agreement, an incremental adaptation, which in turn enabled a less contentious practice to emerge.

In contrast, the SOL–EP and C–LB cases were founded on agreements that were predominantly relying on trust, and involved relatively scant formal contracting. Also in these cases, initial problem solving interactions introduced elements of authority in order to reduce conflicts and bring procedural certainty into the relationship. Important aspects were the project organizations and a shared understanding of decision-making principles (e.g. consensus). SOL–EP and C–LB represented relationships with higher levels of operational interdependence compared to E–L, where joint decision making was less frequently needed. In particular, this resulted in more extensive use of authority elements as integral to the initial governance structure in the SOL–EP and C–LB cases. Gulati and Singh (1998) found that hierarchical mechanisms are used less and not as systematically in non-equity alliances as compared to minority investments and equity joint ventures. However, Reuer et al. (2006) found that non-equity alliance contracts tend to be neither more nor less complex compared to equity arrangements. The data presented here do not make this comparison, but suggest that non-equity alliances also benefit greatly from the introduction of authority elements into the governance structure. Such elements enhance coordination, which in turn impacts positively on goal achievement. Although the SOL–EP dyad was terminated, they successfully developed the software they intended to develop, and SOL sold the technology as a result of changing strategy. Early, as well as later, experiential learning initiated adjustments in the ‘authority structure’ and served to reinforce the relevance of ‘some bureaucracy’. Thus, some hierarchical governance seems to enhance learning processes as closer and more stable interaction is made possible, making it easier to identify solutions that improve coordination (Holmqvist, 2004).

In addition, the incentive structures in the two project-based relationships were long term, and interaction related to value claiming was removed from initial interaction. These characteristics contributed to a recursively integrative relational practice. This suggests:

Proposition 1: Alliance initiation that emerges from: (1) a market context is likely to rely on economic structures, and involve a recursively distributive relational practice; (2) a socially embedded context is likely to rely on trust and norms, and involve a recursively integrative relational practice.

Proposition 2: During alliance initiation, a predominantly integrative relational practice will be enabled when: (1) value appropriation is a secondary concern in the initial issue structure, as compared to situations where this is a primary concern; (2) the relationship involves a shared intention to explore new (developmental) opportunities, as compared to alliances that intend to maintain a transactional relationship.

Proposition 3: Introduction of authority elements will enhance adaptation of relational practice in an (increasingly) integrative direction.

Maintaining Relationships: Managing the Planning Gap and the Experience of Tensions

Although the discussed differences during initiation were important, common to the cases was the evolving combination of governance mechanisms. In the SOL-EP and C-LB cases, interaction over time added a growing body of written documentation to the (largely) informal agreements. Although these were not formalized as contracts, they were explicit documents. These involved administratively set prices to enable measurement of value creation in the relationship, but also directed increasing attention to the economic structure in the relationship (sharing of costs and distribution of value between the parties). On the other hand, the E-L dyad involved a formal contract structure of significance. Over time, additional formal contracting occurred (e.g. the stand agreements), and extended their relationship further into the future. However, as the relationship evolved, informal agreements were made at the CEO level and became increasingly important with regard to the direction of the relationship. As the relationship became more committed, the parties relied increasingly on their ability to make it work through constructive dialogue rather than formal contracting. Development of trust and relational norms (in particular 'intention to preserve the relationship'), and a problem solving approach to issues, were instrumental to this and relational practice became increasingly more integrative. Thus, the two 'contractual practices' evolved towards similar combinations of governance mechanisms, although initial conditions differed. The governance literature has discussed the relationship between trust and control, and it has often been assumed that formal control undermines development of trust (Mayer and Argyres, 2004). However, it is also assumed that over time, trust emerges from repeated interactions and that social control increasingly substitutes formal control and reliance on hierarchical features (Larson, 1992; Ring and Van de Ven,

1994). The case data presented here suggest that authority elements are introduced even if there is substantial trust between the partners. Such hierarchical features do not undermine trust, but rather add to it. Furthermore, the case data also suggest that inclusion of authority elements when trust is low does not restrain development of trust; rather they enable subsequent development of trust. This discussion suggests:

Proposition 4a: As relationships evolve, goodwill trust and norms will complement incentive structures and authority in alliances that emerge from a market context, and incentive structures will complement trust, norms and authority in alliances that emerge from a socially embedded context.

