Conflict Management, Value Making and Value Taking in Small Firm Manufacturing Networks

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Abstract
The purpose of this paper is to examine conflict management in exchanges in small firm networks which are embedded in the dense socio-economic exchanges that typify industrial districts. Informal conflict management strategies used by managers in vertical and horizontal, symmetrical and asymmetrical relationships are identified and analysed. The methodology chosen is that of in-depth semi-structured interviews with 22 small company owner/managers in an industrial district in the south-east of France. Interviews were conducted with a highly homogenous group of company managers of firms smaller than 50 employees. Results point to managers adopting accommodating behaviours in conflicts with larger clients and compromising and collaborative strategies with local partners. This communication looks to fill a research gap which is the study of conflict in the particular case of embedded inter-firm exchanges where different types of proximity play an important role. This research reveals the efforts managers take to ensure the continuation of network relationships that reinforce a firm’s competitiveness. In particular it reveals the role of different types of proximities in the relationship management of small firm owner managers.

Keywords: Conflict management, industrial districts, Arve Valley

Topics: Outsourcing and procurement; Supply chains

Methodology: Empirical work

Introduction
In an increasingly networked world where value chains are disintegrating as firms become more and more specialised, firms rely on other organisations in order to procure necessary resources to achieve their goals (Mathews, 2001). In this context the management of inter-organisation relationships is central to a firm’s competitiveness (Hakansson and Snehota, 1989:2006). This is particularly true of small firms in industrial districts because of their very small size (implying a smaller resource base) and their high level of specialisation. Industrial district literature views district relationships to be generally harmonious and trust-based (Dei Ottati, 1994, Lorenzen, 2002, 2005) as a result of embedded ties in communities with long traditions of horizontal collaboration (Dei Ottati, 1994, Putnam, 1993). These trust-based network ties reduce transaction costs and increase the flow of tacit information between firms, leading to individual and collective efficiency. Yet it would be naive to consider all district ties to be harmonious and conflict free. There are many varieties of industrial districts and one can find empirical support for close trusting ties and distant distrustful ties (Paniccia, 1997, Staber, 2007). Conflict is the natural result of the contradiction between trying to satisfy one’s own concerns at the same time as satisfying a partners concerns (Thomas, 1992) and district literature has largely ignored this question.

We shall examine informal conflict management as practiced by small firm owners in a dynamic industrial district both in vertical supply chain relationships with local suppliers and more distant
clients without neglecting the horizontal cooperative ties between similar firms. We shall address the following research questions. How do district actors manage the inevitable conflicts which arise from divergent organisational goals? How does market power, firm size and network position influence managers’ strategic intent in their relationships with other firms? Is there a difference between intra-district relationships and extra-district relationships? What is the role of local norms and district dynamics in the management of conflicts? How could this difference be explained? And finally, what role does the embeddedness of ties play in the management of vertical and horizontal exchanges?

This communication looks to fill a research gap which is the study of conflict in a particular case of dense, embedded, inter-firm exchanges where proximity plays an important role. This research underlines the importance of inter-organizational links between small firms and the efforts managers take to ensure the continuation of network relationships. In particular it reveals the role of proximity (geographical, cognitive, organizational and institutional, Gertler, 2003, Rallet, 2002) in the relationship management of small firm owner/managers.

The paper is structured as follows. After a brief discussion of conflict management research and Thomas’ 1992 taxonomy of conflict handling modes, we shall outline the major elements of the communitarian industrial district model. We shall then examine the different types of proximity that may be mobilized by district managers when dealing with conflict with partners. The following section deals with our methodology. The results section will highlight the fact that managers adopt different conflict management strategies according to network position and the finality of the partnership. Finally, our discussion section will examine the implications of different strategic intentions and conflict management modes.

