Different roles of control mechanisms in buyer-supplier conflict: An empirical study from China

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ABSTRACT

Using transaction cost economics and contemporary insights from the literature on relationship contracts as a base, this paper focuses on how control mechanisms (contracts and trust) affect relationship conflicts in buyer-supplier relationships, and investigates the moderating effects of environmental uncertainty. Based on a sample of 162 Chinese buyers, this paper shows that contracts have a U-shaped effect on destructive conflict and an inverted U-shaped effect on constructive conflict, while trust has a negative effect on destructive conflict and a positive effect on constructive conflict. In addition, environmental uncertainty strengthens the U-shaped effect of contracts on destructive conflict, but weakens the inverted U-shaped effect of contracts on constructive conflict and strengthens the effect of trust on both types of relationship conflict. Our findings reveal the “double-edged sword” nature of contracts, especially the “dark side”, and highlight the importance of trust in buyer-supplier relationships in contexts of environmental uncertainty. These findings also have important implications for buyer-supplier relationship management research and managerial practices, particularly in regard to governance structure and conflict management in dynamic contexts.

1. Introduction

The importance of managing conflict in buyer-supplier relationships has long been recognized by marketing scholars (Celuch, Bantham, & Kasouf, 2011; Dant & Schul, 1992; Skarmeas, 2006). Scholars have realized that relationship conflicts cannot simply be regarded as good or bad. If managed properly, they can be constructive, and if not, they can be destructive (Li, Liu, & Liu, 2011; Menon, Bharadwaj, & Howell, 1996; Rawwas, Vitell, & Barnes, 1997). Many studies have investigated the process of conflict management from this perspective, using dependence, power, influential strategy and other relational factors (Lee, 2001; Massey & Dawes, 2007a; Skarmeas, 2006; Spinelli & Birley, 1996; Zhou, Zhuang, & Yip, 2007).

Although these studies are insightful, there remain several gaps in the buyer-supplier conflict management literature. First, the literature focuses mainly on how to inhibit destructive conflict, but rarely considers how to leverage constructive conflict (Skarmeas, 2006), so studies examining how to simultaneously manage these two types of buyer-supplier conflict are inadequate. To manage these two types of relationship conflict more effectively, appropriate conflict management approaches must be identified. Second, control mechanisms such as contracts and trust can clarify the phenomenon of conflict management, as they indicate the origin of conflict (Vaaland & Hakansson, 2003). The potential effects of contracts (Brown, Coob, & Lusch, 2006; Jap & Ganesan, 2000) and trust (Celuch et al., 2011; Massey & Dawes, 2007a) on buyer-supplier conflict management have been recognized, but the empirical findings are mixed (Bai, Sheng, & Li, 2016) and the functions of contracts and trust in relationship conflict management are still unclear. Third, the contingent effects of environmental uncertainty on the relationship between control mechanisms and conflict have been overlooked (Liu, Luo, & Liu, 2009; Wang, Yeung, & Zhang, 2011). Thus, buyer-supplier relationship management researchers need to conduct further assessment of the interaction between the control mechanisms of relationship conflict and the environment in which the relationships are embedded (Bai et al., 2016). Attention should be particularly focused on how the benefits derived from control mechanisms can be contingent on the market's environmental conditions and on the response to these external influences.

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The literature on relationship conflict management mainly focuses on the problem of the hold-up and investigates the roles of control mechanisms (such as contacts and trust) in resolving incentive conflicts (Brown et al., 2006; Massey & Dawes, 2007a; Zaheer, McEvily, & Perrone, 1998). The role of contract governance in suppressing or bolstering buyer-supplier conflict remains under-examined. Our approach is distinct from most of this research, and we argue that in linking control mechanisms and relationship conflict in the buyer-supplier relationship, in addition to the consideration of incentive conflict (hold-up), the failure to adjust the relationship to changing exchange conditions may evoke relationship conflict (Gulati, Lawrence, & Puranam, 2005). We attempt to provide a more integrative understanding of relationship management by exploring how the application of control mechanisms (contracts and trust) can be related to relationship conflict. First, unlike previous research that mainly emphasizes the control function of contracts, we analyze the functions of contracts in detail by examining both their control and coordination roles, and clarify the effects of contracts on buyer-supplier conflict. Second, we extend the research on trust in the buyer-supplier relationship by assessing the effects of inter-firm trust on relationship management in a cooperative and adaptive manner, demonstrating that trust may not only imply an expectation of obligation (Celuch et al., 2011), but also provide an incentive for mutual adaptation and/or adaptation to changing environmental conditions (Hallen, Johanson, & Seyed-Mohamed, 1991). Third, by examining the moderating effects of environmental uncertainty, our study provides new insights for researchers to understand the role of contracts and trust in shaping responses to external challenges. Our research reveals that the effects of an external factor—environmental uncertainty—on inter-firm relationships are mitigated by a firm’s decisions/practices on how to manage “internal conflict.” In sum, the study extends the literature on control mechanisms and relationship conflict management and the general scope of the field.

