

Governance in Exchange: Contract Law and Its Alternatives

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Conceptual debate centering on the efficacious nature of contract law for regulating exchange has prompted recent emphasis on alternative modes of governance. The emergence of this interest has been bolstered in marketing through current focus on exchange relationships versus transactions. Scholars in both marketing and law are examining the use of varying forms of integration, self-interest stakes (i.e., credible commitments), social norms, ethics, effects of reputation, and other governance elements. The authors examine this trend and empirically investigate factors relating to the use of different governance approaches and their interrelationships. In particular, a simulated channel environment is used to test hypotheses relating to the effect of environmental uncertainty, relational interaction, and the interrelationship of different governance mechanisms (i.e., hierarchical authority and social norms). The authors report on the conceptual foundations and methodology underlying this research along with key results and implications for public policy and marketing. Their findings provide insight for informing policy underlying contract law and antitrust.

Continuing debate among public policy scholars centers on the inadequacies of contract law for regulating exchange. At the core of this dialogue is the acknowledgment that the law of contract as a basis for governing modern exchange is limited and that parties involved in exchange often depend on mechanisms of governance not rooted in the law. Macaulay's [1963] early observations provide amplified expression to this quandary. Studying contracting behavior among businesspeople, he concluded [p. 58]:

Business[people] often prefer to rely on "a [person's] word" in a brief letter, a handshake, or "common honesty and decency"—even when the transaction involves exposure to serious risks.

Observing the inadequacies of contract law for properly portraying and governing their intended agreements, especially long-term relationships, parties involved in exchange often adopt alternative or supplementary forms of regulation to guide their conduct. According to Macaulay [1963] and others, these regulatory mechanisms include a variety of contracting practices such as the use of structural inducements or self-interest stakes [Anderson and Weitz 1992; Williamson 1983], personal bonds and social norms [Macneil 1980], reliance on reputational consequences [Coase 1988], ethics [Macneil 1983], hybrid contracts [Stinchcombe 1985], and implied legal construction [Butler 1983]. Each

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provides an alternative mode for regulating exchange that can also be employed to complement traditional concepts underlying the law of contract. For public policymakers, developing policy that addresses these alternative regulatory mechanisms and integrating them with current policy schema presents substantive theoretical issues and difficult questions of application.

Inadequacies underlying contract law for many exchange relationships are well documented [see generally Gottlieb 1983; Macneil 1978; Scott 1987]. In marketing, recent emphasis on relationship marketing and long-term exchange points to a marked departure from common law traditions of contract, which conceived of exchange as composed of single, independent, and static transactions. For one-time transactions, such as those found across spot-market exchanges and some real estate transactions, these traditions provide an efficient system for ensuring performance and resolving disputes. However, for many modern exchanges involving longer terms and extended interaction, such as those found across many buyer-seller relationships, joint ventures, single-source arrangements, and other exchanges, such a discrete perspective, is limited in its ability to provide guidance and regulate the conduct of parties involved. Though changes in public policy (i.e., law of contract) directed toward resolving these inadequacies are notable (e.g., development of the Uniform Commercial Code and separate bodies of law—corporate, insurance, partnership, etc.), for the most part contract law remains "woefully incomplete" as a regulatory mechanism for exchange [Gottlieb 1983, p. 567]. According to Gottlieb [p. 567]:

It fails to address the broad realm of interaction between the colossal institutions and organizations that dominate advanced societies, and it neglects the way in which law functions as law among them.¹

Indeed, various policy theorists argue, underlying contract law's difficulties is the lack of a workable theory of contract that illuminates the factors, contingencies, motivations, and decision-making strategies employed by parties engaged in exchange [Scott 1987]. Prompted by a growing body of empirical work [Macaulay 1963; Mentschikoff 1961; Moore 1973; Whitford 1968], various authors have noted the theoretical inconsistencies of contract law as a basis for many exchanges [Gilmore 1974; Macneil 1980, 1985; Williamson 1991]. Important public policy questions in this realm include identification and examination of factors influencing the use of contract law versus other mechanisms of governance in exchange. Equally important is inquiry into the interrelationship of differing governing modes.

To this end, recent theoretical contributions in transaction cost economics [Williamson 1975], social contract theory [Macneil 1980], and social control theory [Black 1976] provide important beginnings for understanding contracting behavior among exchange participants and aiding in the development of sound public policy in the area of consumer and organizational exchange. Governance in the transaction cost tradition focuses on ownership and control underlying a decision to vertically integrate (a form of exchange). This approach distinguishes governance by markets (i.e., price-mediated exchange) and hierarchies (i.e., exchange governed through legal authority) [Williamson 1975]. Hybrid forms of trilateral (third party) and bilateral governance provide alternatives between these polar archetypes [Williamson 1979, 1985]. In contrast, governance as defined within social contract theory posits a set of contracting norms or shared expectations for regulating behavior [Macneil 1980]. Depending on the manifest nature of these norms, a continuum of governance extending from discrete to relational exchange is specified. Finally, social control theory addresses the interrelationships of law and other forms of governance [Black 1976]. While addressing different aspects of exchange, together these theories aid our understanding of the complex nature of governance as it relates to exchange and public policy.

