Managing local supplier networks:conflict or compromise

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This is an Accepted Manuscript of an article published by Taylor & Francis in Regional Studies, DOI: 10.1080/00343404.2017.1360479.

The final definitive version is available online:

https://dx.doi.org/10.1080/00343404.2017.1360479

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Abstract

This paper examines conflict management in small firm networks. Informal conflict management strategies used in exchange relationships are identified and analysed. In-depth, semi-structured interviews with 22 SME managers in an industrial district in the south-east of France are analysed. Results point to managers adopting accommodating behaviours in conflicts with clients and compromising and collaborative strategies with local partners. This research reveals the mobilisation of local norms in the management of conflicts and also contributes to research concerning coopetition and the possibility that managers of small firms may both separate and integrate coopetition activities.

Keywords: coopetition, conflict management, industrial districts, Arve Valley

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Introduction

The analysis of organisations has moved from the analysis of firms as atomised units, towards a broader view taking into account the firm, its partners, its network relations and its overall environment (Hakansson and Snehota, 1989, Becattini, 1979). According to this view the management of inter-organisational relations takes centre stage because firms, especially small firms, must interact with other individuals and organisations in order to access the resources necessary to attain organisational goals and assure their survival. The repositioning of the firm at the heart of multiple network relationships underscores the importance of managing this dependency and these relationships (Piore and Sabel, 1984). The management of inter firm ties could, in itself, constitute a source of competitive advantage (Dyer and Singh, 1998, Vargo and Lusch, 2004). Hakansson and Snehota (1989, 262) maintain that 'the organization's relationships with other organizations in the network constitute in themselves one of the – if not the most – valuable resources that it possesses'.

The necessity of entering into exchange relationships with other organisations gives rise to problems of uncertainty and dependence. Industrial district literature views district relationships to be harmonious and trust-based (Mathews and Stokes 2013) as a result of embedded ties in communities with long traditions of horizontal collaboration (Dei Ottati, 1994, Putnam, 1993, Becattini, 1979). Yet it would be naive to consider all district ties to be harmonious and conflict free. One can find empirical support for close, trusting ties and distant, distrustful ties (Paniccia, 1997, Staber, 2007). This paper aims to investigate whether network relationships in industrial districts are void of conflict as district literature assumes.

Conflict is the result of the contradiction between trying to satisfy one's own concerns at the same time as satisfying a partner's concerns (Thomas, 1992). It is a clear manifestation of the tensions inherent in inter-firm cooperation, particularly horizontal cooperation or coopetition, common in industrial districts (Tidstrom, 2014, Bengtsson and Solvell, 2004, Harrison, 1992). Cluster or district literature[i] has yet to resolve the apparent paradox of both rivalry (Porter, 1994) and cooperation (Dei Ottati, 1994, Harrison, 1992) being explanatory factors for clusters' success. It is therefore worthwhile to examine whether there is in fact conflict in intra-district exchanges and how this conflict is managed. In doing so we will shed light on how managers cope with tensions between between monostasy (remaining independent) and systasy (dependence on others in order to attain goals).

Coopetition literature (Bengtsson, Kock, Lundgren-Henriksson and Nasholm,2016, Tidstrom, 2014) has examined the tensions involved in the paradox of cooperating with one's competitors and underlines the difficulty of managing these tensions. The debate remains divided between those who argue for separation of cooperative and competitive activities (Bengtsson and Kock, 2000) and those who argue for integration of cooperative activities by individuals managing them (Fernandez and Chimbaretto, 2016). SME managers may not have the luxury of physically separating these two conflicting operating modes and due to lack of resources be obliged to cope with these contradictions themselves.

The subject of conflict management is largely unexplored in network and district literature, where we often find naive assumptions such as networks being based on trust and mutually accepted norms, implying harmonious relationships (Barabel, Huault, Meier, 2007, Harrison, 1992), despite the inherent tensions rising from simultaneous cooperation and competition (Mascia, Pallotti and Angeli, 2016, Bengtsson, et al., 2016). Institutional theory (Hodgson, 2006), examines at some length the question of agency in relation to norms and we shall endeavour to shed light on the role of locally produced norms in SME managers' behaviour in conflicts in their exchange relationships.

This article looks to fill a research gap in the study of conflict management by SME managers in dense, embedded, inter-firm exchanges in industrial districts where companies engage in coopetition strategies. As such we respond to Bengtsson et al.,'s 2016 call to examine the micro foundations of cooperation and conflict in networks. We shall examine informal conflict management as practiced by small firm owners in a dynamic industrial district both in horizontal, cooperative ties between similar firms and vertical supply chain relationships with local suppliers and more distant clients. Our approach assumes that the actors have already progressed to stage 4 or even stage five of Pondy's (1967) model described below. We employ Thomas' (1992) conflict management typology based on the tension between assertiveness and cooperativeness.