Although the distribution of value was, during initiation, a ‘future issue’ in the C–LB case, the test measures provided observations of actual value creation and had significant influence on the expectations for future value creation. When the test measures failed to meet expectations and funding became problematic, interaction turned more contentious and accommodating (distributive) as the incentive focus increased and competence trust was weakened. A similar progression was observed in the SOL–EP case. However, in both cases, interaction also followed through on former decisions in an integrative fashion. This suggests that the increasing complexity of governance mechanisms co-evolved with an increase in the repertoire of negotiation tactics. Interaction patterns increasingly involved value claiming aspects, reflecting the tension created by the mixed motives in alliances. In the E–L case, emerging trust and relational norms together with an increasing importance of shared decision forums and routines for interaction enabled the evolution of an increasingly integrative relational practice without missing the simultaneous focus on value appropriation. Furthermore, an interesting finding was the understanding of different issues as belonging to different relational contexts. For instance, in the E–L case the interactions related to selective and broad distribution differed significantly: interaction related to selective distribution became increasingly integrative, while interaction related to broad distribution remained recursively distributive. In the C–LB and SOL–EP cases, issues that were perceived as (potential) conflict issues (such as the change to ExWorks, and the potential co-branding of a card) was handled in separate meetings to avoid disturbance of the cooperative climate. Interaction related to these issues was perceived as ‘traditional negotiations’ (a distributive approach). In this way, they managed to keep the cooperative efforts separate from more ‘commercial’ exchange issues (a term used by the informants in the C–LB case). Furthermore, as the two (initially integrated) parts of the replenishment project between C–LB were increasingly viewed as separate projects, the relational practice related to the two parts developed differently. This suggests:

Proposition 4b: As the ongoing structuring of alliances allows for increasingly complex governance structures to emerge, these structural aspects will evolve with a similarly complex use of different negotiation strategies.

Proposition 4c: The evolution of governance mechanisms and negotiation strategies will give rise to different relational practices over time, and the mixed motives alliances

involve will allow for distinct relational practices to emerge and co-exist as sub-processes.

Termination and Reconfiguration: Experienced and Expected Value Creation

As new situations emerged over time (e.g. in terms of issues, opportunities, problems, breakthroughs) the parties accumulated experience and learning. As the interaction process and perceived outcomes were assessed, the parties developed views of the progressive state their relationship was in, which in turn impacted on sense of direction and future expectations. In particular, as outcome discrepancies (Kumar and Nti, 1998) became evident in the C–LB and SOL–EP cases, the parties also changed their weighting of private versus shared concerns, clearly reflecting the mixed motives in alliances. In particular, incentives became increasingly important in these cases as performance measures became available. Thus, relational practice changed as the incentive structure became increasingly focused and interaction was characterized by an increased use of contentious tactics to claim value and inaction, creating little additional value. This added a sense of process discrepancy (Kumar and Nti, 1998) to the experienced outcome discrepancies, reinforcing an increasingly distributive relational practice. The performance measures weakened the intentions to harmonize conflict and preserve the relationships (important relational norms). Although trust has generally been found to enable value creation, the case data provided here suggests that trust is not enough to sustain relationships that fail to meet the aspiration levels for joint value creation. In addition, both trust and the shared sense of direction were weakened by turnover among key personnel. In the E–L case, the positive economic development contributed substantially to the recursive integrative interaction; trust and relational norms became increasingly important, and enhanced further exploitation of the joint value-creating potential as the incentives were perceived as effective. This suggests:

Proposition 5a: As trends in performance measurement become evident, an increased emphasis on the economic structure will moderate the efficiency of authority elements and trust: (1) deteriorating performance measures will restrain the efficiency of authority elements, norms, and trust; (2) improving performance measures will increase the efficiency of authority elements, norms, and trust.

Proposition 5b: As efficiency of governance mechanisms: (1) deteriorates, relational practice will become more distributive and enhance alliance termination; (2) improves, relational practice will become more integrative and enhance alliance prolongation.

