



The influence of relational experience and contractual governance on the negotiation strategy in buyer–supplier disputes

Fabrice Lumineau^{a,*}, James E. Henderson^b

^a Krannert School of Management, Purdue University, West Lafayette, IN 47907-2056, USA

^b IMD International, Chemin de Bellerive 23, P.O. Box 915, 1001 Lausanne, Switzerland

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ABSTRACT

This paper theoretically refines and empirically extends the debate on the type of interplay between relational experience and contractual governance in an under-researched area: supply chain disputes. We define relational experience as either cooperative or competitive; distinguish between control and coordination functions of contractual governance; and assess their interplay on the negotiation strategy used in disputes. Using a unique data set of buyer–supplier disputes, we find, in particular that increasing contractual control governance weakens the positive effect of cooperative relational experience on cooperative negotiation strategy. However, increasing contractual control governance for a buyer–supplier dyad with competitive relational experience will increase cooperative negotiation strategy. Contractual coordination governance reinforces the positive effect of cooperative relational experience. Through this study, we reach a better understanding of *how* and *when* contractual and relational governance dimensions interact; rather than *whether* they act as substitutes or complements as has been studied in prior research. We discuss the implications of these findings for the field of supply chain management.

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1. Introduction

Despite the call of supply chain scholars and practitioners to use cooperative strategies in managing buyer–supplier exchanges, many business relationships end up in a dispute between partners (Dant and Schul, 1992; Jap and Anderson, 2003). Given this potential for opportunism and conflict, buyers and suppliers rely on governance mechanisms to mitigate risks and promote cooperation (Carey et al., 2011; Lumineau and Quélin, 2012; Tangpong et al., 2010).

Supply chain governance has traditionally been viewed from two theoretical perspectives. The first perspective focuses on relational governance as a mechanism in which interorganizational exchange is regulated through a set of norms that circumscribe acceptable behavior between exchange partners (Heide and John, 1992; Lusch and Brown, 1996; Macneil, 1980). The relational governance perspective suggests that as buyers and suppliers transact satisfactorily over time, relational norms of flexibility, participation, and solidarity are established (Griffith and Myers, 2005; Tangpong et al., 2010) maintaining the relationship and curtailing behavior promoting the goals of the parties (Heide and John, 1992; Zhang et al., 2003). The second perspective, in line with transaction cost economics (Williamson, 1985), highlights the importance of

the contract between trading partners and its formal rules of compliance (Lumineau and Malhotra, 2011; Reuer and Ariño, 2007) to safeguard against opportunism and conflict.

Considerable attention has been devoted to examining whether contractual and relational governance mechanisms act as substitutes or complements (e.g. Carey et al., 2011; Li et al., 2010; Liu et al., 2009; Lui and Ngo, 2004) on subsequent operational performance or strategic outcomes (see e.g. Cousins et al., 2006; Lawson et al., 2008; Sanders, 2008). Formal contracts and relational governance have traditionally been viewed as substitutes in terms of their impact on subsequent outcomes. The presence of one governance device would obviate the need for the other (Corts and Singh, 2004; Crocker and Reynolds, 1993; Gulati, 1995). However, a few studies have considered the possible complementary effects between contractual and relational dimensions (Klein Woolthuis et al., 2005; Poppo and Zenger, 2002; Ryall and Sampson, 2009). Clearly, the nature of the interplay between the effects of relational and contractual governance dimensions remains equivocal (Liu et al., 2009; Wuys and Geyskens, 2005).

While prior research focuses on *whether* relational and contractual governance act as complements or substitutes on subsequent outcomes, we examine *how* and *when*—that is, under which conditions—different governance mechanisms influence buyer–supplier relations when a conflict has actually surfaced. Despite the intention of governance mechanisms to mitigate conflict, disputes will occasionally come about. We thus deal with the individual and joint effects of relational and contractual governance

* Corresponding author.

dimensions on the development of the negotiation strategy during dispute resolution.

Our work contributes to this stream by extending earlier conceptualizations of both relational governance and contractual governance. Firstly, prior research has largely used the number of previous transactions as a proxy for cooperative relational governance (Dyer and Singh, 1998). However, the use of this proxy assumes that competitive buyer–supplier relationships are essentially “weeded out” over time, and only cooperative relationships remain. In our study, we take into account the quality of the relational experience—competitive vs. cooperative—rather than using the number of prior transactions, and assess its interplay with contractual governance in influencing the negotiation strategy used in disputes. Secondly, recent studies have illustrated that contractual governance is about more than just control (Malhotra and Lumineau, 2011; Reuer and Ariño, 2007). Inter-firm contracts may serve two distinct functions: control and coordination. We use this distinction in testing the influence of relational and contractual governance mechanisms individually and collectively on the negotiation strategy used in disputes.

Our empirical analysis employs a unique dataset of 99 buyer–supplier disputes. The data came from approximately 150,000 pages of legal documents relating to supply chain disputes handled by a single European law firm. The data encompass a variety of contractual and relational characteristics, thereby enabling us to study in detail their influence on the negotiation strategy.

