

A Dimensional Model of Contract Characteristics in Business Relationships

Bahar Ashnai ^{*)}

Stephan C. Henneberg ^{*)}

Stefanos Mouzas ^{#)}

Peter Naudé ^{*)}

^{*)} mIMP Research Group
Manchester Business School
The University of Manchester
Booth Street West
Manchester M15 6PB, UK
Tel: +44 161 275 7782

^{#)} Lancaster University
Management School
Lancaster LA1 4YW, UK
Tel.: +44 1524 593908

25th Annual IMP Conference, Marseille, Euromed Management, 3-5 Sept. 2009

Send correspondence to Bahar Ashnai, Manchester Business School, Booth Street West, Manchester M15 6PB, UK (Email: bahar.ashnai@mbs.ac.uk)

ABSTRACT

Contracts are manifestations of enforceable agreements within business relationships. In this way, contract research offers an objectified lens through which the relationship between buying and

selling counterparts can be studied. Notwithstanding the significance of contracts in business marketing, issues around different types of contracts and the nature of contractual provisions have received limited attention. A typology of contract characteristics, however, may provide useful insights about the nature of business relationships and may help us understand the complexity of inter-organizational business phenomena. This study attempts to redress the existing shortcomings in the literature on business contracts by developing a typology of important contract dimensions in business relationships to allow for a systematic identification and understanding of business contract characteristics. We review previous research and propose a framework of three main dimensions of contracts that include different provisions and items of contracts. We define these dimensions as a) structural, b) enforcement, and c) coordination provisions, and identify sub-dimensions which can subsequently be used as the basis for an empirical investigation.

KEYWORDS

Business relationships, Contract characteristics, Typology

A Dimensional Model of Contract Characteristics in Business Relationships

INTRODUCTION

In business marketing, the relationship between buying and selling counterparts are studied to understand the interaction between companies (Ford and Håkansson, 2006b). Identifying the characteristics that are the drivers of successful business relationships and lead to certain outcomes are an important aspect of understanding organizational interactions. Different important characteristics of business relationships have been introduced in inter-organizational studies, among which are interdependence and long-term orientation (Ganesan, 1994; Kumar et al., 1995), or trust and commitment (Mohr and Spekman, 1994; Morgan and Hunt, 1994). Recently, reliance has been introduced as a business relationship characteristic which is a complementary construct to trust, involving protective mechanisms that minimize the risk of exchange relationships and deliver a legitimate right to the companies involved (Mouzas et al., 2007). It is important to understand the nature of these different relationship attributes, how they relate to each other, and consequently how they impact on relationship outcomes.

Notwithstanding the plethora of inter-organizational research, only few studies focus on objectified manifestations of business relationships (Granovetter, 1985; Mayer et al., 1995). One of the main forms of objectified manifestations as rational standards of business relationships are contracts; a contract being an inscription of enforceable agreements within business relationships (Mouzas and Ford, 2006; Mouzas and Blois, 2008). In this way, contract research offers an objectified lens through which the relationship between buying and selling counterparts can be studied (Ford et al., 2006). It is important to understand what the characteristics of the specific contracts are and how these characteristics relate to other attributes of business relationships such as trust, dependence, and reliance.

Despite the importance of objectified manifestations for business relationships, contracts have been largely ignored in the literature on interactions between firms, i.e. there has not been enough

attention paid to the overall significance of contracts in business relationships, nor to the specific characteristics of contracts and contractual provisions (Argyres and Mayer, 2007; Faems et al., 2008). This study attempts to redress this shortcoming by developing a dimensional model of contract characteristics and introducing the characteristics of contracts by defining a contract typology.

In this article we initially discuss business relationships and their characteristics in order to then review the literature on contracts in such business relationships and their characteristics. Based on this review we propose a typology of contracts by defining a dimensional model of business contract characteristics. Finally we discuss the findings and conclusions.

BUSINESS RELATIONSHIPS

The term 'relationship' has been widely used among academics and practitioners (Håkansson and Ford, 2002), as firms search for ways to differentiate themselves through value creation in business relationships (Ulaga and Eggert, 2006). The importance of relationships in business-to-business markets has been emphasized by the IMP research group (Håkansson, 1982; Ford, 1984) by introducing the interaction model. IMP scholars look at business relationships taking place between two active parties (in contrast to the more traditional view of marketing in which the reaction of an aggregate market to an active seller company is analyzed); they study factors that aid or hinder the development of close relationships and investigate which of these are within the control of the two companies (Ford, 1980) and consider the resulting challenges to both structures and processes for firms (Ford and Håkansson, 2006a). IMP research tries to increase the understanding of business markets by investigating the interaction processes from the buying and the selling firms' perspective (Håkansson et al., 1977). Thus, industrial marketing and purchasing involves successful management of complex and dependent inter-organizational relationships, rather than only optimizing efficient discrete transactions. For many firms it is of crucial importance to create successful business relationships and to maintain and develop these relationships. Thus, it is necessary to examine the interactions underlying these relationships, as well as the resulting networks phenomena to find out

what is happening in the exchanges between the organizations (Leek et al., 2003; Ford and Håkansson, 2006a).