Explaining Evolution of Relational Practice: Identifying Recursive and Adaptive Forces

Perceptions related to the process of cooperation and the assessment of outcomes provide answers to the questions of how and why relational practice evolves. Tables III and IV

Table III. Perceptions of process aspects and impact on relational practice

	<i>Recursive force on relational practice</i>	<i>Adaptive force on relational practice towards a more</i>	
		<i>Distributive mode</i>	<i>Integrative mode</i>
Frequency of events	Relative stability	Decrease	Increase
Number of issues in an event	Relative stability	Decrease	Increase
Conflict level of issues on events	Relative stability	Increase	Decrease
Resource availability to deal with issues	Relative stability	Insufficient/decline	Sufficient/increase
Progressive timeliness	Relative stability	Increasingly delayed	On time/ahead
Procedural certainty and justice (efficiency of authority mechanism)	Relative stability	Decrease	Increase
Development of trust and norms	Relative stability	Decrease	Increase
Shared sense of direction	Relative stability	Decrease	Increase

Table IV. Perceived outcomes in evaluative events and impact on relational practice

	<i>Recursive force on relational practice</i>	<i>Adaptive force on relational practice towards a more</i>	
		<i>Distributive mode</i>	<i>Integrative mode</i>
Performance measures			
Joint creation of value	Satisfactory	Not satisfactory and not correctable	Not satisfactory but correctable
Distribution of value	Fair	Unfair, with limited growth potential to increase share and/or partner unwilling to adjust distribution rules	Satisfactory but underexploited Unfair, but growth potential to increase share and/or partner willing to adjust distribution rules
Incentive alignment	Efficient	Inefficient and not correctable	Inefficient but correctable Efficient but underexploited
Learning in and from relationship	Sufficient	Insufficient and improvement unlikely	Insufficient but improvement likely (exploration) Sufficient but underexploited
Role relations	Operational and strategic fit	Operational and/or strategic misfit and improvement unrealistic	Operational and/or strategic misfit but improvement realistic Operational and strategic fit but underexploited

are developed on the basis of the theory and the presented data, and explain how perceptions of process and outcomes impact on relational practice.

The explanations rest on developmental states; whether initial and emerging goals have been met (equilibrium), not met or been exceeded (negative and positive discrepancies), and expectations related to future interaction. The tables should be interpreted as follows. If frequency of events is stable (Table III), this contributes to recursiveness in the relational practice. If frequency of events decreases, this contributes to adaptation of relational practice and moves it in a distributive direction. If frequency of events increases, this contributes to adaptation of relational practice and moves it in an integrative direction (frequency of events, in a very basic way, impacts on the potential for trading on issues over time and thus value creation based on reciprocity considerations). The same reasoning applies to the number of issues in events. Furthermore, when perceived conflict level of issues in events is increasing, relational practice adapts towards a more distributive mode. Table IV should be interpreted in a similar way. Note that Tables III and IV contain a series of implicit hypotheses that, just like the propositions offered, need to be put to critical testing (for instance, one hypothesis that can be spelled out on the basis of Table III (Frequency of events, mid row), is: As the frequency of events decreases, relational practice will adapt towards a more distributive mode.) However, spelling these out in prose would unnecessarily clutter the paper.

In order to explain the evolution of relational practice, focusing on single aspects at the expense of others (as, for instance, focusing on development of trust and norms, or learning, overlooking other important relational aspects) involves the danger of treating different conditions as necessary *and* sufficient for recursiveness and adaptation; when theorizing about process, conditions should be treated as necessary only (Mohr, 1982). According to Mohr (1982, p. 45), a hallmark of process theory is that it 'eschews efficient causality as explanation and depends instead on *rearrangement* – that is, on the joining or separation of two or more specified elements rather than on a change in the magnitude of some element' ('variance' theory typically does the latter). Thus, in order to explain the evolution of relational practice, one should consider how perceptions of different developmental states co-occur and how they combine and recombine over time (consequently, it would, for instance, be of limited value to understand the evolution of relational practice on the basis of development of trust and norms alone). Alliances are multi-dimensional, and different aspects might influence process in different ways. Consequently, different aspects need to be weighted and accumulated in order to understand evolution of relational practice. For example, if a particular set of states drives the relational practice towards recursiveness, and these outweigh those that drive adaptation, relational practice is likely to stay recursive (or the other way round). Furthermore, if adaptive forces of a distributive kind outweigh integrative forces, relational practice turns increasingly distributive (and vice versa). This suggests that theory, as well as managers, should be sensitive to how different aspects co-evolve and impact on structures, processes, and outcomes in alliances.

