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Relationship governance mechanisms and collaborative performance: A relational life-cycle perspective

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ABSTRACT

Governance mechanisms protect the investments involved in transactions and thereby facilitate and promote sustainable and cooperative relationships; however, the empirical results of prior research concerning the relationship between governance mechanisms and collaborative performance are inconsistent. Based on transaction cost economy (TCE) and social exchange theory (SET), a relational life-cycle framework that considers the dynamic evolution of collaborative relationships and re-examines the relationship between governance mechanisms and collaborative performance was developed in this study. Evidence from 124 manufacturers in Taiwan indicates that the effects of governance mechanisms on collaborative performance differ according to the current life-cycle phase. In the exploration phase, contractual control exerts a positive impact on cooperative performance. In the buildup and maturity phases, relational control remains positively associated with collaborative performance, whereas the impact of contractual control is insignificant. In the decline phase, both contractual control and relational control have an insignificant impact on collaborative performance. Herein, we discuss the implications of our empirical findings and their relevance to managers.

1. Introduction

Governance mechanisms are required to facilitate interactions between buyers and suppliers, create joint value, realize relational competitive advantages that may be generated through relationship-specific investments, foster information exchange and knowledge sharing, and enhance efficiency in cooperative relationships. Essential (and inevitable) areas of study related to buyer–supplier relationships include deterring the opportunistic behavior of partners seeking to maximize their own gains at the expense of other partners (Das and Rahman, 2010), minimizing transaction costs, and facilitating cooperation through governance mechanisms that exert contractual and relational control (Lui and Ngo, 2005; Poppo and Zenger, 2002). Contractual control involves written monitoring procedures that frequently specify the detailed roles, rules, and responsibilities of the parties involved, along with the outcomes to be delivered (Cao and Lumineau, 2015; Li et al., 2010; Poppo and Zenger, 2002; Wang and Fulop, 2007). Relational control uses shared values, social norms, trust, and consistent goals to encourage specific behaviors that limit opportunism (Li et al., 2010; Liu et al., 2009; Tangpong et al., 2010).

Numerous studies exploring the relationship between governance mechanisms and collaborative performance have enhanced our understanding of supply chain management, business marketing, organization theory, and strategic management. However, such studies have drawn mixed conclusions. For instance, some research has indicated that applying contractual control can promote long-term relationship building and performance enhancement (Camén et al., 2011; Joshi, 2009; Liu et al., 2009), but other research has reported that contractual control has insignificant (Grewal et al., 2010; Hernández-Espallardo et al., 2010; Li et al., 2010; Şengün and Wasti, 2009) or even negative (Jap and Ganesan, 2000; Nielsen, 2010) effects on collaborative performance. The relationship between relational control and performance is similar. For example, most studies have confirmed that collaborative performance is positively influenced by relational control or social mechanisms, such as “guanxi,” the basic dynamic present in personalized networks of influence and a main concept in Chinese business culture (Liu et al., 2009). However, other studies have reported that relational control or relational norms have an insignificant effect on a firm's profit, growth, and performance (Cai et al., 2011; Park and Luo, 2001). Several recent studies have even demonstrated negative impacts of relational control and have suggested that an inverted-U relationship exists between relational control and collaborative performance (Gu et al., 2008; Nie et al., 2011). Thus, the literature suggests a somewhat contradictory relationship between these types of

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control and collaborative performance.

Through a careful review of the literature, three gaps were identified in the extant research. First, most articles have indicated that exchange relationships are developed according to long-term objectives focused on establishing an ongoing, stable, and close relationship with a collaborative partner (Camén et al., 2011; Mahapatra et al., 2012) to achieve mutual benefits and create unique value through the joint efforts of the parties (Fang et al., 2011; Nyaga et al., 2010). Effective governance is crucial when managing or developing strategic buyer–-supplier relationships (Jap and Ganesan, 2000; Li et al., 2010). However, partnerships or close relationships occasionally dissolve after the strategic goal is achieved or when unforeseen problems related to incongruent goals or opportunistic behaviors arise (Anderson and Jap, 2005). Dynamic governance mechanisms adjust as relationships evolve, suggesting that the relative importance of governance mechanisms changes (Ness, 2009). The contradictory empirical results mentioned necessitate further investigation of the effects of time and dynamic collaborative relationship development on governance–collaborative performance relationships.

Second, time is a crucial factor in sequential transactions involving long-term and repeated partnerships (i.e., a buyer–supplier relationship can be viewed through its history and its anticipated future) (Dwyer et al., 1987; Yen and Barnes, 2011). Cooperation is a continual cycle of actions and reactions between cooperating partners (Lui and Ngo, 2005). According to the strategic fit or coupling paradigm, a governance strategy may require adjustment as the relationship develops or as the stages of the relationship evolve (Jap and Ganesan, 2000). Governance mechanisms allow suppliers to overcome the negative aspects of embedded ties and enhance their collaborative performance (Noordhoff et al., 2011). However, relatively little research has been conducted on the evolution of relationships in the industrial market (Kusari et al., 2013; Yen and Barnes, 2011). Most studies have ignored the dynamics involved in the development of buyer–supplier relationships and have instead explored the governance–performance relationship under the ongoing assumption that it is an exchange relationship at a specific point in time.