Much research exists which has attempted to examine the characteristics of business relationships and understand their role in building and maintaining such relationships. Different crucial characteristics have been introduced for inter-organizational relationships; these characteristics include trust (Anderson and Narus, 1990; Mohr and Spekman, 1994; Morgan and Hunt, 1994), commitment (Mohr and Spekman, 1994; Morgan and Hunt, 1994; Storbacka et al., 1994), conflict (Anderson and Narus, 1990; Morgan and Hunt, 1994), coordination (Mohr and Spekman, 1994; Mohr et al., 1996), communication (Anderson and Narus, 1990; Morgan and Hunt, 1994; Mohr and Spekman, 1994), dependence (Anderson and Narus, 1990; Ganesan, 1994; Heide, 1994), and asset specificity (Williamson, 1985; Ganesan, 1994), among others.

Considerations of objectified manifestations in business to business relationships have been emphasized in recent research (Henneberg et al., 2009). Objectified manifestations are the inter-organizational traces left by the interactions of different sense-making schemata, exemplified in, for example, strategy documents or resource allocation plans (intra-organizational) or alliance agreements or contracts (inter-organizational (Öberg et al., 2009)). While social relations affect organizations and their structures, interactions (and expectations regarding possible interactions) based on rational and instrumental standards should be considered in more detail in order to understand different facets of business relationships. Therefore, in order to understand the social-structural characteristics of organizational interactions, it is necessary to understand these two differently sourced areas, i.e. psychologically-sourced as well as rationally-sourced as these conceptions complement or supplement one another (Granovetter, 1985). For example, certain institutional arrangements can act as functional substitutes for trust to discourage malfeasance. Such institutional arrangement can be manifested as explicit and implicit contracts (Okun, 1981). The importance of such arrangements has been recognized in the literature on business relationships, e.g. through the construct of reliance which was introduced as a complementary construct to trust, covering inter-organisational standards, which involve protective mechanisms that minimize the risk

within exchange relationships and deliver a legitimate right to the companies involved. In this conceptualization, contractual documents can act as a basis for the creation of reliance (Mouzas et al., 2007).

Therefore it is important to understand contracts as a part of business-to-business relationships, specifically, how contracts vary within different relationships, and how various contracts can be categorized, i.e. what the characteristics of business contracts are. In the next section we set the stage for developing a typology of contract characteristics in business relationships by summarizing succinctly the existing literature on business contracts vis-à-vis business relationships.

BUSINESS CONTRACTS

Business contracts have been used to study a) governance forms, b) strategic alliances, and c) business marketing. An overview of these studies is presented in Table 1 (the specific focus for each study as well as the main findings are enumerated). In this section we parsimoniously review the literature on business contracts, starting with the study of governance forms:

Governance Forms

Contracts play an active role in the study of governance forms (Williamson, 1996). Formal, in other words, legally enforceable contracts, are introduced as a governance tool for the safeguarding of transaction-specific assets from opportunism (Williamson, 1975; 1985).). The analysis of governance forms is based on a transaction cost perspective that emphasizes the sacrifices of searching, negotiating and monitoring individual transactions. Argyres and Liebeskind (1999) try to extend the transaction cost perspective by drawing more attention to the role of contracts. They argue that in some cases transaction costs would predict that a firm would switch partners as this would be more efficient; however, in practice due to other ongoing transactions, this predicted action is too costly or not feasible for the firms. This constitutes a situation called governance inseparability. Contractual commitments can be one of the limitations creating governance inseparability. Such contracts can vary in terms of their explicitness, hardness, concreteness, or what Macneil (1980) refers to as presentation. Presentation is a concept used to denote the extent to which an explicit

contract attempts to predict into the future and explicitly state today (i.e., in the present) how various situations that might occur in the future will be handled if they were to occur (e.g., price inflation clauses in industrial purchasing contracts, express warranties that address product failure).

Table 1 about here

Other studies using transaction cost perspectives to explain governance forms attempt to investigate the relationship between contracts and relational governance; Poppo and Zenger (2002) emphasize that aspects of relational governance and formal contracts function as complements rather than supplements. They view relational governance as a composite factor including norms and dimensions such as open communication and sharing of information, trust, dependence and cooperation. They measure contractual complexity by the indicator of the contract customization, asking their key informants to indicate agreement levels with the statement: “the formal contract is highly customized and required considerable legal work” (717). They also request the respondents to indicate the length of the contract (in pages) as a second indicator of a complex contract, and they test the correlation between the two items, which is shown to be significant. The result of this study suggests that “contractual complexity and relational governance function as complements in explaining satisfaction with exchange performance” (721).