The paper is organized as follows. First, we describe the relevant literature on buyer-supplier relationship management, develop a conceptual model, and propose corresponding hypotheses. We then present the results of empirical analyses using data from 162 Chinese buyers. Finally, we discuss the most significant findings and their theoretical and managerial implications, and consider the study’s limitations.

2. Theoretical background

2.1. Types of buyer-supplier conflict

Relationship conflict refers to the tension between two or more entities, which arises from the incompatibility of actual or desired responses (Rawwas et al., 1997). Previous research on buyer-supplier conflict management can be divided into two categories. Some researchers suggest that conflict between members is a harmful dysfunctional phenomenon and always has destructive consequences (Anderson & Narus, 1990). In contrast, others argue that buyer-supplier conflict is a functional phenomenon in nature, and that amicably resolving partners’ disagreements on how to realize joint goals promotes the development of buyer-supplier relationships (Stern, El-Ansary, & Coughlan, 1996; Tjosvold, 1997).

As a multidimensional concept, relationship conflict has destructive and constructive dimensions (Rawwas et al., 1997; Song, Dyer, & Thieme, 2006). Constructive conflict is defined as an evaluative appraisal, in which the effects of a recent effort to manage disagreements and find a compatible solution are evaluated. Thus, it is characterized by low levels of intensity and frequency and is impersonal (Rawwas et al., 1997). Constructive conflict has been labeled as discussion, bargaining, debate, or a win-win approach in which the participants agree through discussion on the best way to perform the current task (Li et al., 2011; Song et al., 2006). The benefits of constructive conflict outweigh its costs, so it provides firms with a good feeling about their relationship and motivates them to strengthen their connections, resulting in positive changes in collaborative relationships. In contrast, destructive conflict is caused by strong forces that push the parties toward increasingly hostile behavior, and each party tries to guarantee its own interests, which leads to conflict (Rawwas et al., 1997). It is characterized by a high intensity and frequency and is very personal (Rawwas et al., 1997). Destructive conflict is usually regarded as involving domination and control, or a win-lose approach, which may result in harmful consequences such as feuding or the destruction of relationships (Li et al., 2011).

As mentioned previously, constructive and destructive conflict can both influence the buyer-supplier relationship, but in different ways, as the actions taken when handling inter-organizational inconsistency can also differ (Song et al., 2006). It is therefore necessary to manage the two types of buyer-supplier conflict effectively through suitable control mechanisms.

2.2. Control mechanisms as the mode of managing buyer-supplier conflict

Control mechanisms (e.g., contract, asset specificity, trust, or relational norms) are the necessary and effective tools used to manage buyer-supplier conflict (Heide & John, 1992; Heide, Watine, & Rokkan, 2007; Jap & Ganesan, 2000). Contracts and trust are the most traditional and typical control mechanisms used in supply chains in China (Cao & Lumineau, 2014; Liu et al., 2009; Lumineau & Henderson, 2012; Yang, Zhou, & Jiang, 2011), so we focus on these two control mechanisms.

2.2.1. Control and coordination functions of contracts

Drawing from TCE theory, a classic contract is interpreted in a very legalistic way, and the rules of the contract are strictly applied (Williamson, 1991). Williamson (1991, p. 271) argues that “each generic form of governance needs to be supported by different forms of contracts,” so contracts in different inter-organizational relationships can have varying intentions and complexities. Hart and Moore (2008) provide an alternative and complementary view, suggesting that a contract provides a reference point for the parties’ trading relationship. They argue that an ex ante contract that precisely identifies the future outcome could reduce the possible deadweight loss during exchange, and that such a contract may have significant drawbacks, as it does not allow the parties to adjust the outcome to the state of the world (Hart & Moore, 2008). An optimal contract should therefore be a trade-off between rigidity and flexibility. A detailed contract can be either rigid or flexible (Sande & Hauigland, 2015), and in practice contracts may detail the level of coordination and potential adjustments that need to be undertaken (Mooi & Ghosh, 2010) or the rights and obligations of parties within an exchange arrangement (Lumineau & Malhotra, 2011). Our focus is on the detailed contract that specifies the roles and responsibilities to be performed, determines the outcomes to be delivered, and specifies adaptive processes for handling unplanned events or resolving unforeseeable outcomes (Wuyts & Geyskens, 2005).

Contracts have dual functions of control and coordination (Faems, Janssens, Madhok, & Looy, 2008; Lumineau & Malhotra, 2011; Mellewigt, Madhok, & Weibel, 2007). A detailed contract can have a control function, containing numerous clauses specifying what is and what is not allowed, and inflicting penalties for violations during an inter-organization transaction (Faems et al., 2008). In a mature legal system, a contract with specific terms and clauses provides a safeguard against ex-post performance problems, by restraining each party from pursuing private goals at the expense of their partners’ benefits (Luo, 2002). It also contains penalty terms, so if either party violates or disobeys the agreed-upon provisions, they are strictly punished by the law (Lyons & Mehta, 1997). Consequently, a detailed contract has a control function, which reduces the likelihood of conflict leading to a destructive outcome, by confining the participants’ behavior in the
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