Of particular interest here are the factors contributing to the employment of different mechanisms of governance and the interrelated nature and application of these mechanisms within exchange relationships. Drawing from theories of transaction cost economics, social contract, and social control, we explore the use of governance guided by authority (i.e., contract law) and governance through social norms of relational exchange. We emphasize the effects of environmental uncertainty and exchange interaction on these mechanisms and their interrelationships. We then report the conceptual foundations and methodology underlying this research along with key results and implications for public policy and marketing.

Exchange Governance

The governance of interfirm transactions has been described as a contracting problem [Williamson 1985; Macneil 1980]. Defined broadly, a contract includes the mode or modes of governance employed by the actors to regulate and control their exchange behavior. Governance mecha-

nisms reduce opportunistic tendencies among participants and facilitate exchange in the future.

Markets and Hierarchies

The polar governance alternatives identified by transaction cost theory [Williamson 1985] include price (i.e., markets) and control through legal ownership (i.e., hierarchies). Market regulated exchanges involve consideration and reference to price mechanisms for their mediation. Hierarchical exchange, by virtue of ownership, encompasses governance by legal authority. Hybrid forms of trilateral (third party) and bilateral governance provide intermediate forms of hierarchy between these polar archetypes [Williamson 1979, 1985].

According to Klein, Crawford, and Alchian [1978], a "primary alternative to vertical integration (and markets) ... is some form of enforceable long-term contract" [p. 302]. Long-term contracts incorporate aspects of both markets and hierarchies. Sufficiently elaborate and carefully constructed, these contracts can establish an authority relation while still providing the flexibility found in market mediated exchange [Stinchcombe 1985]. Parties may detail specific duties and obligations while allowing some aspects of the relationship to be agreed to later.

Parties also can rely on implied legal construction for governing their exchanges [Butler 1983]. That is, contracts may be crafted to reference and rely on mechanisms of governance found more broadly in the law (e.g., doctrines of unconscionability, good faith, fiduciary responsibility, etc.). The use of contracts whose terms are sensitive to broader doctrines of law has been recognized across a variety of exchanges [Butler 1983].

Other Governance Mechanisms

Beyond markets and hierarchies and long-term contracts, other mechanisms for regulating exchange may also be identified. Recent work on structural inducements or self-interest stakes for regulating long-term exchange relations has been conducted. This stream of research parallels traditional power-dependence concepts of exchange. In this context, parties may offer credible commitments [Williamson 1983] or pledges [Anderson and Weitz 1992] to create a self-interest stake and the incentive for proper conduct in the future. "Hostages," or involuntary interest stakes, may also be employed for developing commitment [Williamson 1983].

Rather than rely on structural dependence, exchange parties may also place emphasis on the relational consequences of their conduct. In particular, parties may cultivate and rely on personal bonds and social norms to define expectations and guide their conduct [Macaulay 1963]. Relational contract theory identifies a number of norms considered essential for exchange. These norms, or "principles of right action," bind exchange partners and serve to control and regulate proper and acceptable behavior [Macneil 1980, p. 38]. An especially notable aspect of norms as a mechanism of governance involves their flexible and universal nature. Unlike more formal modes, such as law, the informal nature of norms makes them pliant to differing circumstances and conditions. Moreover, their general character

suggests their application in a broad variety of circumstances.

Finally, reliance on reputational consequences can also be called on to govern exchange. Concern over the implications of one's behavior across unrelated transactions may not be of paramount importance. However, in exchanges involving repetitive transactions or differing parties, consideration of the implications of one's conduct as it relates to other transactions and relationships takes on importance. As Coase [1988] notes, "the propensity for opportunistic behavior is usually effectively checked by the need to take account of the effect of firm's actions on future business" [p. 44].

Plural Forms Governance

Of particular importance here is evidence of the interrelated nature and application of the aforementioned mechanisms of control within exchange relationships. For example, Bradach and Eccles [1989, p. 97] contend:

In contrast to conventional approaches that view market and hierarchy as mutually exclusive control mechanisms (or bipolar forms), we argue that price, authority, and trust are independent and can be combined in a variety of ways.

Citing evidence in market, intraorganizational, and personal exchanges, these authors explore how price mechanisms are sometimes built into hierarchies and how authority mechanisms often bind independent exchange partners in a market. They also note the existence of a more general governance mechanism to which they assign the label "trust." They define trust as an expectation that alleviates the fear that one's exchange partner will act opportunistically and incorporates social norms of obligation and cooperation.

In related work, Stinchcombe [1985] documents instances from weapons procurement and North Sea oil refining to franchise relationships in the automobile industry that illustrate the simultaneous use of market- and authority- (i.e., contract) driven governance. A particularly relevant example of plural forms governance is provided by Abolafia [1984], who examines mechanisms that govern futures trading. Viewing the combined role of market and social norms, Abolafia notes [p. 134]:

At the same time [that] traders are overloaded and immersed in a continuous conflict with other traders, they are mutually dependent ... to see that the market is maintained into the future so that each may continue to profit.