**Inter-organizational Relationships, Networks and Conflict**

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, 1989:2006). According to this standpoint 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 very survival. The necessity to enter into relationships with other organisations gives rise to problems of incertitude and dependence. The repositioning of the firm at the heart of multiple network relationships underscores the importance of managing this dependency and these relationships. Dyer and Singh (1998), suggest that the management of inter firm ties could, *in themselves*, constitute sources of rent and Hakansson and Snehota (1989:2006, 262) maintain that ‘some of the organizations relationships with other organizations in the network constitute in themselves one of the – if not the most – valuable resources that it possesses’.

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 (remaining independent) and systasy (dependence on others in order to attain goals). This ‘natural’ tension is particularly strong in small firms as their limited resource base makes accessing external resources via network partnerships all the more important. Network literature pays little attention to conflict management (Hagberg-Andersson and Tidstrom, 2008) and seems to assume that actors in networks are present 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 point of view 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 an important loss of investment (defined as adjustments to partner). Logically, the longer the relationship, the higher level of investment and the higher the level of interdependency. Exit is a radical decision
because it could cut the firm off from future revenue streams and fewer partners implies less operational flexibility, one of the main advantages of network structure (Thorelli, 1986, Jarillo, 1988).

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, 265), has been studied from a variety of perspectives.

The structural approach puts emphasis on 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).

In this paper I shall concentrate on the conflict-handling modes or attitudes of SME managers in a particular environment, that of an active industrial district in south-east France. Our approach assumes that the actors have already progressed to stage 4 or even stage five of Pondy’s model described above. 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 a party in conflict’ (Thomas, 1992, 269). 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 these modes have generally been used for studying individual’s conflict management styles, we believe, like Hagberg-Andersson and Tidstrom (2008), that they are equally valid when regarding inter-organisational conflicts, especially as we shall apply the model to owner/managers of SMEs who in many ways embody their small firm (Torres, 2004).

Industrial districts
District and cluster literature concentrates on cooperation between competing firms depicting 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), but largely ignores the question of conflict management.

Lack of space forbids us a detailed examination of industrial districts. They are more than a simple juxtaposition of atomistic entities manufacturing and trading in related industries. They may ‘be interpreted as cognitive systems; a socio-productive system where knowledge, social experiences, mental modes, and collective beliefs are accumulated in a specific place through time’, (Belussi and Pilotti, 2002, 125).

An industrial district is a community of people bound together by similar values and views (behaviours, expectations etc.). These common values are then spread through the district and over generations by a system of 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 (Sydow, 1998), thus, in principle reducing conflict between district actors.

Districts are by definition dominated by a single activity. Managers tend to be trained in the same schools and technical colleges inside the district (Mistri and Solari, 2004). Canonical industrial districts are made up of predominantly small companies (Panniccia, 1998). Owners have frequently inherited the family firm and run it with the aid of brothers, sisters, cousins, children etc. This dense and historical social context, coupled with, and aided by the different forms of proximity discussed above, leads to very high levels of homophily in district networks.

Another factor which we have to take into account when considering co-operation and competition in industrial districts is the high level of firm specialization (Panniccia, 1998, Staber, 2007). A large number of geographically proximate firms working in the same field provide a large standing market for specialized inputs (Porter, 1994). The combination of social and business networks discussed above provides entrepreneurs with expert information and knowledge about possible niche markets in the district. Entrepreneurs with a new idea or a new service receive expert help, advice and start-up capital from close family (Schmitz and Nadvi, 1999). They frequently work initially for their former employer who benefits by gaining another specialized supplier whom he knows well and can trust. The former employer becomes more specialized by reducing the number of activities carried out, and finally, reduces their own need for investment by sub-contracting to the start-up.

High levels of firm specialization are matched by diverse final markets. Industrial districts develop and grow when firms become highly specialized in industries where a common technology satisfies a myriad of downstream markets (Pounder and St John, 1996). The combination therefore of freely circulating tacit and explicit information, lower transaction costs, district ‘transparency’, district know-how in a particular production technology and multiple downstream markets means that, in growth phases at least, entrepreneurs (in the larger sense meaning SME managers and start-ups) can find market niches which are relatively protected from (direct) competition (Schmitz and Nadvi, 1999).