In summary we shall look to answer these research questions. How do managers in industrial districts cope with the inherent tensions in their network links in instances of both horizontal and vertical cooperation? How do managers, particularly in SME's balance seemingly opposing questions of integration and separation of separation activities? And finally what is the role of locally generated norms in the management of conflicts?

This research demonstrates that SMEs compromise with local partners in order to maintain network ties that contribute to value creating activities, network flexibility and ultimately, competitive advantage. This finding is in contradiction to the sparse literature treating the micro-management of coopetition tensions where compromising was not prevalent (cf. Tidstrom, 2014). In particular it reveals the role of local institutions in the management of ties between small firms in industrial districts when compared to managing relationships with more remote clients. Industrial district managers seem to both separate activities for coopetition and mobilise local institutions in order manage conflicts with local partners. A final contribution to coopetition literature is the discussion of the combination of transparency (Maskell and Lorenzen, 2004) and industry factors which contribute to perceptions of (lower) competition which facilitate transparency.

The paper is structured as follows. The theoretical section discusses the origins of tensions in coopetition, followed by the apparent paradox of both rivalry and cooperation being identified as drivers of district competitiveness. Finally, we examine the theoretical foundations of conflict management research and Thomas' 1992 taxonomy of conflict handling modes. The following section deals with our methodology. The results section will underline managers' differing behaviours and conflict management strategies according to network position and the finality of each relationship. Finally, our discussion section will examine the implications of different strategic intentions and conflict management modes.

Coopetition

Coopetition involves the paradox of the simultaneous pursuit of competition and cooperation with similar firms in the same field or industry and was developed as a central concept in the Italian industrial district literature (see Becattini, 1991, Becattini, Bellandi and De Propris, 2010, Belussi and Hervas-Oliver, 2017). The benefits to firms engaging in coopetition stem from heterogeneous resources and capabilities being combined in new and more effective ways in production, distribution, and innovation for example, (Bengtsson and Kock, 2000, Belso-Martinez, Mas-Tur, Roig-Tierno, 2017).

Despite obvious benefits, it is difficult for firms to balance the hostility inherent in competition and the friendliness that cooperation implies, not least managing the contradiction between joint value creation and private value appropriation. As such, coopetition is the source of tension as much between firms as inside firms, and this tension must be managed in order for organisational objectives to be reached (Tidstrom, 2014, Gynawali, Madhavan, He, Bengtsson, 2016, Raza-Ullah, Bengtsson Kock, Lunggren-Henriksson and Nasholm, 2016).

Individuals may be able to act only according to one or the other logics and coopetition literature remains divided on whether activities and individuals should be separated (Bengtsson and Kock, 2000), or whether firms should base their strategy on individuals' capacity to integrate collaboration and competition (Fernandez and Chiambaretto, 2016). We shall examine the management of inter firm conflicts in industrial districts where coopetition is common.

Although cluster literature considers cooperation to be one of the reasons for clusters' success, (eg. Harrison, 1992, Hervas-Oliver, Sempere-Ripoll, Rojas Alvarado and Estelles- Miguel, 2017), there have been relatively few studies which examine the inherent tensions of coopetition and the management of the conflicts that may arise from these tensions in industrial district networks.

Industrial districts : Rivalry or cooperation?

In an echo of the coopetition literature, industrial district and cluster literature contains a paradox when discussing the question of rivalry and cooperation. On the one hand authors such as Porter (1994) and Pouder and Saint John (1996) maintain that the success of clusters and the capacity of cluster firms to be on the cutting edge of their industries depend on the intense rivalry that is simultaneously exacerbated and facilitated by geographical proximity. Proximity incites rivalry and competition because agents can observe and more easily understand their competitors' moves and countermoves (Maskell, 2001, Maskell and Lorenzen, 2004). Similar mind-sets, training and business experience allows managers to understand the strategic implications of even minor events, such as knowing the implications for production when a competitor buys a new machine. Social and professional networks also facilitate the flow of specialised, up to date information, while psychological factors such as prestige and pride contribute to heightened competition (Bengtsson and Kock, 2000).

Industrial districts are frequently held up as paragons of cooperation when like-minded firms combine resources to punch above their weight and develop a community spirit where 'them' does not refer to local competitors but to 'outside' firms. An industrial district is a community of people bound together by similar values and views (behaviours, expectations and so on). These common values are then spread through the district and over generations by local institutions (schools, families, churches, professional organisations etc.). It is a community of individuals based on strong ties and intra-group bonding (Storper, 2005). Geographical proximity aids the development of trust and reciprocity through frequent, information rich, face to face contacts, both planned and serendipitous, in both social and business domains. The frequency and multiplexity of network relationships improves communication, reduces information asymmetries and enhances inter-organizational trust (Mathews and Stokes, 2013, Sydow, 1998), thus, in principle, reducing conflict between district actors. Although precisely how lower levels of conflict are achieved is rarely examined.