Concern for the viability of the market manifests itself in the development of social norms of behavior, which ensures that the price-driven nature of the market is maintained [e.g., Abolafia 1984; Bradach and Eccles 1989, p. 104]. Evidence that the governance of exchange is often achieved by a combination of mechanisms is provided by Eccles' [1981] study of the home builders' market, in which relationships between general contractors and subcontractors were found to be governed by both proscriptions of competitive bidding (i.e., market) and trust (i.e., social norms). Similar findings are also reported by Mariotti and Cainarea [1986] for the textile-clothing industry in Italy.

Anecdotal examples of multiple governance arrangements may be found across many franchise relationships, within some make-or-buy decisions, and in the use of a di-

rect sales force versus third-party distributors. Important policy research questions regarding these mechanisms involve (1) the factors contributing to their individual use and (2) how these mechanisms relate to one another in the context of exchange governance. Insight into these questions is important in the context of developing public policy that addresses the use of these mechanisms in exchange. In the following section we offer a variety of hypotheses that probe these questions.

Hypotheses

Uncertainty and Authority Governance

Transaction costs are the costs of administering exchange—negotiating, collecting and analyzing information, and ensuring performance—and are incurred because of market imperfections [Williamson 1985]. Because organizations are bounded in their rationality and information is often impacted (small numbers situations), an important determinant of the choice of market-mediated exchange versus control through ownership (i.e., hierarchies) is the attendant uncertainty surrounding an exchange. Absent uncertainty, it is possible *ex ante* to obtain reliable information, make rational decisions, anticipate and articulate significant future contingencies, and also, *ex post*, monitor and ensure the conditions for the fulfillment of the contract. On the basis of efficiency considerations, transactions characterized by uncertainty as to individual performance or future outcomes are theorized to be governed by hierarchical structures. Governance of this nature is thought to be less costly to administer than alternate forms.

Researchers examining the effects of environmental uncertainty on governance have generally focused on the choice between market-based transactions and complete vertical integration [cf. Anderson 1985; John and Weitz 1988; Klein, Frazier, and Roth 1990]. Grossman and Hart [1986] and others [Jensen 1983; Heide and John 1992; Perry 1989], however, define vertical integration as *control over decisions* and argue the benefits of integration stem not from ownership *per se*, but rather the ability to exercise decision control. Following this approach, they envision a continuum of authority-based governance extending from arm's length transactions (no decision control) to complete integration (complete control). Crafting relationships along this continuum, in effect, represents establishing an interfirm authority relationship equivalent to the degree of organizational hierarchy desired [Stinchcombe 1985].

One mechanism available to firms in crafting exchange relationships to achieve differing levels of decision control is the careful use of legal contract. Backed by legal authority, formal contracts between firms detail the rights and obligations of parties to an exchange. Sufficiently elaborate contracts serve as a form of quasi-integration establishing a vertical interfirm authority relation. As Stinchcombe [1985, p. 126] points out:

A structure with legitimate authority, with a manipulable incentive system, a method for adjusting costs, quantities, and prices, with a structure for dispute resolution, and with a set of standard operating procedures, looks very much like a hierarchy ... all these features are routinely obtained by contracts between firms in some sectors of the economy.

Simulating the operation of hierarchies through contractual mechanisms involves the use of devices that render control of decisions normally the province of one party to the other. These devices include authority, incentive, dispute resolution, and operational systems that contractually detail (and integrate) the obligations and rights of the exchange parties. Following this logic we offer the following hypothesis:

- H₁: Exchange conducted within more uncertain environments will rely on governance by legal contracts that simulate the operation of a hierarchy to a greater degree than exchange in less uncertain environments.

Notwithstanding this logic and rationale, alternative perspectives may also be advanced. In particular, faced with uncertain conditions, some exchange participants may prefer to remain flexible in their exchange relationships to maximize individual exchange goals. Such "opportunity" seeking could be argued to allow these participants individually (rather than bilaterally) to effectively reduce the effects of uncertain environments and enhance efficiency. Under such circumstances, an exchange partner can resist governance initiatives that result in greater contractual integration. At minimum, this potential suggests the importance of empirical inquiry as to the association of uncertainty and exchange governance through contractual integration.

Exchange Interaction and Social Norms Governance

Norms are defined in the literature as shared expectations regarding behavior [Axelrod 1986; Bendor and Mookherjee 1990; Gibbs 1981; Macneil 1980; Thibaut 1968; Thibaut and Kelley 1959]. Acting as governance blueprints, norms serve to guide, control, or regulate proper and acceptable behavior, setting limits within which individuals may seek alternative ways to achieve their goals [Macneil 1980, p. 38]. Norms represent important social and organizational vehicles of control when goals are long term or open ended. They provide a frame of reference, order, and standards against which to evaluate appropriate behavior in ambiguous and uncertain situations [Bettenhausen and Murnighan 1991; Raven and Rubin 1976].

Norms can differ greatly in their content and orientation from one setting to another [Thibaut and Kelley 1959]. Macneil's [1980] typology of "discrete" versus "relational" norms provides a useful contrast of these differences. Discrete norms represent expectations of individualist or competitive interaction between exchange parties and are thought to evolve in exchange structures involving parties pursuing autonomous strategies and goals. In contrast, norms of relational exchange extend from exchange in which parties contemplate bilateral, long-term strategies and goals.