The study of governance forms focuses on formal contracts, usually understood as “the degree to which the [seller] relies on explicit contracts to govern its relationships with [the buyer]” (Cavusgil et al., 2004). This is usually measured via simple scales (Lusch and Brown, 1996). Mayer and Argyres (2004) conduct a detailed case study of eleven contracts between the same two partners with the purpose of investigating the role of learning in formal contracting. This study shows that over time firms learn to contract with each other as they learn how to work together. The study found many changes in the contracts as a result of processes by which the firms learn to contract. Other than the documentation processes mentioned in the ‘Statement of Work’ (SOW) and the SOW

format changes, contract changes or additions were observed in the categories (1) changes to enhance communication, (2) clarification of responsibilities/expectations, and (3) contingency planning.

In a later study Argyres and Mayer (2007) introduce different constructs to characterize contracts, e.g. their extensiveness, and also to analyse whether managers, engineers, or lawyers are the primary repositories of different contract terms in the organization. They represent a typology of five different types of contractual provisions; these provisions are the capabilities for designing/developing (1) roles and responsibilities, (2) decisions and control rights, (3) dispute resolution, (4) contingency planning, and (5) communication. Some of these were already mentioned in Mayer and Argyres (2004)'s paper (i.e. communication, responsibilities/expectations, and contingency planning). Detailed explanation of the "roles and responsibilities" of the parties may serve a safeguarding function by reducing ambiguity about contractual obligations and consequently reducing the possibility of opportunistic actions. The second dimension in which contract design capabilities can develop involves the allocation of "decision and control rights" between parties. The third dimension of contract design capability is the "dispute resolution" ability, which is the ability to determine how to deal with disputes that could arise during the execution of the contract. While roles and responsibilities deal with actions that must be carried out in the project or interaction, "contingency planning" involves anticipating and making provisions for problems that may or may not occur during the execution. The parties must furthermore determine how they plan to communicate with each other during the execution, the manner in which they communicate with each other also may be specified in the contract. This identifies the last (fifth) dimension of the contract design. In a further study, Argyres et al. (2007) study the design of the contracts by examining the relationship between two contractual provisions, i.e. contingency planning and task description. They conclude that these two provisions behave as complements in contractual design. In their study, these two provisions are measured unidimensionally, coded on a binary basis.

To summarize, in studying governance forms, formal contracts are introduced as a governance tool. Based on a transaction cost perspective, different kinds of contracts are identified. Specifically, some studies investigate the link between contracts and relational governance. Other

studies attempt to introduce distinct contract terms in order to represent a typology of contractual provisions.

Strategic Alliances and Business Contracts

The second area in which business contracts have been studied is that of strategic alliances. A review of this literature starts with Parkhe's (1993) study in which he introduces a checklist of safeguards as *ex-post* deterrents. These deterrents consist of contractual safeguards, or provisions in a formal partnership agreement, that inflict penalties for the omission of cooperative behaviors or commission of volatile behaviors. He proposes a model of strategic alliance hypothesizing that the extent of the perception of opportunistic behavior and the level of contractual safeguards embedded in a strategic alliance will be positively related. It is assumed that incentives for opportunism can be inhibited by prospective punishments. He introduces an eight-item checklist of safeguards as *ex-post* deterrents.

Focusing on the contractual complexity in strategic alliances, Reuer and Arino (2007) categorize Parkhe's (1993) checklist into two specific dimensions, which are the coordination provisions and the enforcement provisions. In this categorization five provisions of "confidentiality provisions", "restrictions on proprietary information", "termination provisions", "arbitration clauses", and "lawsuit provisions" load on a distinct factor, labeled "enforcement provisions". The other three provisions, which are "rights to reports of relevant transactions", "notification rights for departures from the agreement", and "auditing rights", load on another factor, labeled "coordination provisions". Reuer and Arino argue that "firms that have collaborated with each other in the past are not less likely to negotiate enforcement provisions; rather, repeat collaborators are less likely to adopt contractual provisions that are informational in nature and are geared to the coordination of the alliance" (2007: 313). In other words "enforcement provisions are the most stringent provisions that deal with intellectual property as well as more severe breaches that involve lawsuits and third-party adjudication, whereas coordination provisions are the weaker, informational provisions concerning

the monitoring and adaptation of the alliance” (327). Also residing in the strategic alliances literature, Lerner and Merges (1998) study a sample of 200 alliances and categorize the issues mentioned in the alliance agreements regarding control rights into four categories: “key aspects of alliance management”, “determination of alliance scope”, “control of intellectual property”, and “governance structures”.

Therefore, in studying alliances, specific relationships between contractual safeguards and relational behavior (such as opportunistic behavior and cooperation) is investigated, and the determinants of the application of control rights in alliances are examined. Several distinct provisions for contractual complexity are introduced, which are useful for the purpose of our study, namely developing a contract typology.

Business Marketing and Business Contracts

Another area in which business contracts have been studied is business-to-business marketing. In business marketing, contracts are normative when a mutual understanding exists between parties as to how they will interact and deal with each other, including the handling of future contingencies (Lusch and Brown, 1996). Lusch and Brown’s (1996) scales measure the hard contracting (i.e. explicit contracting over roles and explicit contracting for handling unexpected events) and soft contracting (i.e. normative contracting over roles and normative contracting for handling unexpected event).