District and cluster literature emphasises cooperation between competing firms and depicts harmonious networks where common culture, a long history of cooperation (Dei Ottati, 1994, Putnam 1993), and trust and norms limit conflict (Kemp and Ghauri, 1999).

Very little district literature deals with conflicts or distrust in inter-firm relationships (see Staber, 2007). District literature is dominated by assumptions that local norms of forbearance (Bell, Tracey and Heide, 2009) in homophilic networks condition managers' behaviour. Long traditions of cooperation in districts supposedly reduce conflict between local partners (Putnam, 1993). Norms – 'socially transmitted and customary normative injunctions or immanently normative dispositions' (Hodgson, 2006, 18) – certainly influence behaviours and district agents do operate in homogenous institutional frameworks (Wood and Barr, 2005), but district literature glosses over the key question of how much these norms are interiorised by district managers and thus ignores questions of their agency. As Hodgson (2006) points out, there exists a continuum of rules between those consciously defined, discussed and decided (such as the road code) and those which, while not innate, are acquired socially then interiorised and not questioned or perhaps even acknowledged by the agents adhering to them (such as the grammatical and syntactic rules of language). Drawing on the work of Commons (1934) and Veblen (1909), Hodgson stresses the duality of institutions: they may be considered both as 'social rule systems' that structure and enable social interactions, much as the form and disposition of a building (a prison for Commons) will channel possible behaviour and interactions of people in the building, whereas institutions for Veblen, start with 'settled habits of thought', or the mental frameworks of the building's occupants. This implies that people will not always be fully conscious of the institutional constraints in which they are making their decisions, much in the same way that we may speak our mother tongue without realising we are following complex grammatical rules. Cluster and district literature seems to assume a conflict free environment where forbearance is the result of the interiorisation of local norms of cooperation (Dei Ottati, 1994, Putnam 1993, Barabel et al., 2007). By not questioning or examining inter-firm conflict, district literature would seem to negate the agency of local actors and their capacity to create, question, interpret and instrumentalise local norms. This paper shall examine the place and importance of local norms in inter firm conflict management in clusters.

Conflict

Conflict in inter-organizational dyads and networks is the natural outcome of the contradiction between competition and cooperation, independence and interdependence, or as Alderson (1965) puts it, the search for balance between monostasy and systasy. Network and district literature pays little attention to conflict management (Hagberg-Andersson and Tidstrom, 2008, Tidstrom, 2014) and assumes that actors in networks participate by choice and have the option of exiting if network outcomes are not satisfactory. Network relationships are assumed to be built on trust (Morgan and Hunt, 1984, Bradach and Eccles, 1989), and high levels of trust lead to lower levels of conflict (Kemp and Ghauri, 2001).

This harmonious vision of network relationships ignores an important factor of network dynamics. As Hagberg-Andersson and Tidstrom (2008) remark, exiting a network relationship would be detrimental to the firm because of the corresponding important loss of investment or sunk costs (defined as adjustments to partner). Exit is a radical decision because it could cut the firm off from future revenue streams and knowledge flows. Fewer partners also implies less operational flexibility, one of the main advantages of network structure (Thorelli, 1986, Finch et al., 2013).

Conflict, defined as 'the process which begins when one party perceives that another has frustrated, or is about to frustrate, some concern of his' (Thomas, 1992, 269), has been studied from a variety of perspectives. The structural approach emphases the causal explanations which lead to conflict. It deals with the parameters that shape the conflict and the conflict process including behavioural dispositions, social pressures, incentive structures and rules and procedures (Thomas, 1992). Conflict is often examined as a process which may or may not evolve through different stages, (as seen in Pondy's 1967 model) such as 1) latent conflict, 2) perceived conflict, 3) felt conflict 4) manifest conflict and 5) conflict aftermath (Hagberg-Andersson and Tidstrom, 2008, Tidstrom, 2014).

A frequently used typology for analysing conflict management modes is Thomas' (1976:1992) two dimensional taxonomy (figure 1 below) based on two underlying dimensions of assertiveness and cooperativeness. These modes signify the strategic intent of the parties in conflict (Thomas, 1992). They do not ignore the origins of a particular conflict, nor the structure and environment, but they categorize the actors' attempts at satisfying their own and others' goals. Although this model has generally been used for studying individuals' conflict management styles, they are transposable to inter-organisational conflicts, especially when applying the model to owner/managers of SMEs; who in many ways embody their small firm (Torres, 2004, Hagberg-Andersson and Tidstrom 2008, Tidstrom, 2014).

(Figure 1 here)

In view of these theoretical observations, as noted in our introduction we shall examine the following questions. How do managers in industrial districts cope with the inherent tensions in their network links in instances of both horizontal and vertical cooperation? How do managers, particularly in SME's balance seemingly opposing questions of integration and separation of separation activities? And finally what is the role of locally generated norms in the management of conflicts?