While Tables III and IV provide some specific suggestions for how different process and outcome assessments influence the evolution of relational practice, it is not intended as an exhaustive list as they relate to the cases studied. Together with the propositions I

have developed in the paper, they provide a new and systematic approach to understanding alliance dynamics, and relational practice in particular.

Due to the design choices, care should be taken in generalizing the findings. In particular, the study was conducted in vertical non-equity alliances, and such alliances have been argued to be distinct from equity arrangements. Furthermore, the study was done in medium-sized firms and in a domestic context where the business practice is less 'legalistic' than, for instance, in the USA. As the study was conducted in one particular cultural context, there might be characteristics of both the business contexts and the cultural context that limit its value in other contexts. Hence, care should be taken in generalizing to other alliance forms, international alliances, and fundamentally different cultural contexts. It should also be noted that the propositions developed relate to theory. Hence, further exploration, as well as deductive research that puts the propositions to critical testing, is needed.

CONCLUSIONS

This paper has explored relational practice in strategic alliances. In particular, the paper offers an in-depth investigation of how governance mechanisms and use of negotiation strategies develop over time and form the evolution of relational practice. The paper contributes to the literature in four ways. First, the paper directs attention to relational practice as a key to understanding managerial processes in alliances. Four modes of relational practice are identified: recursively integrative, recursively distributive, adaptive toward integrative, and adaptive toward distributive. I also explain why relational practice is stable or shifts between modes by identifying key drivers for understanding patterns of recursiveness and adaptation. Second, this study complements cross-sectional research on governance by providing an account of how and why governance mechanisms change over time. Third, while the research on negotiations in relationships is limited and typically cross-sectional, this study contributes to developing an understanding of how negotiation behaviour develops over time in relationships. Finally, a particular limitation in the literature on inter-firm processes has been a lack of integration of structure and action (Sydow and Windeler, 1998). The perspective offered here provides an attempt to overcome this limitation, and this extension is important as structures *per se* do not act.

Relational practice was explored empirically in three longitudinal case studies. The findings show that different combinations of governance mechanisms and negotiation strategies are related to distinct relational practices, and that early interactions have recursive characteristics. However, over time relational practice also shows important adaptive patterns, and the study also suggests that multiple relational practices might emerge over time and co-exist as distinct sub-processes. Finally, the study also identifies important aspects related to process and outcome evaluations that cause continuity and change in relational practice.

As the evolution of governance mechanisms, negotiation behaviour, and relational practice in strategic alliances is insufficiently understood, the present study provides a useful perspective for further exploration and theory development. For instance, can the same patterns be observed in equity alliances and in joint ventures, in international

alliances, and in different cultural contexts? Are these evolutionary trajectories of governance mechanisms, negotiation strategies, and their impact on the evolution of relational practice common or not? Also, how do other structural characteristics not particularly explored in this paper, as for instance different kinds of specific investments, influence negotiation behaviour and relational practice? Further, while the concept of trust has received much empirical attention, the authority mechanism was found to be important in all cases. Thus, the antecedents and consequences of interorganizational routines, and their role in dyadic stability and change, should be further explored. Although the relationship between trust and control has been discussed in the literature, we still need to accumulate knowledge on this relationship. Similarly, additional aspects related to negotiation behaviour should be explored, as for instance the issue of bargaining power. Also, the importance of performance measures and impact on sense of direction in relationships should be further explored. This can, for instance, be explored by drawing on performance feedback theory (Greve, 2003) in order to understand how aspiration levels are set in alliances, and how dyads deal with risk in their response to performance feedback. The study also shows that multiple relational practices emerged and co-evolved, and how they were related to different corporate contexts. This aspect should be further explored, as different relational contexts might provide potential for many different relational practices to emerge. Finally, while much research on practice has focused on either the intra-organizational level or on societies or sectors as a whole, this paper addresses the interorganizational level. While the present study primarily relies on explanations internal to relationships, the relationship between relational practice and industry practice needs further exploration, as well as research that also to a larger extent considers the impact of networks and external events. Similarly, the relationship between intra- and interorganizational practice should be further explored.

ACKNOWLEDGMENTS

I would like to thank Dennis Arnett and Henrich R. Greve for comments on early drafts.

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