The subject of conflict management is largely un-explored in network and district literature, where we often find naive assumptions such as, for example, networks being based on trust and mutually accepted norms, implying harmonious relationships (Barabel, Huault, Meier, 2007, Harrison, 1992).

District literature is dominated by assumptions that local norms of forbearance (Bell, Tracey and Heide, 2009) in homophilic networks condition managers’ behaviour in such a way that long traditions of cooperation (Putnam, 1993) in districts reduce conflict between local partners. Norms – ‘socially transmitted and customary normative injunctions or immanently normative dispositions’ (Hodgson, 2006, 18) – certainly influence behaviours and district agents do operate in homogeneous
institutional frameworks (Wood and Barr, 2005), but district literature glosses over the key question of how much these norms are *interiorised* by district managers. 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. Such an approach, implied in district literature negates the agency of local actors (essentially SME managers). Institutions and norms are socially constructed by agents testing and questioning them as they go (Hodgson, 2006). This paper shall examine the question of whether district managers adhere ‘blindly’ to local norms of cooperation and forbearance in the management of their suppliers or whether they *mobilise* local norms in their supplier relationships as means to their (self-interested) ends.

I will examine the contradictions developed above; that of district and network literature which implies harmonious relationships with suppliers on the one hand and the inherent contradiction between monostasy and systasy.

**Methodology**

The Arve Valley is a metal working, bar-turning\(^1\) 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\(^2\). One particular aspect of the district’s functioning is important to mention. Many firms are active in ‘mutual subcontracting’. Work is contracted out to other small bar turners for reasons of both scope and scale. It is not infrequent for firms to inverse their roles over time according to machine specialisation and availability.

We interviewed 22 small firm owner-managers of bar-turning firms (see annexe 1) out of a total of 288 (i.e. approx. 7.6% of bar-turning firms in the district, which in turn represents 60% of French bar-turners and are concentrated in a 10 km radius around the town of Cluses). 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. Firm contact details were taken from the Technic Valley website list of bar-turning firms. We worked through from A to Z, contacting SME managers by telephone and asking for a 1 hour interview at a date that suited them. Approximately 50% of SME managers refused an interview and after 22 interviews we started to see sufficient repetition of central concepts and ideas concerning their relationships with exchange partners. 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 5\(^{th}\) generation. 6 of the 22 were run with members of the close family, either siblings or in one case, cousins.

We had previously attempted an internet based questionnaire survey method, but faced with extremely low response rates (3 replies, 2 incomplete, from a sample of 250), we chose to use a

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\(^1\) 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).

\(^2\) 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.
qualitative methodology because in order to focus on problems that had arisen between bar-turners and their suppliers and clients. 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 any attempt to reduce a manager’s perceptions of their relationships to a series of propositions to be ticked off on a Likert scale. One example which validated this approach was the emergence of ilunga as a conflict management method used by valley managers.

We asked owner managers to describe problems (past and present) that had arisen during exchanges with other companies. The exchange partners evoked by SME owner managers could be divided into three groups; 1) other, similar small décolleteurs used as subcontractors, nearly always situated in the Arve valley, 2) suppliers, generally local suppliers of specialized services such as traitement de surface, reprise (reworking pieces to more exact specifications) and traitement thermique, and, 3) clients, which were generally, though not exclusively, situated outside the valley. 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.

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

Co-operating, not competing

Conform to industrial district literature we found many forms of cooperation, both vertical and horizontal 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 associations3 between small groups of bar-turners who club together to buy raw materials at lower prices. The ‘motto’ or 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 band together to win larger contracts and then redistribute the work between them (a practice common in Italian industrial districts). In one example, the focal network 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 who assumed ownership and therefore responsibility in case of quality problems, thus ‘masking’ in this way the absence of the certifications in the smaller firms. Cooperation, however, whether formal in the form of G.I.E’s, 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).

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.