Methodology

The Arve Valley is a metal working, bar-turning[ii] or screw-cutting district. The heart of the district is comprised of 288 bar-turning firms (code NAF 25.62A) supported by a variety of specialist supplier firms and institutions, such as raw material and machine suppliers, surface treatment firms, research centres etc. 91% of district bar-turning firms are small or very small companies with fewer than 50 employees[iii]. We interviewed 22 small firm owner-managers of bar-turning firms (see appendices 1) out of a total of 288. The sample is in one sense a sample of convenience – we interviewed small firm owners who accepted to spend approximately one hour in a semi-directive interview. The respondents form a coherent and representative group of small company (fewer than 50 employees) bar-turners. Only three of the 22 companies were run by what we could call 'outsiders'; people who had not been raised and educated in the valley. 14 of the 22 companies were family firms, some in their 5th generation. 6 of the 22 were run with members of the close family, either siblings or in one case, cousins. An inductive, interpretive approach is an appropriate method as it allows findings to emerge from dominant, frequent or significant themes in the raw data and provides depth and detail which leads to an understanding of phenomena and experiences (Bowen, 2005, Thomas, 2006). In-depth semi-directive interviews are more likely to provide the fine grained, contingent information as to the origins and management of conflict than a Likert scale approach.

We asked owner managers to describe problems (past and present) that had arisen during exchanges with other companies. Questions were open ended based on conflict and conflict solving situations with three groups; 1) other, similar small décolleteurs used as subcontractors, nearly always situated in the Arve valley (coopetition, in this case horizontal cooperation), 2) suppliers, generally local suppliers of specialized services such as traitement de surface (surface treatment), reprise (reworking pieces to more exact specifications) and traitement thermique, (heat treatment) and, 3) clients, which were generally, though not exclusively, situated outside the valley (vertical cooperation in both cases). The questions asked were straightforward and direct, for example: 'what problems do you have with customers/suppliers/subcontractors and how do you solve them?'

As district literature posits strong in-group adhesion (Storper, 2005), answers were divided into two sections; problems experienced and resolved with local partners (irrespective of whether these partners were clients or suppliers, although the majority were suppliers) and 'outside' partners (the majority of cases discussed being clients). Figure 2 (below) details the different vertical and horizontal exchange relationships discussed and analysed.

(Figure 2 here)

A general inductive approach looks to condense extensive raw data into brief summaries of the main themes. According to Thomas (2006), it looks to establish clear links between the research data and research themes, making these links transparent and defensible.

We followed Thomas' (2006, 5) 5 guidelines in the analysis of transcripts:

- Data cleaning or organizing transcripts
- Close reading of the text in order to gain an understanding of themes and details

- Creation of categories on two levels. The upper levels correspond to categories derived from research aims (conflict, cooperation for example). Lower categories are created from meaning units or actual quotes used in transcripts (indulgence, local norms for example).
- Overlapping coding and uncoded texts. Not all of a text can be used and one segment of text may be used in different more than one category.
- Continued revision and refinement of category system. Categories can be combined or linked under a superordinate category (for example, sources of information and transparency in our case).
-

Results

Conform to industrial district literature we found many forms of cooperation between bar turners in the Arve Valley. For example, tools and equipment are lent between different bar-turners. Tacit information about how to manufacture a particular piece is passed from one bar-turner to another, seemingly without thought about whether this information will be transferred onward to a 'real' (i.e., unfriendly) competitor.

There are several formal associations[iv] between small groups of bar-turners who club together to buy raw materials at lower prices. The philosophy of one of these groups was 'to work together and not compete (against one another)' (Manager 9). On a less formal scale several companies would band together to win larger contracts and then redistribute the work between them. In one example, the focal company had the necessary quality certifications for working with larger clients. The work was divided among the three cooperating firms while invoicing was handled by the focal company which assumed ownership and therefore responsibility in case of quality problems, thus 'masking' the absence of the necessary quality certifications in the smaller firms. Cooperation, however, whether formal or informal, seems to stop at the client's door. No bar-turner interviewed mentioned wanting to combine their sales forces or to share client information. 'In fact, we don't talk about our clients' (Manager 11).

One aspect of coopetition closer to clients than for example, collective purchasing is 'mutual sub-contracting' (coopetition) where firms will sub-contract out work to other bar-turners for reasons of scope or scale. In this way firms frequently change roles inside their networks, alternating between being supplier and client. Conflicts are uncommon because as one manager said 'we understand each other very well'. Arguments over prices are rare because bar-turners know each other's cost structure to a very precise degree. Local firms accord a 'fair' margin for subcontracting work. Negotiations do not take very long as managers have a very clear idea of the right price.