Relational norms help govern exchange relationships in ways not provided through legal contract. These include behavioral expectations regarding, for example, the extent to which unity or fellowship arising from common responsibilities and interests dominates an exchange relationship (i.e., solidarity) or contractual monitoring of individual transactions is tempered by trust (i.e., mutuality). Other norms considered important under relational exchange theory include

the extent to which contractual terms can be modified if environmental changes so require (i.e., flexibility), dyadic roles are seen as complex and extending beyond transactions (role integrity), and contractual conflict resolution mechanisms are tempered with situation appraisal (i.e., harmonization of conflict).

The source and processes through which these norms develop, however, has not been clearly articulated nor empirically examined. Most studies in marketing that have examined norms of relational exchange have treated them as exogenous phenomenon [e.g., Dant and Schul 1992; Heide and John 1992; Noordewier, John, and Nevin 1990]. Explaining how norms emerge in exchange relations is important for understanding fully this mode of governance and the appropriate public policy stance toward them.

The emergent nature of norms has been described as extending from legitimate sources of authority (e.g., owners, governments, etc.), overt deliberate collective action resulting in voluntary norm formation [Buchanan 1975; Olson 1971], or as the result of unplanned cooperative evolution [Davis 1969; Thibaut and Kelley 1959]. Thus, a significant amount of interaction would appear to be a central requisite of norm formation, at least in the context of collective or evolutionary based norms.

Furthermore, the content of norms has been said to depend on the "gains" parties get [Berger and Luckmann 1969, p. 57] or the "satisfaction of certain needs" [Davis 1969, p. 109]. Thus, norms serve as a basis for achieving goals. Conceivably, parties in exchange relationships will develop normative structures that mirror the objectives and desired outcomes of the participants [Macneil 1980]. As such, participants involved in discrete exchange will develop and employ less relational and more discrete kinds of exchange norms. Conversely, parties involved in exchange exemplified by higher degrees of interaction will develop more relational norms [Macauley 1963; Macneil 1980; Scott 1987]. The following hypothesis is offered:

- H₂: Governance of exchange relationships through relational social norms will be positively related to the level of interaction between exchange parties.

Authority and Social Norms Governance

In the context of law and its relationship to other forms of social control in society, Black [1976] prophesies that "law varies inversely with other social control." From a macro perspective, the author addresses social mechanisms employed for regulating deviant conduct by occupants within a society. Numerous examples are provided across societies, communities, villages, tribes, neighborhoods, families, organizations, and groups in which the "quantity" of law increases as the quantity of other forms of social control decreases and vice versa. Extending this notion to exchange relationships and the dynamics of law and social norms, it appears likely that participants will rely on legal mechanisms in the absence of other substantive forms of governance. For example, in the early stages of an exchange association, the necessary level of interaction required to establish norm-based governance is absent. Under these conditions, exchange parties must rely on other mechanisms for governing their conduct. The prudent use of legal contract would

seem particularly relevant during the early stages of exchange relationships. Contract law embraces established principles of conduct normally common and known to both parties.

Macauley's [1963] examination of exchange relationships contends that reliance on the law lessens the chance of future interaction. More recent studies support Macauley's findings in the automotive [Frazier and Summers 1984; Whitford 1968] and rail freight industries [Palay 1985] and within supplier exchanges involving complex goods [Beale and Dugdale 1975]. Case studies by researchers associated with the Industrial Marketing and Purchasing Project [Hakansson 1982] and their associates [cf. Gadde and Mattsson 1984; Hallen 1986; Mattsson 1978, 1985; Turnbull and Valla 1986] point to this outcome in international buyer-seller interactions.

From another perspective, greater relational experience between participants facilitates the development of norms that help solidify and guide exchange conduct. Within many exchange relationships, the effects of reciprocal interaction and the institutionalization of exchange practices over time routinizes the exchange process. Development of trust and exchange reciprocity contribute to increased coordination and stability in these relationships. Less reliance on authoritative modes such as legal contract is possible as these circumstances emerge. Importantly, resort to authority is not abandoned, but its use as a controlling mechanism for the relation is tempered by the realization of the constructive effects of coordination. Moreover, the positive functional outcomes of repetitive exchange (i.e., efficiencies) requires that the exchange parties maintain some type of ongoing exchange relationship. We offer the following tentative hypothesis:

- H₃: Governance of exchange relationships through relational social norms will be inversely related to governance through the use of legal contract that simulates the operation of a hierarchy.

Method

Research Setting

A simulation depicting manufacturer and distributor relationships in an exchange setting patterned after the microcomputer industry in its developmental stage [Cadotte 1990] was employed for the study. Simulated gaming techniques have been used extensively in the behavioral sciences to study the theoretical mechanisms underlying conflict, power, and other social phenomena [Schlenker and Bonoma 1978]. Schlenker and Bonoma argue that gaming techniques, including simulations, are suitable for theory testing when the games and social phenomena of interest share similar structural characteristics.² These methods are especially useful in the developmental stage of theory and construct measurement because the researcher may observe more carefully the phenomenon of interest under controlled conditions [Tedeschi, Schlenker, and Bonoma 1973].