The paper is organized as follows. In the first section, we introduce the theoretical background on relational and contractual governance before proposing our model and hypotheses. We then describe the data, methods, and results of our analysis. We conclude with a discussion of the results, limitations, and opportunities for future research.

2. Theoretical background

2.1. Disputes in supply chain relations

It has been widely observed in the operations management literature that the buyer–supplier relationship is of paramount importance to the effective management of the supply chain (Chen and Paulraj, 2004; Paulraj et al., 2008; Terpend et al., 2008). Despite this enthusiasm of supply chain scholars and practitioners to develop cooperative relationships in buyer–supplier exchanges, many supply chain relations do not reach this goal (MacDuffie and Helper, 2006; Zhang et al., 2009). Although scholars have devoted attention to relational tensions (Mudambi and Helper, 1998; Villena et al., 2011) and to opportunism between exchange partners (Carter and Stevens, 2007; Handley and Benton, 2012; Tangpong et al., 2010), we still do not know much about the way firms deal with disputes with their exchange partners.

From a supply chain management perspective, explaining the quality of the dispute negotiation strategy is an important outcome variable. Many scholars in supply chain management have called for more researches that examine performance outcomes resulting from relational exchanges (e.g. Nyaga et al., 2010; Morris and Carter, 2005). In this study, following prior literature at the crossroads of disputes and negotiations (Craver, 2003; Deutsch, 2006; Gulliver, 1979; Moffitt and Bordone, 2005), we start from the general assumption that a cooperative negotiation is a better outcome than a competitive negotiation. In a dispute, since negotiating includes common and conflicting goals (Barley, 1991; Bendersky and McGinn, 2011; Malhotra and Bazerman, 2007), both cooperation and competition are necessary to some extent (Bengtsson and Kock, 2000; Li et al., 2011; Luo, 2007). Using a cooperative negotiation strategy, each party defines and coordinates a mutual

agreement so that they both gain (Walton and McKersie, 1965). Such a strategy entails searching for alternative solutions and assessing both parties' outcomes. Using a competitive negotiation strategy, each party looks for individual gain, resulting in a win–lose outcome. Parties then attempt to resolve conflicts through the implicit or explicit use of threats, persuasive arguments, and punishments (Deutsch, 2006; Moffitt and Bordone, 2005).

Our study also extends the current literature relating to contextual analysis of operations management. By analyzing supply chain governance mechanisms in the context of disputes, we respond to the call for more research recognizing that the relationship between OM issues and cooperative outcomes should be contingent on some contextual factors (Giunipero et al., 2008; Liu et al., 2009). With very few exceptions (Malhotra and Lumineau, 2011; Mohr and Spekman, 1994; Tangpong et al., 2010), prior research examines the effects of governance mechanisms in stable exchange relationships—preventing conflict and/or promoting cooperation. Our study thus complements the existing supply chain literature by examining the role of governance mechanisms in the context of a dispute.

2.2. The combination of relational and contractual governance

Supply chain governance, whether relational or contractual, attempts to mitigate conflict and promote cooperation between trading partners (Wathne and Heide, 2004; Williamson, 1996). Research on governance has traditionally centered on governance mechanisms under a formal compliance perspective. A large stream of research, including the transaction cost approach, has shown that formal contracts provide the safeguards and adaptation mechanisms that can protect economic exchange from the consequences of bounded rationality and opportunism (Coase, 1937; Williamson, 1985). Formal contracts may detail roles and responsibilities to be performed, specify procedures for monitoring and penalties for noncompliance, and determine outputs to be delivered (Poppo and Zenger, 2002; Reuer and Ariño, 2007).

Advancements in governance theory recognize the role of informal governance in the form of relational norms (Macneil, 1980; Noordewier et al., 1990). This relational governance perspective points out the potential importance of relational norms in supply chain relations since they can provide benefits similar to those of contractual governance in terms of controlling opportunism and facilitating adaptation (Heide and John, 1992; Lusch and Brown, 1996). These relational mechanisms refer to the values shared among partners concerning appropriate behavior that maintains or improves their relationship (Macneil, 1980; Noordewier et al., 1990). Relational norms specify the permissible limits on behavior, and hence serve as a general protective device against deviant behavior (Heide and John, 1992). Relational norms traditionally involve flexibility, participation, and solidarity. Flexibility refers to the shared expectations that parties adjust to accommodate changes in the environment or in the parties' needs (Boyle et al., 1991; Noordewier et al., 1990). Participation refers to the willingness of parties to make investments in the relationship and share information, whether or not these behaviors are contractually mandated (Heide and John, 1992; Lusch and Brown, 1996). Finally, solidarity refers to the expectation that parties will generally act in ways that increase mutual benefit, engage in bilateral problem solving, and commit to joint, coordinated action toward shared objectives (Heide and John, 1992; Macneil, 1980).

As firms often simultaneously use both governance mechanisms to take advantage of their differential impacts (Bradach, 1997), a debate has ensued as to what mix would optimize exchange outcomes. Scholars remain divided about the nature of the relationship between contractual and relational governance mechanisms.

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