'My neighbour is a colleague and not a competitor' (Manager 14). Manager 1, says the same thing, 'We don't see each other as competitors'. When asked if such or such a firm was a competitor, bar-turners frequently deny that it is a direct competitor, by underlining the particular speciality of the firm in question (type of metal worked, diameter of the bar, downstream market etc.). One bar-turner goes as far as to say 'even with this recession, there is enough room for everyone' (Manager 5).

There is a strong sense of district community. When a bar-turner could not manufacture a piece, he did his best to make sure that the work stayed in the district rather than go to an outside bar-turner.

Conflict management with local suppliers; Indulgence and Illunga[v]

Surface treatment firms and heat treatment firms (nearly always local to limit transport costs of parts between operations) are a particular source of quality problems and conflict. A large number of problems stem from the complexity and opacity of surface treatment operations. Although nearly every bar-turner had a story to recount about problems and conflicts with these suppliers, no-one overtly accused them of cheating or of bad faith. Quality problems were explained away in terms of 'it's a difficult profession', a bit like 'cooking' (following the same recipe may give different results). The surface treatment firms lack qualified staff, the managers are over-worked. No bar-turner interviewed believed that these suppliers would deliberately cheat or cut corners. They even accorded these (and other) suppliers three chances to make amends and resolve a conflict:

> 'the guy who doesn't work properly, I give him one chance. The second time, I'll start to wonder. The third time, I change suppliers', (Manager 5).

Three times seems to be the rule for Manager 17 too: 'My guys went once, twice, three times. After a while, that's enough!'.

Several bar-turners criticised their own behaviour when discussing conflict management with local suppliers: 'I was a bit lax, I didn't want to thump the table' (Manager 3). According to Manager 8, 'it is a diplomatic profession'.

> 'Sometimes even though the problem is not my fault, I accept the solution because I want to ensure the long-term relationship. I accept to pay part of the costs, so as not to put the other in a difficult situation' (Manager 5).

Bar-turners are indulgent towards suppliers in general: 'We make sure the person doesn't lose money. The goal is not to get rich from squeezing the supplier', (Manager 10). The 'problem' (often a question of substandard quality of a piece) was frequently interpreted as a mistake rather than opportunistic behaviour. In discussions with managers we have frequently seen firms ‘round out the angles’ during a dispute about sharing the cost of a ‘mistake’. ‘We do it in such a way as to make sure that the person (supplier) doesn’t lose too much money. The goal is not to get rich from the supplier…the working relationship goes on’ (Manager 10).

The following quote illustrates the compromising attitude taken by one manager when a subcontractor admitted his mistake (after discussion). A cost was mutually agreed. The contractor (in the right and in a position of power) agreed to split costs 60%:40%. The owner explains his logic;

> ‘Sometimes it’s not my fault, but I accept to pay part (of the repairs), because I privilege the long term relationship’, ‘I pay part (of the costs), so as not to put (the supplier) in difficulties, I know how to share’. (Manager 5).

This is not a unique example:

> ‘It (a quality problem with a local supplier) was 90% their fault. They paid 70%. So, if you say it’s 90% their problem and 10% your problem, you get to a compromise of 70-30.’ (Manager 3).

The SME managers interviewed formed a coherent group who shared very similar backgrounds. This homophily leads to empathy and an understanding of the others problems (McPherson, Smith-Lovin, and Cook, 2001), as shown by the following quotes:

‘We understand them. We have big investments, you’ve got to make the company run, it’s normal’ (Manager 11). ‘The person in front of me is like me, they play according to the rules’, (Manager

22).‘We can negotiate and discuss with our suppliers. We understand each other; we have the same mentality’ (Manager 9).

Conflict with clients

If local suppliers and partners benefit from an indulgent and compromising attitude towards conflict solving, then it is a very different case when bar-turners must deal with clients (who are generally from outside the district). Managers show a very diplomatic and accommodating attitude towards client during conflicts. They can be very circumspect;

> ‘If it’s a big client, we say amen. We say ‘you aren’t right but we’ll help you out’. (Manager 2).

Even during a major dispute about payment Manager 2 is very cautious and looks to minimise the conflict:

> ‘We sent several reminders, asked for several meetings, big debates around the table. We were cautious because a client could represent very big sales figures, so we’re careful not to lose all the sales with this client just for one little unfortunate incident’.

Negotiations with purchasing managers are further complicated by a larger organisational distance than with local suppliers. These ‘new generation’ purchasers are no longer former technicians promoted to the purchasing department but are professionals trained in the latest retail, confrontational purchasing methods.

> ‘The buyer who comes from Carrefour or Auchan[vi] comes in and is going to buy precision parts...he has no idea of the time, the difficulties, machines problems. A technician, he can’t

> avoid that. He'll say – yes I understand your problem. Now, they (clients) don't want that. They want the cost-killer.[vii]' (Manager 17).

In particular, bar-turners dislike the purchasing techniques of major automobile firms who are considered untrustworthy and disrespectful in their negotiations. Conflicts about prices and quality occur frequently.