In marketing, various simulation techniques have benefitted researchers in allowing them to create interdependent, organizational units and study a variety of exchange relationships [see generally Dant and Young 1989]. For pub-

lic policy, the use of experimental methods, including simulation, has allowed researchers to examine the implications of such diverse policy initiatives as natural monopoly and contestable markets [Coursey, Isaac, and Smith 1984; Harrison and McKee 1985], restraint of trade and conspiracies [Isaac and Plott 1981, Isaac, Ramey, and Williams 1984], product quality, consumer information, and "lemons," as well as other issues [see generally Plott 1979, 1982, 1987, 1989 for a review of these applications].³

Simulation

For the study, participants were randomly organized into firms of four or five members, with the functional responsibilities of president, finance, marketing, research, and sales/purchasing. Each firm was randomly assigned the role of either a new venture manufacturer or distributor of microcomputers. Manufacturers had the primary responsibility for designing and manufacturing a product line. Distributors were responsible for opening and stocking retail stores and selling to end users. Manufacturers were required to sell through distributors using written contracts to reach final consumers.

Each channel member was responsible for a variety of channel functions that directly and indirectly affected the success of the other. For example, a distributor could alter a manufacturer's brand demand through pricing, shelf location, point-of-purchase promotion, and sales force allocation decisions. Similarly, manufacturers affected distributor performance by controlling access to highly sought-after brands and wholesale prices and providing advertising support in cities where their brands were sold. As a result, each manufacturer and distributor had a vested interest in the decisions of its channel partners. This dependence provided the impetus for mutual interaction between the partners across a broad array of decision areas beyond price and quantity. Negotiations typically extended to the selection of target market segments and the design of products to distributor specifications as well as other strategic decisions.

Participants in the study were undergraduate senior marketing majors enrolled in a marketing capstone strategy course at a private Midwestern university. The simulation covered ten quarters or decision periods.

Formal contracts specifying product quantity and price were required each period. Participants were able to supplement each contract or create additional contracts detailing other terms of their relationship. Each firm could develop or terminate channel relationships each period to achieve desired objectives. A more complete description of the simulation setting can be found in Cadotte [1990].

Experimental Manipulation

Simulation parameters were manipulated to provide for two experimental conditions—low and high uncertainty. Uncertainty in market channels may arise in the context of the dynamism and munificence of the environment [Achrol and Stern 1988]. Rapidly changing technological environments and/or intensely competitive conditions are likely to cause contingencies and result in uncertainty for market planning and coordination. Environmental munificence refers to the richness or leanness of opportunities and resources pro-

vided across the environment and is also likely to pose major contingencies and result in uncertainty for the channel and its members. The parameters manipulated included seasonal and cyclical variations in economic conditions, variation in market demand, brand performance requirements of the market, accuracy of market research information, availability of financial resources, etc. At the time of class registration, simulation participants were randomly assigned to the two experimental conditions. In each condition participants were sensitized to their respective environments through newsletters distributed every other period during simulation play.

Data Collection

Data were collected employing a key informant methodology and questionnaire. According to Campbell [1955], key informants should meet the criteria of being knowledgeable regarding the phenomenon under study as well as willing and able to communicate to the researcher. Knowledgeable key informants were selected at the completion of period six through reference to channel partner ratings of each potential informant's degree of interaction with their organization ("no contact"—"had extensive dealings with," 7-point).⁴ For both the manufacturer and distributor organizations, the highest-rated informant for each channel relationship was then selected. Because of the dyadic nature of the study, to be included in the final sample, matched manufacturer and distributor observations were necessary. The final sample yielded 126 observations (63 by manufacturers and 63 by distributors). Data pertaining to supplemental terms of exchange between organizations were obtained from written manufacturer-distributor contracts employed in the simulation. In total, 62 contracts were studied.⁵

Measures

Measures were developed using conventional psychometric scale development procedures [Churchill 1979; Nunnally 1978]. Constructs were defined following a review of the relevant literature. Multiple items were generated to be content valid with reference to the definitions. Questionnaire items were pretested during the early "quarters of play" of the simulation and aided in the final measure development. Multiple item scales were analyzed for reliability and internal consistency. Ill-fitting items were dropped on the basis of item to total correlations.⁶

Authority Governance

In summing up his analysis of contracts as hierarchical documents, Stinchcombe [1985, p. 126] asks and answers the question, "Why else are things put in contracts besides to establish the right to damages if specific performances are not carried out?" "The basic answer," he concludes, "is that the additions to contracts serve as the regulations of a formal organization." Contracts simulate hierarchical authority to the extent that they contain terms (over and above the basic terms of trade—e.g., quantity, price, discounts, payments, etc.) enabling one party to exercise control and approval over the decisions of the other party. Hence, here, the degree to which a relationship is governed by authority is operationalized through content analysis of supplemental

exchange terms contained within manufacturer-distributor written contracts.