Avoiding competition, avoiding conflict

Multiple downstream markets, product and technical differentiation, and transparent local markets (Maskell and Lorensen, 2004) allow bar-turners to occupy market niches and thus avoid (partially at least) direct competition. Paradoxically, managers admit there is competition in the district but never seem to acknowledge the existence of competitors. ‘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 industry serviced etc.). One bar-turner goes as far as to say ‘even with this recession, there is enough room for everyone’ (Manager 5).

Conflict management with local suppliers

One particular aspect of district dynamics is ‘mutual sub-contracting’ 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 particular 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. The machines are the same or similar, their prices are known, amortization rates are the same and rents and salaries are known. 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. Subcontractors, on the other hand, cannot

3 Groupement d’Intérêt Economique : a formal structure which can regroup several firms but has no capital itself.
demand a price too high or too low as it would be noticed rapidly. ‘We say – voila, right now we can offer you this price – do you accept it or not’ (Manager 4).

**Indulgence and Illunga**

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 seem very 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 remarkably 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 our suppliers. We understand each other; we have the same mentality’ (Manager 9).

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4 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)
The Exception that Confirms the Rule.

Opportunist behaviour is reduced in industrial districts through a combination of reputational effects, known and integrated local norms of behaviour and the shadow of the future (Dei Ottati, 1991). Even when one particular bar-turner was known to be a cheat in sub-contracting arrangements, his clients accepted this behaviour with (some) indulgence because he was a local ‘character’ and everyone knew you had to check his invoices twice.

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 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.’ (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.

Bar-turners frequently manufacture buffer stocks for clients. This production is occasionally covered by explicit contracts or oral agreements, but more frequently bar-turners produce stocks for particular clients on their own initiative (as a service). This caused many problems during the recession in 2009 when clients reduced orders drastically leaving the bar-turners with stocks which could only be sold to one client. In the case of conflict of this type bar-turners stay very polite and diplomatic:

‘We stay in contact with them. We try to draw their attention to the fact that there are still stocks of this piece’ (Manager 8).

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

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5 Notice that the potential conflict was about prices and not quality. Cheating on quality would go against the credo of the district; that bar-turners produce quality pieces.

6 Major retailer chains.

7 In English in the text.
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. Bar-turners are at the end of some very long supply chains and in many cases they do not even know of the identity of the final customer. 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. Two attitudes and norms about clients show the respect that bar-turners owe them. It is accepted to compete for a client if consulted on a price, but it is against a local norm to steal another bar-turners client. The second local norm about clients is the ‘myth’ of the ‘white knight client’. This is a client who orders a reasonably complex piece in large enough quantities over a long period and affords a good margin to the bar-turner. Several fortunes have been accumulated in the district over the years thanks to this type of client. The latest example being mobile telephone manufacturers who ordered millions of parts at good prices from bar-turners over the last twenty years.

Conflict management with outside clients is made more difficult by cognitive, institutional, geographical and organisational distance. Clients do not necessarily 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). 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 part ordered and were considerate towards possible production difficulties. A new generation of buyers was perceived to be oblivious to bar-turners problems.

Conflict management with local suppliers (including other bar-turners) was based on collaboration and compromise. Relationships with these partners were long-term and sometimes passed down through generations. Collaboration between bar-turners was facilitated by high levels of specialisation which meant that firms occupied market niches with little product overlap and therefore little direct competition. The local norm of not stealing another’s client further protected small firms from direct local competition and facilitated cooperation up to a certain point in the formal and informal strategic groups in the valley. Collaboration with other bar-turners improved production flexibility (both scope and scale). It allowed the transfer of tacit information and in some cases permitted small or micro-firms to ‘punch above their weight’ by supplying parts to partners 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 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 avoid competition with local firms. Community or team spirit allowed managers to satisfy their and others concerns.

We have detailed above many examples of compromising attitudes in managing conflict between bar-turners and local suppliers. When dealing with these conflicts, opportunism never invoked by the managers interviewed, (‘Why would they cheat?’ said one). 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 illunga attest to managers’ desire to keep the relationship alive even when they suspected that something wasn’t right.