Ring and Van De Ven (1992) argue that relational contracts can have advantages for parties such as providing them with an ability to avoid liabilities caused by the use of other forms of governance such as discrete contracting. They distinguish discrete market transactions and relational contracting transactions, in which the governance structure is based on relational contracts and bilateral governance. They propose that certain business relationship characteristics such as risk, trust and “reliance on trust” (which is in itself is a rather ill-defined construct; Mouzas et al., 2007) relate to the choice of governance, specifically the choice of the safeguards used in contracts. For example, they offer the propositions that “high risk, high reliance on trust transactions will be governed by relational contracts” (490) and that “the elaborateness of safeguards in relational contracts is a

function of the perceived level of risk in a transaction and the reliance on trust by parties to the exchange” (493). Relational contract theory is not immune from criticism. Mouzas and Blois (2008) provide a critique of relational contract theory by contrasting theoretical contracts with existing empirical evidence.

Another area of contracts covered in the area of business-to-business marketing is umbrella agreements. These are framework contracts that circumscribe a set of basic rules and principles of how contracting parties wish to relate to each other (Mouzas and Furmston, 2008). Thus, umbrella agreements can improve the interaction processes in business network by providing a framework of principles within which exchanges may happen. In this way, umbrella agreements between companies transform implicit norms, which are embedded in customs and business practices, into more explicit, basic norms for interactions. They ensure a balance between stability and change and resolve the conflict between certainty on the one hand, and flexibility on the other by providing interaction guidelines, such as the inclusion of open terms regarding volume and prices as well as the inclusion of renegotiation activities and regular business reviews (Mouzas and Ford, 2006).

To sum up, in the area of business-to-business marketing, especially alliances within business relationships are studied. The role of contracts in coordinating marketing and networking activities is explored, and specifically umbrella agreements are introduced and compared to traditional contracts.

TOWARDS A MODEL OF BUSINESS CONTRACT CHARACTERISTICS

In summary, contracts vis-à-vis business relationships have been studied from various perspectives in the areas of transaction cost economics, strategic alliances, and business marketing. These different areas emphasize and highlight different contract aspects, such as relational contracts, learning in contracting, contract terms, the role of contracts in business relationships and alliances, and umbrella agreements (see Table 1). All of these studies address the importance of contracts in business relationships but fail to provide a comprehensive and systematic typology, i.e. a dimensional model of contracts. However, they provide the building blocks for such a typology via their kaleidoscopic discussion of often overlapping themes. Based on this review, we introduce three

main dimensions of contracts to develop a typology of contracts in business relationships. These dimensions are based on the themes represented in the extant literature.

As the basis of a typology of contract characteristics, we choose the dimensions of “coordination provisions” and “enforcement provisions”. Such a dimensional model is influenced by Reuer and Arino (2007) as well as Parkhe’s (1993) checklist of safeguarding items which consists of contractual safeguards or provisions in a formal agreement which inflict penalties for omission or commission of specific behaviors. However, in this original categorization, provisions such as roles and responsibilities which relate to structural provisions are ignored. Therefore, in order to create a more comprehensive typology, we add the “structural dimension” provision as another main dimension. A more detailed introduction of the three main contract dimensions follows. We also identify the main sub-dimension for each main dimension. As shown in Table 2, the sources for the derivation of these dimensions and sub-dimensions as well as existing operationalisations are also provided.

Table 2 about here

The *structural dimension* includes those contract provisions that attempt to define the overall structure of the business interaction. This dimension covers key aspects of contract management, governance structure, and roles and responsibilities provisions. Contracts can be managed as umbrella agreements (Mouzas and Ford, 2006; Mouzas and Furnston, 2008); this relates to the structure specificity of the contracts and is included in the structural dimension. Role specificity (or so-called explicit contracting over roles) can be measured by items such as “in dealing with our major supplier, our contract or distribution agreement precisely defines the role of each party” (Lusch and Brown, 1996: 35). In the contracts some items can be included to specify the roles and responsibilities of each party. This can include specifying delivery schedules, or required equipment and material (Argyres and Mayer, 2007). The structural dimension covers such item as well.

The *enforcement dimension* includes the contract provisions that are the most stringent provisions that deal with intellectual property as well as more severe breaches that involve lawsuits

and third-party adjudication. They cover sub-dimensions such as confidentiality provisions, restriction of information, termination provisions, arbitration clauses, lawsuit provisions, and control rights. In Parkhe's (1993) checklist, items such as “non-use of proprietary information even after termination of agreement” and “lawsuit provisions” are among this dimension provisions (Reuer and Arino, 2007). This dimension covers items concerning control rights. To operationalize control rights Lerner and Merges (1998) suggest items such as the “right to manufacture final product” and the “right to market product alone”. To measure control rights regarding the determination of alliance scope, they suggest items such as the “right to expand alliance” and the “right to terminate alliance without cause”. They introduce items such as “ownership of patents” and “ownership of core technology” as a way of capturing control rights for intellectual property. Further enforcement provisions are dealing with the handling of unexpected events, for example the legal remedies for failure to perform (Lusch and Brown, 1996) and the legal consequences if one party fails to comply with operational expectations (Cavusgil et al., 2004).