> 'Ours clients demand, if a piece is sub-standard quality, to pay the production line stoppage, to pay for the car that brings the buyer here. We aren't like that' (Manager 6).

Automobile purchasers are socially, organisationally and geographically distant from bar-turners. They take advantage of their superior network and market position to squeeze the bar turners' margins; they are 'sharks' according to more than one bar-turner interviewed.

Rupture and exit are always possibilities. But if this radical step is to be undertaken the strategy seems to be to leave the client quietly without a major conflict. 'shall we say that we give them less good service. We increase the prices...we know how to get rid of them...we don't deliver on time' (Manager 14). It seems that one can never be too cautious; the door must always be left open for further collaboration.

Discussion

Conflict management with clients is clearly of an accommodating nature. Bar-turners do not produce their own products; they are purely sub-contractors and as such they rely on outside orders for their income. They will accommodate the demands of clients up to a certain point, the point at which margins become unacceptable. It is hardly surprising therefore that 'clients' are treated with respect and that small bar-turners suffer from the stronger market and network position of larger firms. As the remarks about the automobile industry show, bar-turners will complain about, but tolerate, aggressive margin squeezing by auto firms up to a certain point, all the while looking for other niche markets in order to avoid this pressure. Considering their clients to be one of their most important resources, if not the most important, bar-turners will bend over backwards to ensure the relationship's durability (Finch et al., 2013).

Conflict management with clients outside the district is made more difficult by cognitive, institutional, geographical and organisational distance (Gertler, 2003). Exchanges take place in a professional context, there is no overlapping of social and business networks between clients and local SMEs which limits the information actors may receive about the other. Increased geographic distance limits the opportunities of frequent face-to-face, information rich meetings. Actors have to rely on relatively information poor media such as telephones and e-mails. The attitudes of SME managers towards professional purchasers (as opposed to technicians promoted to purchasing) and the automobile industry underlines the difficulties of managing conflicts across larger organisational and cognitive distances. In the past technicians displayed an interest in the component ordered and were considerate towards possible production difficulties. A new generation of buyers was perceived to be oblivious to bar-turners problems. Clients are mostly external to the district and cannot share or create local norms of accepted behaviour. Each exchange relationship between a bar-turner and a client must create its own norms and 'mini-society' over time (MacNeil, 1980).

Conflict management in coopetition

In contrast to Tidstrom (2014) we found that conflict management with local partners (including other bar-turners) was based largely on compromise. Coopetition between bar-turners was facilitated by high levels of specialisation, multiple downstream markets, and product and technical differentiation and therefore little (perceived) competition. The transparency of districts (Maskell and Lorensen, 2004) meant that firms could occupy market niches with little product overlap thus avoiding (partially at least) direct competition. This perception helped managers create an external boundary inside which they could cooperate with similar firms (Raza-Ullah et al., 2016). In short, they did not see their neighbours as competitors. In this we concur partly with Mascia et al., (2016) who found that coopetition (between hospitals) is negatively related to niche overlap up to a threshold where similar resource dependency makes collaboration less likely. However, in contrast to Mascia et al. we found that geographically proximate firms were more likely to cooperate.

Coopetition activities were distant from the clients or based on distinct projects, i.e. batches of components (Gnyawali et al., 2016). As such, the bar-turners achieved separation of competition and cooperation, even though it was the same managers dealing with the cooperation and competition. Project based coopetition allows separation of activities (Bengtsson and Kock, 2000), while the mobilisation of local norms, such as not stealing another's client for example (or even talking about clients in detail) permitted integration of coopetition by staff (Fernandez and Chimbaretta, 2016).

Collaboration with other bar-turners bought clear benefits. They include improved production flexibility (both in scope and scale), the transfer of tacit information and in some cases cooperation permitted small or micro-firms to 'punch above their weight' by supplying components without possessing the necessary quality certifications. Mutual subcontracting reinforced community spirit, a 'sense of belonging' (Paniccia, 1998), because the margin secured by the focal bar-turner from and external client was distributed among other members of 'tribe' according to local norms of fairness and equity. These factors point to increased productivity and competitiveness for SMEs who were prepared to enter into coopetition strategies with other local firms. In accordance with district literature discussed above (Maskell, 2000, Maskell and Lorenzen, 2004) these winning strategies would eventually become known to all members of the cluster. Cooperation was not a result of interiorised local norms or habits of cooperation (cf. Putnam, 1993), but rather a function of industry conditions (Bengtsson and Kock ,2000) and the mobilisation of local norms, both of which helped create an external boundary to cooperative activities. Local norms were instrumentalised towards maintaining bonds which would contribute to value creating activities.