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, page 12 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). As one cannot reciprocate like for like (in this case, otherwise why argue about the repartition of costs?), the supplier will return the favour in another form in the future (rapid delivery, special price etc.). The tie is maintained because the counter-gift is not the strict equivalent of the original gift, thus creating an ongoing chain of gift-giving and counter-giving which reinforce the social bond. Not returning the favour would mean breaking the relationship and risking a bad reputation as ‘ungrateful’ (Mauss, 1950:1990, Ferrary, 2003).

This local productive system has been built up over generations in order to supply complex precision parts to regional, national and international clients. There are very few major clients situated in the district which resembles more a heterarchy (Wolfe, 2005) than a hub and spoke configuration (Markusen, 1996).

There is no particular reason that the different forms of proximity should lead to two different conflict management attitudes, or that local ties should be more or less harmonious than outside ties. Staber, (2007) discusses the persistence of dysfunctional attitudes in clusters or industrial districts, while in her review of the canonical industrial district, Paniccia, (1998) found districts with varying levels of trust and collaboration (this reference being one of the few in contradiction of the stress on harmonious ties in district literature). Local ties tend to be more harmonious not simply because managers want to be on talking terms with their neighbours but because local actors are 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’), tacit knowledge (about manufacturing techniques and the fabrication of particularly difficult pieces), flexibility and a feeling of belonging to a community.

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 than value sharing activities with clients, who are in any case larger and in stronger market positions which limit compromise and collaboration. These observations accord with the ‘learning region’ literature and the role of proximities in the transmission of tacit knowledge (Gertler, 2003) as applied to industrial districts (Maskell, 2001, Malmberg and Maskell, 2006), but they 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. Managers compromise and maintain long term relationships with other, local, partners because they wish to maintain their own competitive advantage and their own competitive advantage (and that of the district) depends 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.

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. Bar-turners accommodate demands from clients (buffer stocks, quality levels etc.) 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: Conflict Management in Industrial Networks

Although this paper may lead to the assumption of an inside/outside dichotomy of conflict management, 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, nor do they breach the sacrosanct axioms of neo-liberal economics by giving gifts just because communication is easier between like-minded individuals who happen to live and work in the same area. Network sustainability and conflict management are facilitated by a number of factors such as common backgrounds, and specific sectors and localities (Phillipson, Gorton and Laschewski, 2006), network homophily and the creation of common, local norms and rules (Kemp and Ghauri, 2001, McPherson, Smith-Lovin, and Cook, 2001), but these resources are mobilized in order to achieve individual organizational goals. 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

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8 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.
productive network retains the characteristics which enhance individual firms’ competitiveness. Figure 3 above resumes our central findings.

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). We do believe that major contributions of this paper; the importance of managing value creation activities and compromising in value-sharing activities may indeed be common among SME managers 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. As interesting as this extension of our work would be, it is fraught with difficulties. Apart from logistical problems in interviewing clients spread out over all of France, 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. The risk here would be to only have good clients and harmonious relationships to investigate rather than examples of conflict.

Conclusions
Network relationships, both vertical and horizontal, are crucial to all firms but are particularly important to small firms because of their relatively smaller resource base. SME managers in the Arve Valley industrial district 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 even 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’ in the district (Maskell and Lorenzen, 2004) which helps managers find niche markets and avoid direct competition with other local bar-turners.

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.
## Appendix 1. Interviews

<table>
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<tr>
<th>Manager</th>
<th>Company Type</th>
<th>N° Employees</th>
<th>Date</th>
<th>Duration</th>
<th>Remarks</th>
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<tr>
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<td>14</td>
<td>17-4-08</td>
<td>1h15</td>
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<td>22</td>
<td>14-5-10</td>
<td>1h</td>
<td>Outside owner</td>
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<tr>
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<td>25</td>
<td>8-7-09</td>
<td>1h30</td>
<td>Run with brother</td>
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<td>10</td>
<td>8-7-09</td>
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<td>28-9-09</td>
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<td>5-10-09</td>
<td>1h</td>
<td>Run with brother</td>
</tr>
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