The *coordination dimension* refers to informational provisions concerning the monitoring and adaptation of the business interaction. These provisions cover sub-dimensions such as rights to reports of relevant transactions, notification rights, e.g. for departures from the agreement, auditing rights, contingency planning, and items which attempt to enable better communications. Among Parkhe's (1993) checklist, items such as “periodic written reports to all relevant transactions” and the “right to examine and audit all relevant records” are represent different coordination provisions (Reuer and Arino, 2007). Argyres and Mayer (2007) introduce contingency planning provisions such as the “impact of industry standards issues” and communication provisions such as “single point of contract at one of the partners”. These items are also among the coordination provisions.

FINDINGS, IMPLICATIONS, AND FURTHER RESEARCH

Our underlying position is that contracts play a significant role in business relationships. Thus, our study contributes to further research by providing a better understanding of a contract typology, based on a dimensional model that describes the different kinds of contracts, and which

ultimately will help us understand and manage (in) business relationships. In this way, our research contributes to the field of business marketing by introducing a typology model for contracts in business relationships. Three dimensions with multiple sub-dimensions are used to categorize different provisions of the contracts and thus enable scholars and practitioners to differentiate among various kinds of business agreements. This model of contracts in business relationships enables future research, both in the quantitative as well as the qualitative area, to understand the better the interplay between business contract characteristics on the one hand, and business relationships characteristics on the other.

In this study with the purpose of presenting a dimensional model of business contracts, we reviewed the relevant literature in different areas (governance forms using transaction cost economics, strategic alliances, and business-to-business relationships) which deal with business contracts. Based on this review, we offer three dimensions as a typology of contract characteristics in business relationships, which are the structural dimension, the enforcement dimension, and the coordination dimension. These dimensions introduce provisions included in business contracts that serve different purposes. We detail each dimension by introducing relevant sub-dimensions and potential operationalisation extracted from the literature (presented in Table 2).

To further develop the findings from this study, we propose that as a next step an operationalisation for contract characteristics, based on the dimensions and sub-dimensions, need to be done in order to provide a tool to capture contract characteristics in a systematic and empirical way. Secondly, this will lead to the use of such an empirical tool with real cases, e.g. by categorizing the contracts that companies have with their main suppliers and customers. Finally, this tool can be used to understand antecedents and consequences of business relationships better, e.g. by analyzing how certain contract characteristics affect business relationship characteristics, as well as how business relationship characteristics affect business contracts, applying a survey-based study using structural equation modeling (SEM) approaches.

For future research, implementing a dyadic perspective is needed to understand the impact of the relationship characteristics and also the impact of company characteristics on the characteristics of

the contracts between the buyers and sellers. Furthermore, network effects can be considered (beyond a dyadic perspective), including the impact of third parties and their influence on contracts. Our study is also limited to considerations regarding written contracts, and there are cases in which companies apply oral contracts. Considering non-codified, oral contracts would further enrich our contract typology.

REFERENCES

- Anderson, J. C., H. Håkansson, and J. Johanson (1994) Dyadic Business Relationships within a Business Network Context, *Journal of Marketing*, 58 (October), pp. 1-15.
- Argyres, N. S., and J. P. Liebeskind (1999) Contractual Commitments, Bargaining Power, and Governance Inseparability: Incorporating History into Transaction Cost Theory, *Academy of Management Review*, 24 (1), pp. 49-63.
- Argyres, N. S., and K. J. Mayer (2007) Contract Design as a Firm Capability: An Integration of Learning and Transaction Cost Perspectives, *Academy of Management Review*, 32 (4), pp. 1060-1077.
- Argyres, N. S., J. Bercovitz, and K. J. Mayer (2007) Complementarity and Evolution of Contractual Provisions: An Empirical Study of IT Services Contracts, *Organization Science*, 18 (1), pp. 3-19.
- Cavusgil, S. T., S. Deligonul, and C. Zhang (2004) Curbing Foreign Distributor Opportunism: An Examination of Trust, Contracts, and the Legal Environment in International Channel Relationships, *Journal of International Marketing*, 12 (2), pp. 7-27.
- Faems, D., Janssens, M. Madhok, A., and Van Looy, B. (2008) Towards an Integrative Perspective on Alliance Governance: Connecting Contract Design, Trust Dynamics and Contract Application. *Academy of Management Journal*, 51(6): pp. 1053-1078.
- Ford, D. (1980) The Development of Buyer-Seller Relationships in Industrial Markets, *European Journal of Marketing*, 14 (5/6), pp. 339-353.