More interesting still is the compromising when sharing the costs after the mistake has been admitted and the blame attributed. The sharing of the costs by the bar-turner who refuses to exploit his superior position (Manager 5 and Manager 3, above) is a type of gift-giving in order to create and maintain social ties (Godbout, 1992, 2004, Mauss, 1950:1990). By compromising on the repartition of costs the bar-turner is effectively giving a small amount of money to the supplier. This creates a social debt or 'credit slip' (Coleman, 1990) that the supplier feels obliged to reciprocate in the future, thus reinforcing the bond between the two actors. The ongoing exchange is deepened and intensified when firms expect reciprocity (von Hippel, 1987, in Maskell and Lorenzen, 2004).

We have detailed above many examples of compromising attitudes in managing conflict between bar-turners and local suppliers. When dealing with these conflicts, opportunism was never invoked by the managers interviewed, ('Why would they cheat?' said Manager 2). Problems were perceived as originating from mistakes rather than from cheating, (similar to Uzzi's 1997 observations in the New

York garment district). The frequent examples of ilunga attest to managers' desire to keep the relationship alive even when they suspected that something wasn't quite right.

Local ties tend to be more harmonious not simply because managers want to be on talking terms with their neighbours or there had been a history of cooperation in the district but because local actors were protecting a resource which is vital for the survival of their firm, that of local network ties which procure work (in the case of 'mutual sub-contracting' or coopetition), tacit knowledge (about manufacturing techniques and the fabrication of particularly difficult pieces), flexibility and a feeling of belonging to a community or team. Managers compromise and maintain long term relationships with other, local, partners because they wish to maintain their own competitive advantage. Their own competitive advantage (and that of the district) depends partly on the competitive advantage of their suppliers. Adaptation to other local partners represents investments which must be maintained and are as such sunk costs (Maskell and Lorenzen 2004). Bar-turners compromise with local partners in order to profit from these investments and therefore go out of their way to maintain existing ties even though this desire to maintain the link may lead to problems of over-embeddedness (Uzzi, 1997) to the point of tolerating poor workmanship.

The different strategic intents shown by managers in conflict management can be explained by the fact that value creation activities (with suppliers and other bar-turners) require closer, trusting and more harmonious ties (cooperative advantage, Huemer, 2014), than value sharing activities with clients who exclude compromise and collaboration and lead to a zero sum game based on the clients' negotiation strength derived from a stronger network position (proximity to the final client in many cases).

These observations place more emphasis on the agency of the managers involved in the conflicts and less importance on the role of internalised norms and values as seen, for example in Putnam's (1993) arguments that a long history of cooperation ('horizontal bonds of fellowship', 1993:107) in central regions of medieval Italy lead to norms of collaboration and compromising among citizens of semi-independent city states such as Florence and Bologna, which form the basis of Italian industrial districts.

We have noted the accommodating attitudes towards clients. Clients certainly represent an important (indeed only) source of revenue, but, perhaps more importantly, suppliers (almost exclusively local) represent important sources of competitiveness, flexibility and innovation[viii]. Bar-turners accommodate demands from clients (buffer stocks, quality levels and so on) as long as product margins remain acceptable. If demands become unreasonable they will attempt to break off the relationship in a subtle and 'diplomatic' way, in order to leave the door open for future work.

(figure 3 here)

Although this paper may lead to a conclusion of an inside/outside dichotomy of conflict management styles, on closer inspection this is not relevant. The embeddedness of exchanges in industrial districts and different types of proximities (notably social and organisational) are resources that can be mobilised in order to maintain vital network links for small firms in the district (Rallet, 2002). Actors do not go out of their way to maintain local links just because communication is easier between like-minded individuals who happen to live and work in the same area. Coopetition is facilitated by an activities distance from the client (e.g. collective purchasing) and the separation of activities (batch production), but integration is achieved through the mobilisation of local norms such as the absence of opportunism (‘why would they cheat?’), the notion of a ‘fair’ margin (possible because of local transparency, Maskell and Lorensen, 2004), and the ‘no poaching’ rule (the idea that bar-turners keep their own clients and do not share this information). Local norms provide rules and guidelines as to how to behave the ambiguous context of coopetition.

Network sustainability and conflict management are facilitated by a number of factors such as common backgrounds and perceptions of limited local competition; contrary to Mascia et al.’s (2016) findings (Phillipson, Gorton and Laschewski, 2006). Network homophily and common, local norms and rules (Kemp and Ghauri, 2001, McPherson et al., 2001), are not followed blindly but these resources are mobilized in order to achieve individual organizational goals (with, as mentioned above the risk of over-embeddedness). Collaborating and compromising are made easier by the recognition of collective, common (district or tribal) goals which induce managers to modify their behaviour and limit conflicts and maintain long term ties. In this way the local productive network retains the characteristics which enhance individual firm’s competitiveness. Figure 3 above resumes our central findings.