However, the notion that the appropriateness of governance mechanisms depends on the current life-cycle phase of the relationship between parties is becoming increasingly accepted (Jap and Ganesan, 2000). Some empirical studies have led to the development of relational life-cycle theories that examine the connections between buyer–supplier relationship stages and collaborative performance. For example, Jap and Anderson (2007) discovered an inverted-U shaped relationship between relational life cycles and performance. Redondo and Fierro (2006) proposed that the impact of antecedent relationship factors (e.g., communication and trust) on suppliers' long-term orientation will depend on the relationship life-cycle stage. Thus, the impact of the life-cycle stage on the relationship between governance mechanisms and collaborative performance needs to be further examined.

Third, contractual control and relational control are two distinct governance mechanisms that are often applied simultaneously and therefore may not be considered independent of one another (Hernández-Espallardo et al., 2010; Huang et al., 2014; Poppo and Zenger, 2002). Additionally, numerous recent studies have revealed that the interplay of contractual control and relational control enhances cooperative performance. However, whether these two types of control are complementary (Cao and Lumineau, 2015; Heide et al., 2007; Huang et al., 2014; Liu et al., 2009) or substitutive (Liu et al., 2010; Şengün and Wasti, 2009) remains to be debated. Their interaction may further support arguments related to the governance–performance relationship. By clearly specifying the expectations and negative consequences of opportunism, contractual control forms an *ex ante* system that ensures inter-firm reciprocity and becomes an antecedent or a necessary complement to social control (Liu et al., 2009). Studies that support the complementary roles have described the interplay between contractual and relational control from the ability perspective, which emphasizes that relational control enhances the ability to design contractual structures. The substitutive perspective advocates that relational control reduces the need for contractual control. However, shared values, trust, guanxi, relational norms, and commitments are based on the premise of long-term embeddedness or pre-existing connections that require time to develop and accumulate. Additionally, the stock of relational capital can vary as the relational life cycle changes. Therefore, the length of the relationship is a critical moderating factor that can be used to explore the interplay between these two governance mechanisms (Cao and Lumineau, 2015). A life-cycle framework is therefore required to clarify the governance–performance relationship.

Though the relational life cycle is a crucial moderator that can clarify the governance–performance relationship, surprisingly few empirical and theoretical works have incorporated this critical contextual variable into their models. This article presents a relational life-cycle framework that builds on the buyer–supplier literature by re-examining the relationship between governance mechanisms and collaborative performance and filling existing research gaps. Additionally, this paper proposes a theoretical life-cycle model and suggests that contractual control has a more positive impact than that of relational control during the initial (exploration) phase of a relationship. However, relational control may have a greater effect on collaborative performance than contractual control does during the buildup and maturity phases, in which buyers and suppliers enter into repeated partnerships. This suggests that a substitutional relationship exists between contractual control and relational control across the life-cycle phases. We provide several contributions to the literature connecting governance mechanisms and collaborative performance by (1) describing various arguments for the impact of governance mechanisms on collaborative performance and (2) demonstrating how the relational life cycle moderates the relationship between governance mechanisms and collaborative performance.

The remainder of this paper is organized as follows: first, we review the extant literature to examine the existing theoretical framework and develop our research hypotheses; second, we describe our research methodology; third, we present our empirical results; and fourth, we discuss our findings and draw conclusions. Finally, we comment on the limitations of our research and present possible topics for future research.

2. Theoretical background and hypothesis development

2.1. Governance mechanisms

Governance refers to organizational or structural arrangements designed to determine and influence the behavior of organization members (Das and Teng, 1998). Governance mechanisms are safeguards that firms implement to govern interorganizational exchange, minimize exposure to opportunism, and protect transaction-specific investments (TSIs) (Jap and Ganesan, 2000). Power is a main factor in buyer-to-supplier exchange relationships (Zhao et al., 2008), whereas dependence creates exposure to opportunism (Williamson, 1996). In an exchange relationship characterized by marked power asymmetry, the less dependent party can wield power to exploit the other. Relatively dependent buyers resist supplier power through opportunistic behavior, which they adopt only when their relationship with the supplier is characterized by low relational norms (Joshi, 1998). Therefore, managers align the governance features of interorganizational relationships to the exchange hazards, particularly those associated with specialized asset investments, difficult performance measurement, or uncertainty (Williamson, 1985). Managers may also craft complex contracts in response to serious exchange hazards. Contractual control emphasizes written procedures for monitoring, detailing the roles, obligations to perform, and future outcomes (Li et al., 2010; Wang and Fulop, 2007). The more complex the contract is, the greater the specification of promises, obligations, and processes for dispute resolution. Relational