- Ford, D. (1984) Buyer Seller Relationships in International Industrial-Markets, *Industrial Marketing Management*, 13 (2), pp. 101-12.
- Ford, D., L-E. Gadde, H. Håkansson, and I. Snehota (2006) *The Business Marketing Course (2nd. Edition)* John Wiley and Sons.
- Ford, D. and H. Håkansson (2006a) IMP – Some Things Achieved: Much More to Do, *European Journal of Marketing*, 40 (3/4), pp. 248-258.
- Ford, D. and H. Håkansson (2006b) The Idea of Interaction, *The IMP Journal*, 1 (1), pp. 4-27.
- Ganesan, S. (1994) Determinants of Long-Term Orientation in Buyer-Seller Relationships, *Journal of Marketing*, 58 (2), pp. 1-19.
- Granovetter, M. (1985) Economic Action and Social Structure: The Problem of Embeddedness, *American Journal of Sociology*, 91 (3), pp. 481-510.
- Håkansson, H. (1982) *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, Chichester, England: John Wiley and Sons, Ltd.
- Håkansson, H., J. Johanson, B. Wootz (1977) Influence Tactics in Buyer-Seller Processes, *Industrial Marketing Management*, 5, pp. 319-332.
- Heide, J. B. (1994) Interorganizational Governance in Marketing Channels, *Journal of Marketing*, 58 (1), pp. 71-85.
- Henneberg, S. C., P. Naudé, and S. Mouzas (2009 forthcoming), Sense-Making and Management in Business Networks - Some Observations, Considerations, and a Research Agenda, *Industrial Marketing Management*.
- Hill, C. W. L. (1990) Cooperation, opportunism, and the invisible hand: Implications for transaction cost theory, *Academy of Management Review*, 15, pp. 500-513.
- Kumar, N., L. K. Scheer, and J-B E. M. Steenkamp (1995), The Effects of Perceived Interdependence on Dealer Attitudes, *Journal of Marketing Research*, 32 (August), pp. 348–356.
- Leek, S., P. Naudé, and P. W. Turnbull (2003) Interactions, Relationships and Networks in a Changing World, *Industrial Marketing Management*, 32 (2), pp. 87-90.

- Lerner, J., and R. P. Merges (1998) The Control of Technology Alliances: An Empirical Analysis of the Biotechnology Industry, *The Journal of Industrial Economics*, 46 (2), pp. 125–156.
- Lusch, R. F., and J. R. Brown (1996) Interdependency, Contracting, and Relational Behavior in Marketing Channels, *Journal of Marketing*, 60 (October), pp. 19–38.
- Macneil, I. R. (1980) *The New Social Contract*, New Haven: Yale University Press.
- Mayer, K. J., and N. S. Argyres (2004) Learning to Contract: Evidence from the Personal Computer Industry, *Organization Science*, 15 (4), pp. 394-410.
- Mayer, R. C., J. H. Davis, and F. D. Schoorman (1995) An Integrative Model of Organizational Trust, *Academy of Management Review*, 20 (3), pp. 709-734.
- Mohr, J., R. J. Fisher, and J. R. Nevin (1996) Collaborative Communication in Interfirm Relationships: Moderating Effects of Integration and Control, *Journal of Marketing*, 60 (3), pp. 103-115.
- Mohr, J., and R. Spekman (1994) Characteristics of Partnership Success: Partnership Attributes, Communication Behavior, and Conflict Resolution Techniques, *Strategic Management Journal*, 15 (2), pp. 135-52.
- Morgan, R. M. and S. D. Hunt (1994) The Commitment-Trust Theory of Relationship Marketing, *Journal of Marketing*, 58 (3), pp. 20-38.
- Mouzas, S. and Blois, B. (2008). Relational Contract Theory: Confirmations and Contradictions. In the Proceedings of 24th IMP Conference 2008 Uppsala University.
- Mouzas, S., and D. Ford (2006) Managing Relationships in Showery Weather: The Role of Umbrella Agreements, *Journal of Business Research*, 59, pp. 1248–1256.
- Mouzas, S., and M. Furmston (2008) From Contract to Umbrella Agreement, *Cambridge Law Journal*, 67 (1), pp. 37-50.
- Mouzas, S., S. C. Henneberg and P. Naudé (2007) Trust and Reliance in Business Relationships, *European Journal of Marketing*, 41 (9/10), pp. 1016-1032.
- Öberg, C., S. C. Henneberg and S. Mouzas (2009) Organizational Inscriptions of Network Pictures: A Meso-Level Analysis, *25th IMP Conference* (forthcoming), Marseilles.

Okun, A. (1981) *Prices and Quantities*, Washington, D.C.: Brookings.

Parkhe, A (1993) Strategic Alliance Structuring: A Game Theoretic and Transaction Cost

Examination of Interfirm Cooperation, *Academy of Management Journal*, 36 (4), pp. 794-829.

Poppo, L., and T. Zenger (2002) Do Formal Contracts and Relational Governance Function as

Substitutes or Complements?, *Strategic Management Journal*, 23 (May), pp. 707-725.

Reuer, J. J., and A. Arino (2007) Strategic Alliance Contracts: Dimensions and Determinants of

Contractual Complexity, *Strategic Management Journal*, 28 (3), pp. 313-330.