To ensure that participants were familiar with the construction of exchange relationships by contract, they were indoctrinated as to the nature of legal contract practices and writing prior to play of the simulation. Participants were provided with a "form book" and instructed in the use of 80 standard exchange terms commonly found in manufacturer-distributor purchase and sales contracts. Potential concerns for demand effects were mitigated through comparable indoctrination across both experimental settings. Each book included phraseology for contractual terms, across the following categories:

1. Parties and nature of contract,
2. Sale of brands (terms of trade),
3. Manufacturer and distributor relationships,
4. Remedy and dispute resolution, and
5. Miscellaneous provisions (contract modifications).

The framework and content of each "form book" was developed to capture the various aspects of simulated hierarchies underlying legal contract (e.g., authority, incentive, dispute resolution, and operational systems). The terms and language employed were adapted from recognized legal form books [Anderson 1974; Fern 1990; Gordon, Dale, and Gourwitz 1990; Rabkin and Johnson 1990; Walzer 1986]. Additional guidance was obtained through publications of the National Association of Purchasing Agents [NAPA 1942]. Consultation with actual purchasing agents and prior simulation participants provided insight during the final stages of instrument development and refinement.

To generate the actual measures, thematic content analysis was employed, which involves the identification and classification of themes or single assertions regarding a subject [Holsti 1968]; its use is considered particularly appropriate when considering units of measurement such as those found in contract terms [Kassarjian 1977]. Two judges were trained using contract data obtained from a previous simulation. Each was instructed to identify future-oriented, (i.e., pertaining to future transactions) supplemental exchange terms contained within each manufacturer-distributor contract. The data matrix of supplemental exchange terms was transposed so that coefficient alpha could be used for the assessment of reliability of the judge's frequency classifications [Hughes and Garrett 1990]. Results ($\alpha = .99$) indicate a high degree of convergence by the judges. To obtain useful data, a Delphi approach [Best 1974; Jolson and Rossow 1971; Larreche and Moinspour 1983] was employed, with judges resolving their differences through iterative discussions. The number of supplemental terms contractually incorporated within a manufacturer-distributor relationship was then used as an objective assessment of the degree of authority governance.

Social Norms

Broadly, we define norms as patterns of accepted and expected sentiments and behavior shared by members of an exchange system and having the force of social obligation or pressure [Birenbaum and Sagarin 1976]. Specifically, we focus on those norms that are expected to operate as substitutes or supplements to formal authority in the governance

of exchange relations. Five such norms, encompassing the underlying structure of relational governance within the research setting, were developed from previous conceptualizations in the literature [Boyle et al. 1992; Heide and John 1992; Kaufmann and Dant 1992; Kaufmann and Stern 1988; Macneil 1980; Noordewier, John, and Nevin 1990] and include solidarity, mutuality, flexibility, role integrity, and harmonization of conflict. These norms are defined and operationalized as follows:

- **Solidarity**—The extent to which unity or fellowship arising from common responsibilities and interests dominates an exchange relationship. To tap this domain, solidarity is operationalized using items reflecting (1) willingness to make sacrifices to keep the relationship intact, (2) acting together in seeking unified solutions, (3) staying together in the face of adversity, and (4) seeking courses of action that benefit one's own organization (reverse).
- **Mutuality**—The extent to which contractual monitoring of individual transactions is tempered by trust [Kaufmann and Dant 1992]. Our operationalization encompasses two items measuring the degree to which a relationship is based on (1) mutual benefit and trust and (2) fair adjustments over the long term; and two reverse items measuring the degree to which the terms of agreement are (3) precisely specified in advance and (4) monitored to ensure compliance.
- **Flexibility**—The bilateral expectation that the substance and terms of exchange are subject to good-faith modification and adaptation if environmental changes so require [Heide and John 1992]. Our operationalization employs items measuring the degree to which (1) the parties are accommodating in responding to special problems, (2) terms can be modified in response to changing circumstances, (3) terms can be modified in response to failed predictions, and (4) original agreements are strictly kept (a reverse item).
- **Role integrity**—The extent to which dyadic roles are seen as complex and extending beyond transactions [Kaufmann and Dant 1992]. Our operationalization includes items measuring (1) the degree of information sharing and (2) the extent to which the relationship involves complex responsibilities and multiple tasks; and two reverse items focusing on the degree to which the exchange tends to be discrete in nature—i.e., (3) negotiations are limited to price and volume and (4) relationships are limited to essential details of the exchange only.
- **Harmonization of conflict**—The extent to which conflict resolution mechanisms incorporate situation appraisals to temper contractual conflict [Kaufmann and Dant 1992]. Our operationalization encompasses the degree to which parties (1) eschew resorting to formal procedures and third party involvement, (2) are motivated to review the history and all the facts of an issue, and (3) arrive at a mutual settlement among themselves; and a reverse item measuring (4) preference for settling disputes using adjudication by an outside party.

