Journal of Operations Management 41 (2016) 12–24

Contents lists available at ScienceDirect

Journal of Operations Management

journal homepage: www.elsevier.com/locate/jom

# Contract governance and buyer–supplier conflict: The moderating role of institutions

Xuan Bai [a], Shibin Sheng [b], Julie Juan Li [c, *]

[a] Department of Marketing, School of Business Administration, Southwestern University of Finance and Economics, Chengdu, PR China
[b] Collat School of Business, University of Alabama at Birmingham, Birmingham, AL 35294, United States
[c] Department of Marketing, College of Business, City University of Hong Kong, Kowloon, Hong Kong SAR

ARTICLE INFO

*Article history:*
Received 3 December 2013
Received in revised form
21 October 2015
Accepted 26 October 2015
Available online 24 November 2015
Accepted by Daniel R Guide

*Keywords:*
Behavior-based contract
Output-based contract
Conflict
Legal enforceability
Unilateral government support
Institution theory

ABSTRACT

Drawing on contract governance literature and institutional theory, this study investigates the differential effects of output- and behavior-based contract governance on buyer–supplier conflict in supply chains. The authors develop a contingent perspective to examine how institutional factors moderate the impact of contract governance. The findings, from an empirical study of buyer–supplier dyads in China, show that an output-based contract is negatively, whereas a behavior-based contract is positively, related to buyer–supplier conflict. The effects of a contract are moderated by two primary institutional factors: legal enforceability and unilateral government support. These findings have important implications for supply chain research, public policy, and managerial practice.

© 2015 Elsevier B.V. All rights reserved.

## 1. Introduction

Successful supply chain relationships are a critical source of corporate competitive advantage and superior firm performance (Agarwal et al., 2010). However, supply chain relationships suffer from inescapable conflict, which occurs "when one party perceives another as interfering with its goal attainment" (Samaha et al., 2011: 100). The potential detrimental impact of conflict overshadows the cumulative effects of cooperative channel behaviors (Palmatier et al., 2006). Therefore, reducing or resolving conflict is a pivotal task in supply chain management (Lumineau and Henderson, 2012; Rahim, 2002). Extant literature has extensively examined the role of contractual and relational governance in mitigating conflict or opportunism (Heide, 1994; Jap and Anderson, 2003; Poppo and Zenger, 2002), with the former focusing on the legal contractual arrangements and economic incentives (Heide and John, 1992; Williamson, 1985) and the latter focusing on the role of social embeddedness in economic activities (Granovetter, 1985). By clarifying the roles and responsibilities of the buyer and supplier, guiding interorganizational behaviors, and specifying procedures and policies to adjust to environmental uncertainties, contracts provide a primary safeguarding mechanism against interorganizational conflict (Jap and Ganesan, 2000; Wuyts and Geyskens, 2005; Zhou et al., 2014). Notwithstanding these advances, understanding of the role of contract governance in suppressing or bolstering buyer–supplier conflict continues to be underdeveloped.

First, though previous studies have examined the role of contracts in mitigating exchange hazards in interorganizational relationships, such as opportunism and conflict (Jap and Anderson, 2003; Williamson, 1985; Zhou and Xu, 2012), the theoretical predictions and empirical findings regarding the relationship between contract governance and buyer–supplier conflict remain mixed. On the one hand, the legal underpinning of contracts grants buyers the option of sanctioning suppliers if they violate the terms specified in the contract, so contracts work as an instrument of control to facilitate buyer–supplier exchanges (Cannon et al., 2000). Detailed contractual specifications also help exchange parties understand the expectations of each side in the transaction and mitigate the risk of misunderstanding (Malhotra and Lumineau, 2011). Thus, contracts should facilitate buyer–supplier coordination and reduce conflict. On the other hand, contracts may undermine channel

* Corresponding author.
*E-mail addresses:* baixuan@swufe.edu.cn (X. Bai), ssheng@uab.edu (S. Sheng), julieli@cityu.edu.hk (J.J. Li).

http://dx.doi.org/10.1016/j.jom.2015.10.003
0272-6963/© 2015 Elsevier B.V. All rights reserved.

member trust (McEvily et al., 2003) and reduce relational performance in a channel by jeopardizing the members' cooperation and flexibility (Jap and Ganesan, 2000), thus increasing conflict.

Second, previous studies of contract governance typically conceptualize the contract as a unidimensional construct and examine its effect using global measures (Lumineau and Henderson, 2012), including contract complexity (Poppo and Zhou, 2014; Reuer and Ariño, 2007), completeness (Gong et al., 2007; Kashyap et al., 2012; Lusch and Brown, 1996; Wathne and Heide, 2000), and specificity (Mooi and Ghosh, 2010). This unidimensional approach ignores the complex nature of contractual formalization, or the actual content of contracts, which varies significantly and has substantial impacts on interorganizational relationship outcomes (Hagedoorn and Hesen, 2007). Some exceptions are recent works that contend that various dimensions of the contract may have different impacts on relationship outcomes. For example, Malhotra and Lumineau (2011) distinguish control and coordination dimensions, and Weber et al. (2011) compare the prevention and promotion dimensions of contracts. The inconsistent empirical findings regarding the effect of contract governance on conflict also could reflect different types of contract content (Eisenhardt, 1989; Heide et al., 2007; Stouthuysen et al., 2012), that is, output- or behavior-based contracts, which function differently in ensuring suppliers' appropriate behaviors (Eisenhardt, 1985, 1989). Instead of relying on global indicators of contract formalization, it may be necessary to distinguish output- and behavior-based contracts to examine the role of contract governance in buyer–supplier conflict.