Ring, P. S., and A. H. Van de Ven (1992) Structuring Cooperative Relationships between

Organizations, *Strategic Management Journal*, 13 (7), pp. 483-498.

Storbacka, K., T. Strandvik, and C. Gronroos (1994) Managing Customer Relationships for Profit:

The Dynamics of Relationship Quality, *International Journal of Services*, 5 (5), pp. 21-38.

Uлага, W., and A. Eggert (2006) Value-Based Differentiation in Business Relationships: Gaining

and Sustaining Key Supplier Status, *Journal of Marketing*, 70, pp. 119-136.

Williamson, O. E. (1975) *Markets and Hierarchies*, New York: Free Press.

Williamson, O. E. (1985) *The Economic Institutions of Capitalism*, New York: Free Press.

Williamson, O. E. (1996) *The Mechanisms of Governance*, Oxford University Press.

Table 1: Overview of Business Contract literature

<i>Area</i>	<i>Source</i>	<i>Emphasis</i>	<i>Findings</i>
Governance Forms	Williamson, 1975; 1985	<ul style="list-style-type: none"> • Formal contracts as a governance tool • Transaction cost perspective 	<ul style="list-style-type: none"> • Contracts play an important role in TCE; governance tool for safeguarding. • Transaction costs include the cost of search and monitoring contractual arrangements.
	Argyres and Liebeskind, 1999	<ul style="list-style-type: none"> • Contractual commitments 	<ul style="list-style-type: none"> • Prior contractual commitments limit the future governance arrangements in the future.
	Poppo and Zenger, 2002	<ul style="list-style-type: none"> • Contract • Relational governance 	<ul style="list-style-type: none"> • Formal contracts and relational governance are more effective than substitutes.
	Cavusgil et al., 2004	<ul style="list-style-type: none"> • The role of trust and contracts in business relationships 	<ul style="list-style-type: none"> • It is proposed that formal contracts are not a substitute for trust and opportunism. Their empirical results show that the effect is not significant.
	Mayer and Argyres, 2004	<ul style="list-style-type: none"> • Learning to Contract 	<ul style="list-style-type: none"> • Over time firms learn to work together and trust each other. • Contracts and inter-organizational trust are complementary.
	Argyres and Mayer, 2007	<ul style="list-style-type: none"> • Contract terms 	<ul style="list-style-type: none"> • Types of contract terms (extensiveness) and their effects on opportunistic behavior are discussed. • The relationship between the transaction cost and the number of details in a contract is proposed. • It is suggested that who (managers, engineers, etc.) in an organization are the primary repositories of contract terms.
Strategic alliances	Parkhe, 1993	<ul style="list-style-type: none"> • Alliances as ex post deterrents 	<ul style="list-style-type: none"> • Contractual safeguards were positively linked to opportunistic behavior, negatively linked to short-term orientation, and negatively linked to the long-term orientation.
	Lerner and Merges, 1998	<ul style="list-style-type: none"> • Determinants of control rights in alliances 	<ul style="list-style-type: none"> • The allocation of control rights to the R&D and financial resources.
	Reuer and Arino, 2007	<ul style="list-style-type: none"> • Contract complexity 	<ul style="list-style-type: none"> • Eight provisions for contractual complexity are identified. • Two underlying dimensions of contractual complexity are enforcement and coordination functions. • The usage of particular contractual provisions is related to contract specificity and whether the alliance's duration is open-ended.
Business-to-business relationships	Ring and Van De Ven, 1992	<ul style="list-style-type: none"> • Alliances • Choice of governance 	<ul style="list-style-type: none"> • The characteristics of the forms of governance and the conditions providing a conceptual framework were explored.
	Lusch and Brown, 1996	<ul style="list-style-type: none"> • Contracting and relational behavior 	<ul style="list-style-type: none"> • The performance of marketing activities by network members can be coordinated by normative and contractual mechanisms.
	Mouzas and Ford, 2006	<ul style="list-style-type: none"> • Umbrella agreements 	<ul style="list-style-type: none"> • Umbrella agreements used in B2B networks facilitate the interaction process and improve performance. They can create a framework for on-going negotiations.
	Mouzas and Furnston, 2008	<ul style="list-style-type: none"> • Umbrella agreements • Contract law 	<ul style="list-style-type: none"> • Umbrella agreements can be used by businesses to overcome the traditional contracts difficulties.

