

Revisiting the interplay between contractual and relational governance: A qualitative and meta-analytic investigation



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ABSTRACT

Although extant literature has shown that formal contracts and relational governance play a key role in interorganizational relationships, the nature of their interplay still remains equivocal. To better understand the relationships between contractual and relational governance, we conducted a qualitative review and meta-analysis of the existing literature. Meta-analytic results from 33,051 interorganizational relationships across 149 empirical studies have indicated that contractual governance is positively related to both sides of relational governance—trust and relational norms. Our results have also indicated that contracts, trust, and relational norms jointly improve satisfaction and relationship performance and jointly reduce opportunism. These findings provide strong evidence for the complementarity arguments of the contractual–relational governance relationships and their joint impacts on performance. We also found that the mutual relationships between contractual and relational governance are moderated by the institutional environments, the interorganizational relationship type and length, and the construct measurement of contracts. Overall, this study provides new insights on *when* contractual and relational governance complement or substitute each other. We discuss the implications of our study for theory and practice and propose a research agenda for future research on governance in interorganizational relationships.

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1. Introduction

Supply chain scholars have devoted much attention to interorganizational relationships (IORs) and have pointed out their critical importance to achieve competitive advantage (Carey et al., 2011; Goffin et al., 2006; Lumineau and Henderson, 2012). The literature has suggested that two main types of governance are at play in IORs. One is contractual governance, which highlights the importance of contracts between firms and its formal rules to safeguard against opportunism and conflict. Contractual governance may define outputs to be delivered, specify monitoring procedures, and detail duties, rights, and contingencies (Mesquita and Brush, 2008; Reuer and Ariño, 2007; Ryall and Sampson, 2009). However, governance of IORs involves more than formal contracts. It is shown that relational governance, trust in particular, is another type of governance to mitigate exchange hazards associated with uncertainty and transaction-specific investments (Noordewier et al., 1990; Uzzi, 1997) and coordinate IORs (Dyer and Singh, 1998; Heide and

John, 1992; Macneil, 1980). This distinction between contractual and relational governance reflects two distinct, while interrelated, types of governance to support and manage IORs (Williamson and Ouchi, 1981; Zaheer and Venkatraman, 1995).

As firms often simultaneously use both contractual and relational governance to organize their relationships (Bradach, 1997), the interplay of contractual and relational governance in IORs has been a topic of considerable ongoing debate in operations and supply chain management (Li et al., 2010b; Liu et al., 2009; Lumineau and Henderson, 2012) as well as in related areas such as marketing (Cannon et al., 2000; Yang et al., 2012), strategy (Li et al., 2010a; Poppo and Zenger, 2002), entrepreneurship (Chen et al., 2013a,b; Strätling et al., 2012), and international business (Zhou and Xu, 2012) for more than a decade. Particularly, since the influential work of Poppo and Zenger (2002), this issue has gained increasing attention (Fig. 1).¹ Nevertheless, knowledge on the interplay between contractual and relational governance has not been cumulative, and consistent conclusions are far from being reached

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¹ To date (07/29/2014), this study has been cited 633 times in the Web of Science and more than 1700 times in Google Scholar.

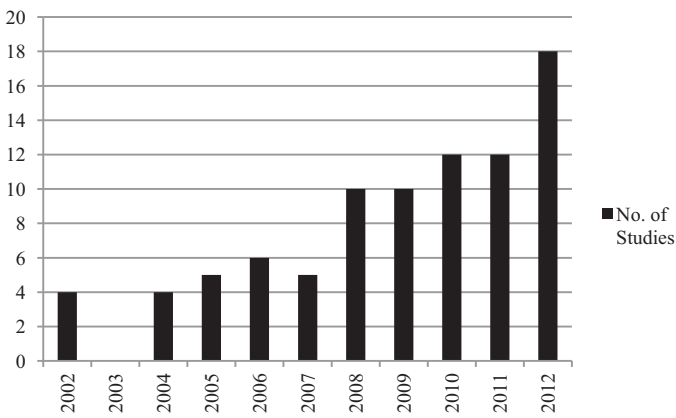


Fig. 1. Number of empirical studies on the interplay of contractual and relational governance by year. (The number of studies in each year shown in the figure is conservative as it only counts the empirical studies that examine the relationships between contractual and relational governance directly. Studies that investigate only contractual or relational governance are not counted.)