Third, actual contract enforcement varies significantly in supply chains (Antia and Frazier, 2001), depending on ex ante contract design and ex post enforcement cost. Although institutions are the primary determinants of contract enforcement costs (North, 1990), relatively little research attention centers on institutional factors to explain supply chain performance (McFarland et al., 2008). Most contract studies, conducted mainly in developed countries with well-established institutional frameworks, treat institutions as a static background, with no influence on contract design or enforcement decisions (Meyer et al., 2009; Sheng et al., 2011). Because extant studies generally treat contracts as a unidimensional construct, we know little about how variations in formal institutions might influence the impacts of different types of contracts on supply chain relationship. Such an approach is problematic, especially in emerging economies characterized by massive and rapid institutional change (Hoskisson et al., 2000; Peng, 2003). An institutional contingency perspective thus is an important lens through which to examine interfirm contract governance modes and outcomes (Grewal and Dharwadkar, 2002; McFarland et al., 2008).

Drawing on contract governance literature and institutional theory, we examine how the two types of contract influence buyer–supplier conflict. Our conceptual framework (Fig. 1) depicts the interplay between contracts and the institutional environment.

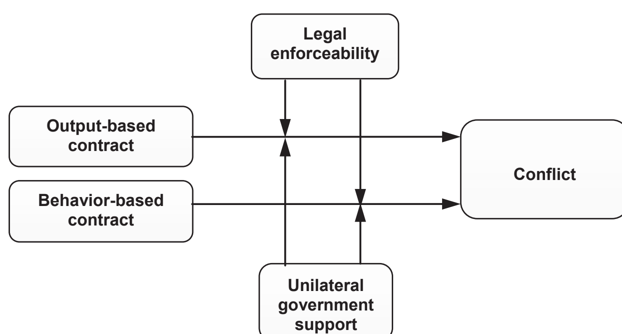


**Fig. 1.** Conceptual model.

Specifically, we elucidate the differential effects of output- and behavior-based contract on buyer–supplier conflict, and we examine the contingent influence of institutional factors on these effects. To test our conceptual model, we gather a dyadic data set from China. As a major emerging economy, China offers a rich institutional context—characterized by an underdeveloped institutional framework, an ineffective legal system, and pervasive government intervention in economic exchanges (Li et al., 2010; Sheng et al., 2011; Zhou et al., 2014)—in which to test our conceptual framework.

## 2. The institutional view of supply chain contract governance

Institutions, or "rules of the game," often determine firms' strategic choices and behaviors (North, 2005). The dramatic evolution of institutions in emerging economies means that institutional frameworks critically shape transaction rules and coordinate economic exchanges (North, 2005; Peng, 2003). The institutional environment ubiquitously influences buyer–supplier relationships, because any supply chain is embedded in its macro social context (McFarland et al., 2008; Wathne and Heide, 2004). To obtain and maintain legitimacy, supply chain members must behave desirably and appropriately according to socially constructed systems (Grewal and Dharwadkar, 2002). In developed economies, the role of institutions is almost invisible, though critical and often unexamined (Meyer et al., 2009). In emerging economies, due to a lack of effective market-supporting infrastructure, the transaction costs, especially contract enforcement costs, reflect the pivotal institutional impacts (North, 1990, 2005). However, few marketing channel or supply chain studies have used a contingency view to account for the moderating role of institutions in studying the link between contract governance and relationship outcomes (McFarland et al., 2008).

As this study scrutinizes the role of contract, we focus on the 'contract-enforcement institutions'—the legal and government systems—that determine the extent to which the transaction parties can credibly commit contractual obligations and the relatively efficiency of contractual provisions in coordinating exchange relationships (Greif, 2005). The primary function of contract enforcement institutions is to support market transactions without incurring undue costs or risks (Greif, 2005; North, 2005; Peng, 2003). An effective legal system strengthens the predictability of the law, whereas as an independent third party, the government's role is critical to ensure objective and impartial contract enforcement (Greif, 2005). With effective legal frameworks, firms are more likely to develop reliable and precise contract terms and rely on them to safeguard exchange hazards and coordinate economic exchanges (Peng, 2003). In addition, effective government regulations help reduce the transaction costs for the exchange parties, which can use the contracts to protect their interests when a contract breach or violation occurs (Peng, 2003).

Emerging economies usually are characterized by underdeveloped legal systems, which can undermine economic exchanges (Hoskisson et al., 2000). Although legal codes and court regulations are well defined at the national level in many emerging economies, the instability and ineffectiveness of the legal system remain major hurdles for business operations (Zhou and Poppo, 2010). *Legal enforceability* refers to the extent to which the enforcement of legislation and regulations is effective and the legal framework is complete in providing protection for economic transactions (Zhou and Poppo, 2010). The effect of contracts in governing buyer–supplier relationships hinges on legal enforceability, because legal systems underpin contract enforcement (Zhou and Poppo, 2010). For example, firms are less likely to use contracts to resolve supply chain conflict in economies in which an inefficient

Download English Version:

https://daneshyari.com/en/article/1031610

Download Persian Version:

https://daneshyari.com/article/1031610

Daneshyari.com