Abstract preview

	Mouzas and Blois (2008)	<ul style="list-style-type: none">• Relational Contracts• Incomplete Contracts	<ul style="list-style-type: none">• Relational Contract theory is critically ex... with incomplete contract theory as well a
--	----------------------------	---	--

Table 2: Dimensions of Contract Characteristics

<i>Dimension</i>	<i>Derived from</i>	<i>Sub-Dimensions</i>	<i>Source</i>	<i>Operationalisation</i>
Structural Provisions	Lusch and Brown, 1996	<ul style="list-style-type: none"> • Key aspects of contract management • Governance structure • Contract specificity, i.e. umbrella versus detailed specifications • Roles and responsibilities 	Poppo and Zenger, 2002	Contractual complexity (contract customization): 1 = strongly disagree, 7 = strongly agree <ul style="list-style-type: none"> • the formal contract is highly customized and required considerable legal work * the length of the contract (in pages) is also asked and the correlation between the two items is tested
			Mouzas and Ford, 2006; Mouzas and Furmston, 2008	Specificity of the contract <ul style="list-style-type: none"> • The extent to which parties use umbrella agreements • Default and mandatory rules • Renegotiation of contract terms
			Argyres and Mayer, 2007	Responsibilities/expectations: <ul style="list-style-type: none"> • One partner receives full hardware specifications from the other partner • One partner deliverables section • Project schedule directed to be negotiated after SOW signed • Project schedule included in SOW • Delivery schedule for hardware platforms from one partner included in SOW • Features to be included in each release are included in SOW • Equipment and material required section gets additional detail
			Argyres et al., 2007	Task description: <ul style="list-style-type: none"> • coded on a 1–7 Likert-type scale, where 1 represents cases in which the contracts contains very little detail in the description of the task to be accomplished and 7 represents cases in which very extensive technical description was included
			Lusch and Brown, 1996	Roles specificity: <ul style="list-style-type: none"> • In dealing with our major supplier, our contract or distribution agreement precisely defines the role of each party • In dealing with our major supplier, our contract or distribution agreement precisely defines the responsibilities of each party • In dealing with our major supplier, our contract or distribution agreement precisely states how each party is to perform.

			Lerner and Merges, 1998	Control rights regarding the governance structures: <ul style="list-style-type: none"> • Control of top project management body • Seat on R&D firm's board • Equity in R&D firm • Right to participate in R&D firm's financings • Right to register R&D firm's stock • Ability to make public equity purchases
Enforcement Provisions	Parkhe, 1993; Reuer and Arino, 2007	<ul style="list-style-type: none"> • Confidentiality provisions • Restriction of property information • Termination provisions • Arbitration clauses • Lawsuit provisions 	Parkhe, 1993	Which safeguards listed below were put into the formal agreement of this alliance? <ul style="list-style-type: none"> • designation of certain information as proprietary and subject to confidentiality provisions of the contract • non-use of proprietary information even after termination of agreement • termination of agreement • arbitration clauses • lawsuit provisions
			Lerner and Merges, 1998	Control rights regarding the key aspects of alliance management: <ul style="list-style-type: none"> • Right to manage clinical trials • Right to undertake process development • Right to manufacture final product • Right to market universally • Right to market product alone Control rights regarding the determination of alliance scope: <ul style="list-style-type: none"> • Right to expand alliance • Right to extend alliance • Right to terminate alliance without cause • Right to terminate particular projects • Right to sub-license • Right to license after expiration/termination • Right to 'shelve' projects Control rights regarding the control of intellectual property: <ul style="list-style-type: none"> • Ownership of patents • At least partial patent ownership • Control of patent litigation • Right to know-how transfer • Ownership of core technology • Right to delay publications • Right to suppress publications

			Lusch and Brown, 1996	<p>explicit contracting for handling unexpected events:</p> <ul style="list-style-type: none"> • In dealing with our major supplier, our contract or distribution agreement precisely states the legal remedies for failure to perform • In dealing with our major supplier, our contract or distribution agreement precisely states what will happen in the case of events occurring that were not planned • In dealing with our major supplier, our contract or distribution agreement precisely states how disagreements will be resolved.
			Cavusgil et al., 2004	<ul style="list-style-type: none"> • We state precisely in our agreement the legal consequences for less-than-satisfactory performance on the part of the distributor. • We state precisely in our agreement the legal consequences for the distributor if [it] fails to comply with operational expectations. • We state in our agreement in precise legal terms the operational responsibility of each party
Coordination Provisions	Parkhe, 1993; Reuer and Arino, 2007	<ul style="list-style-type: none"> • Rights to reports of relevant transactions • Notification rights for departures from the agreement • Renegotiation • Auditing rights 	Parkhe, 1993	<p>Which safeguards listed below were put into the formal agreement of this alliance?</p> <ul style="list-style-type: none"> • periodic written reports of all relevant transactions • prompt written notice of any departures from the agreement • the right to examine and audit all relevant records
			Argyres and Mayer, 2007	<p>Contingency planning:</p> <ul style="list-style-type: none"> • Addition of risks or concerns section to SOW • Hardware problems or changes lead to renegotiation of costs and schedule • Impact of industry standards issues discussed in SOW <p>Communication:</p> <ul style="list-style-type: none"> • Changes to SOW must be in writing • Changes to SOW must be reported in a timely manner • Single point of contact at one of the partner
			Argyres et al., 2007	<p>Contingency planning:</p> <ul style="list-style-type: none"> • coded on a binary basis: as zero if the contract in question contained no contingency planning and one if contingency planning was included