(Puranam and Vanneste, 2009; Schepker et al., 2014). Existing research can be broadly divided into two groups. One group argues that the two types of governance substitute each other; that is, the use of one type of governance decreases the use of or the benefits of using the other one (Huber et al., 2013; Li et al., 2010c; Lui and Ngo, 2004). In contrast, another group contends that the two types of governance may be complementary; that is, the use of one increases the use of or the benefits of using the other one (Liu et al., 2009; Poppo and Zenger, 2002). However, our understanding of how and when contractual and relational governance interact is still limited. In a recent review, Schepker et al. (2014) specifically called for more research efforts on the issue of “when do relational contracts obviate the need or partially substitute for formal contracts” (p. 218). From a practitioner perspective, the success of IORs strongly relies on the types of governance chosen by managers (Caniëls et al., 2012; Faems et al., 2008). The inconsistent findings on the interplay of contractual and relational governance are likely to confuse managers. A clarification of the way in which these governance mechanisms work may be very helpful to guide practitioners to make the best choice between contractual and/or relational governance. In particular, investigation of the possible moderating effects on the contractual–relational governance in terplay may inform managerial practice by highlighting important contextual factors.

We argue that the inconsistent findings on the interplay between contractual and relational governance can be attributed to three main limitations in existing research. First, existing research uses “complementary” or “substitute” to refer to both the relationships between contractual and relational governance and the relationships between contractual and relational governance and performance (Poppo and Zenger, 2002). The underlying assumption is that when contractual and relational governance are complements (substitutes), they have complementary (substitute) impacts on performance (Li et al., 2010c; Poppo and Zenger, 2002; Wang et al., 2011). However, it has been shown that contractual and relational governance may be substitutes in explaining performance even when they are positively related (Li et al., 2010c; Wang et al., 2011). Thus, the existing literature needs a more rigorous distinction between the debate of how contractual and relational governance interact and the debate of the relationships of contractual and relational governance and performance. Second, few studies have investigated the boundary conditions of the relationships between contractual and relational governance, and the theoretical logic underlying the moderating effects remains

fragmented. For example, some studies have drawn upon institutional theory to investigate moderating effects and have highlighted the role of the legal environments (Zhou and Poppo, 2010). Some other studies have relied on the social network theory and have argued that contracting in close and dense networks may signal a lack of trust (Yang et al., 2011). However, researchers have typically focused on only one theoretical perspective to explain the boundary conditions of the interplay between contractual and relational governance. We instead investigated how the interplay may be moderated by factors from multiple perspectives simultaneously. Third, extant studies are subject to methodology limitations. Most of prior studies have been conducted in single contexts such as single country, single relationship type (e.g., only buyer–supplier IORs or only strategic alliances), and at a single point in time. However, contexts are likely to bias the findings (Leavitt et al., 2010; Mayer and Whittington, 2003). Moreover, sampling errors, measurement errors, and other statistical artifacts in prior research are also possible causes of inconsistency across the studies (Combs et al., 2011; Hunter and Schmidt, 2004).

The purpose of this study is to ascertain the relationships between contractual and relational governance and to explore the factors moderating these relationships with a meta-analysis review. By combining a quantitative meta-analysis with a qualitative literature review, this study addresses the above limitations and reconciles the conflicting findings on the relationships between contractual and relational governance and performance. Note, however, that we have not aimed to investigate the dynamic process of the interplay of contractual and relational governance because most of the input of meta-analysis is cross-sectional data. Meta-analysis is an effective theory extension method to reconcile the conflicting findings through quantitatively aggregating a large amount of existing findings while correcting for distorting effects of artifacts (see Chen et al., 2010; Mackelprang and Nair, 2010; Nair, 2006 for examples of meta-analyses in the operations management literature). This method not only effectively handles statistical artifacts, thus providing more accurate assessment of a relationship, it also brings the advantage of testing the theoretical and methodological moderating effects of the relationship which are difficult to examine in a single-sample primary study (Crook et al., 2008; Heugens and Lander, 2009).

The contributions of this study to the supply chain management literature are threefold. First, by summarizing and categorizing the extensive studies on the relationships between contractual and relational governance and performance, we have developed a better understanding of how the existing studies defined and measured the concepts and derived their conclusions. Second, the meta-analysis results have helped us cross validate insights from different studies and reconcile inconsistent findings on the interplay between contractual and relational governance. We found that the contractual and relational governance are positively related to each other, and both have positive impacts on relationship performance and satisfaction, providing strong evidence for the complementarity arguments. Third, we found that the mutual relationships between contractual and relational governance are moderated by institutional environments, relationship type, relationship length, and contracts measurement. The findings have thus extended our understanding on the boundary conditions of the interplay between contractual and relational governance.

In the following sections, we first propose an overview of the concepts and relationships of contractual and relational governance. Then, we present the meta-analysis methods including the literature search, coding, and computation. Finally, we present the meta-analysis results and discuss the theoretical contributions, managerial implications, and future research directions.

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