Conclusion

A major contribution of our study of conflict management in industrial districts is how managers adopt different conflict strategies according to the finality of the relation in question, in this instance either value creation with local partners or value sharing with clients. SME managers in the Arve Valley adopt different conflict management behaviours or intentions according to their structural position in networks and the type of resource they wish to access from the partner. When dealing with clients, SME managers adopt accommodating behaviours (Thomas, 1992) because of their weaker network position. They will accommodate demands and even produce buffer stocks for clients without formal or informal orders, up to the point when client demands are considered excessive. At this point alternative clients are searched and conflict is avoided.

Paradoxically, these same managers do not take advantage of their superior network and market position when dealing with local suppliers. In their dealings with firms which make up the local productive system, managers adopt behaviours such as high levels of indulgence and gift-giving which aim to maintain close relationships over the long term. Managers wilfully interpret problems as 'mistakes' or as a result of a 'difficult job' rather than untrustworthy or opportunistic behaviour (Uzzi, 1997). Exchanges with other bar-turning firms in the industrial district are typified by high levels of collaboration at the horizontal level, as we would expect to see in industrial districts, (Paniccia, 1998), but are also facilitated by high levels of 'transparency' (Maskell and Lorenzen, 2004) which helps managers find niche markets and avoid direct competition with other local bar-turners, thus reducing possible sources of conflict.

A second contribution is the revealing of the role of local norms in conflict management. Local norms, similar backgrounds, the shadow of the future and reputational effects, etc. all contribute to managing conflicts with local partners in a harmonious way. By mobilising these resources of proximity in all its manifestations, SME managers create close, trusting, long term relationships which facilitate the transfer of tacit information and reduce transaction costs in frequent exchanges. Managers increase their own firm's competitiveness by increasing the competitiveness and efficiency of their local network(s). Cooperation, collaboration and compromising are not the result of a long history of close horizontal bonds as suggested by much of the industrial district literature and typified by Putnam's 1993 work on the roots of Italian civic life, but it is the direct result of the bar-turners self-interest. Bar-turners do not put the community's welfare before their own but by managing network links in such a way they look after their own interests first and maintain the community's competitiveness at the same time. As such, they display more agency than much of the district literature would accord them.

This paper also contributes to the literature on coopetition in that conflict management with local partners in the district contained elements of both separation (batch production, ring fencing clients) and integration (the same staff dealing with cooperative and competitive activities). Although the question of integration may have been a function of the firm's small size and the impossibility of having different staff dealing with the different activities, it would seem that the structural elements of the coopetition as detailed above combined with strong locals norms facilitate the integration of coopetive strategies by the SME managers.

Limitations, and Implications for Future Research

Case studies such as our study of the Arve Valley allow the exploration and comprehension of a particular phenomenon in its context. A case study allows us to understand the SME's manager's world view and motivations behind their decisions when dealing with conflict in their different relationships.

However, as in any methodological choice what we may gain in a rich understanding of context and process, we may lose from limitations to generalizability of our insights (Yin, 2009). The major contributions of this paper include the importance of local norms and proximities in managing value creation activities and compromising in value-sharing activities may indeed be common among SME mangers in other clusters and contexts. A limitation of this paper is the absence of the 'other side' of the argument. It may have been interesting to interview supplier-client dyads in order to compare attitudes and conflict management between exchange partners, and this could represent an interesting avenue for further research. Bar-turners are extremely reluctant to divulge the names of their clients, and may be particularly reluctant to open up old wounds with existing or past clients.

Bar-turners in the Arve Valley do not seem to perceive their neighbours as competitors; a perception which greatly facilitates cooperative activities. This observation is in partial contradiction to Mascia et al. (2016), and in itself pleads for more studies on the perceived levels of competition in industrial districts or clusters. We cannot be sure however whether managers engaged in cooperative activities and then justified their actions by finding 'valid' reasons afterwards. This point deserves further investigation because it goes to the heart of the rivalry versus cooperation paradox in cluster studies.

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[i] We are well aware that there is debate over the differences between industrial districts and clusters (see Motoyama, 2008 or Belussi, 2006). We use the two terms as synonyms.

[ii] Bar-turning is the best translation for the French word *décolletage*. They are in fact lathe operators who originally cut screws and precision parts for the Swiss watch industry (Geneva is situated 45km away).

[iii] Source: Diane database. Figures are for the Savoy *département*. Lack of space prevents us from a discussion of the pertinent boundaries of the Arve Valley district, but *département* figures capture the essential elements.

[iv] *Groupement d'Intérêt Economique* : a formal structure which can regroup several firms but has no capital itself.

[v] Illunga : From the Tshiluba language spoken in south-eastern DR Congo, meaning 'a person who is ready to forgive any abuse for the first time, to tolerate it for the second time, but never a third time' (Conway, 2004)

[vi] Major retail chains.

[vii] In English in the text.

[viii] The Arve Valley district is a manufacturing district exploiting existing technologies; therefore most innovation is process innovation (making pieces faster and cheaper) rather than product innovation.