Relational contracting norms represent an overarching, complex construct composed of a number of component or domain specific norms [Noordewier, John, and Nevin 1990]. These norms span the domain of the construct, are conceptually distinguishable, but highly interrelated. For example, interdependence is the underlying root of solidarity and mutuality. As Macneil [1980, p. 45] notes, one of the sources of mutuality is contractual solidarity, but at the same time, solidarity cannot survive for long in the face of perceptions that one side is constantly getting too good a deal—i.e. perceived failure of mutuality. Likewise, it goes

Table 1. Measure Analysis: Coefficient Alpha

Scale	Items	Coefficient Alpha	
		Manufacturer	Distributor
Solidarity	4	.97	.98
Mutuality	4	.84	.88
Flexibility	4	.96	.86
Role Integrity	4	.76	.86
Harmonization of Conflict	4	.88	.86
Social Norms ^a	5	.91	.94

^a Composite measure comprising summed scales for solidarity, mutuality, flexibility, role integrity, and harmonization of conflict.

without saying that solidarity presupposes some degree of role integrity and that long-term mutuality cannot be effected without flexibility and the harmonization of conflict. Therefore, to derive a measure of relational governance we employ a composite scale composed of the sum of the five component subscales (equally weighted) representing the norms of solidarity, mutuality, flexibility, role integrity, and harmonization of conflict.

Exchange Interaction

The extent of exchange interaction between partners is defined as the frequency and intensity of contacts, influence, and negotiations transpiring among members of two exchanging organizations. It was assessed using key informant ratings. Informants were presented with a list of names and titles of employees of each channel partner and asked to rate the "degree of interaction" (7-point scale anchored by "had no contact" and "had extensive dealings with") each employee had with an informant's organization over the two preceding simulation periods (quarters). For each partner firm, a composite interaction score was derived through summing the degree of interaction expressed for all employees in that organization.

Measure Assessment

Internal Consistency

Final coefficient alphas and factor loadings using principal components factor analysis for each scale are shown in Tables 1 and 2. Alphas for each scale exceed .70, suggesting satisfactory levels of reliability and internal consistency were achieved for all multi-item scales [Nunnally 1978]. Principal components factor loadings employing a single factor solution are also high (most above .80 and all above .60) providing evidence of the unidimensional nature of the scale items [Carmines and Zeller 1979].

Scales composing the five norms of informal governance were subjected to additional analysis because of their more complex (second-order) measurement structure. Recall that these five norms were considered to constitute the underlying structure of relational governance. Thus, relational governance was modeled as a second-order factor arising from the five first-order factors. Second-order factor loadings were obtained through analysis of the summed first-order

Table 2. Measure Analysis: Principal Components Analysis

Scale and item content	Items	Item Factor Loadings	
		Manufacturer	Distributor
Solidarity	4		
•Make sacrifices to keep relationship intact		97	98
•Act together in seeking unified solutions		98	99
•Stay together in the face of adversity		97	98
•Seek to benefit one's own organization (R) ^a		— ^b	—
	<i>Percent Variance</i>	95.12	96.60
Mutuality	4		
•Relationship based on mutual benefit and trust		88	91
•Fair adjustments over the long term		84	92
•Agreement monitored to ensure compliance (R)		77	74
•Agreement precisely specified in advance (R)		80	86
	<i>Percent Variance</i>	67.30	73.89
Flexibility	4		
•Modify terms in response to change		98	92
•Modify terms where predictions fail		98	94
•Accommodating in response to special problems		95	92
•Original agreements strictly adhered to (R)		—	63
	<i>Percent Variance</i>	93.66	74.02
Role Integrity	4		
•Interactive sharing of information		80	84
•Complex responsibilities & multiple tasks		75	88
•Negotiations limited to price and volume (R)		75	77
•Relation limited to essentials of exchange (R)		77	88
	<i>Percent Variance</i>	58.80	71.35
Harmonization of Conflict	4		
•Eschew formal procedures/third party involvement		93	95
•Arrive at mutual settlement among ourselves		95	94
•Motivated to review the history & facts of an issue		82	87
•Settling disputes by adjudication (R)		—	64
	<i>Percent Variance</i>	81.40	73.64

^a Reverse worded items indicated by (R)

^b Deleted items indicated by (—).

scale scores and are shown in Table 3. With loadings well over .70, the hypothesized second-order structure appears to represent the data adequately.⁷

Validity

Evidence of convergent validity for the bilateral norm elements and the composite scale of informal relational governance is shown in Table 4. Cross-channel correlations of manufacturer and distributor observations for each norm element and the composite scale suggest a satisfactory level of convergence for the dyadic constructs. Previous research [e.g., Bacharach and Lawler 1980] has shown individual parties to a relationship tend to have somewhat unique perspectives of ongoing interactions given their particular positions in an exchange. This result may attenuate the raw correlations between their observations.

Manipulation Check

Following Weick's [1969] concept of enactment,⁸ checks of the experimental conditions were conducted employing participant perceptions. Before (period 4) and after (period

8) administration of the study questionnaire, each simulation participant was asked in a separate questionnaire to report their perceptions regarding the current and future environment facing their firm.⁹ A semantic differential 7-point scale containing bipolar adjectives descriptive of the uncertain (i.e., unpredictable/predictable) nature of the environment was used. ANOVA results (Table 5) indicate that for both manufacturer and distributor participants, greater levels of current and future environmental unpredictability were observed in the more uncertain environment.

Results and Discussion

ANOVA (H_1) and multiple regression analysis (H_2 and H_3) were used for testing the hypothesized relationships. Table 6 contains the ANOVA results. Tables 7 and 8 contain the results for the regression analysis.

Authority Governance and Environmental Uncertainty

H_1 hypothesized that exchange relationships in uncertain environments manifest a greater degree of legal contracts containing elements that simulate the operation of a hierar-

Table 3. Measure Analysis: Second-Order Factor Structure

Scale	Items	Item Factor Loadings	
		Manufacturer	Distributor
<i>Social Norms</i>	5		
•Solidarity		92	92
•Mutuality		81	90
•Flexibility		92	95
•Role integrity		79	87
•Harmonization of conflict		88	87
	<i>Percent Variance</i>	75.22	81.52

Table 4. Convergent Validity: Cross-Channel Correlations

Variable	Manufacturer and Distributor Cross Channel Correlations
Solidarity	.45 (.00) ^a
Mutuality	.46 (.00)
Flexibility	.39 (.00)
Role Integrity	.57 (.00)
Harmonization of Conflict	.31 (.01)
Social Norms (composite scale)	.56 (.00)

^aTo be read: The correlation between manufacturer and distributor perceptions of solidarity is .45 ($p < .00$).

chy. Comparison of manufacturer and distributor contracts across the two experimental conditions indicates a significantly ($F = 4.64, p < .04$) higher mean number of supplemental terms referencing future conduct in the uncertain ($\bar{X} = .88$) than certain ($\bar{X} = .19$) environment (Table 6). These results provide support for H_1 .

In general the results are consistent with the prescriptions advanced by transaction cost economics [Williamson 1985]. Exchange parties faced with uncertainty will craft exchange relationships containing contracts establishing inter-firm authority relationships that simulate aspects of a hierarchy. Backed by legal authority these relationships reduce uncertainty through contractually specifying performance. Legally obligating parties to future conduct increases the predictability of their behavior, thereby lowering costs associated with exchange. These costs can be high in uncertain environments. Carefully crafting exchange relationships vis-à-vis legal contract reduces costs while permitting flexibility considered essential in uncertain environments. Flexibility is achieved through the benefits of quasi-integration.

Within certain environments, the more predictable nature of the environment reduces the need for specifying future performance. Obligating parties to future conduct through legally binding contracts may be avoided in favor of alternate

Table 5. Manipulation Check: ANOVA

Variable	F Value	Pr > F	Means ^a	
			Low Uncertainty	High Uncertainty
<i>Period 4</i>				
Environmental Uncertainty				
<i>Manufacturer</i>				
Current	4.64	.04	3.75	2.96
Future	7.02	.01	4.04	3.00
<i>Distributor</i>				
Current	10.70	.00	3.96	2.84
Future	17.41	.00	4.36	3.00
<i>Period 8</i>				
Environmental Uncertainty				
<i>Manufacturer</i>				
Current	6.14	.02	4.27	3.62
Future	4.03	.05	4.23	3.58
<i>Distributor</i>				
Current	6.14	.02	4.27	3.62
Future	4.03	.05	4.23	3.58

^aAll responses were recorded by circling a number on the following scale:
 Unpredictable 0 1 2 3 4 5 6 Predictable

Table 6. ANOVA: Authority Governance and Environmental Uncertainty

Source	Degrees of Freedom	Sum of Squares	F Value	Pr > F
Model	1	6.48	4.64	.04
Error	54	75.50		
Corrected Total	55	81.98		

Means	
Environmental Uncertainty	
Low	High
.19	.88

mechanisms of governance. Parties may also prefer to remain flexible in their exchange relationships to maximize exchange goals. More certain environments containing stable and munificent elements allow such opportunity seeking.

Social Norms Governance and Exchange Interaction

H_2 hypothesized that the level of interaction between exchange parties is positively associated with its governance through social norms containing relational elements. The data analysis results are presented in Table 7. Across both manufacturers and distributors, the regression coefficients ($\beta = .51, p < .05$ and $\beta = 1.06, p < .01$, respectively) for ex-

Table 7. Regression Analysis: Social Norms Governance and Exchange Interaction

Dependent Variable	Exchange Interaction	F Value	Pr > F
<i>Social Norms Governance</i>			
Manufacturer	.51 ^a (.05)	2.79	.10
Distributor	1.06 (.01)	6.08	.02

^a Significance levels for regression coefficients indicated in parentheses (one-sided test).

change interaction and perceptions of the relational content of social norms are positive and significant, providing support for H₂.

Evidently, increasing interaction between exchange parties provides the necessary criteria for development of exchange norms containing relational elements. Though the source and process through which norms emerge is not entirely clear, results provided here suggest the level of interaction among exchange participants to be an important factor. Within exchange, deliberate collective action toward a common goal provides the requisite setting for norm formation. Cooperative requirements of exchange relationships possessing high levels of interaction suggest that these norms contain relational elements. Increasing interaction further enhances their development. Exchange relationships containing low levels of interaction are not likely to possess the joint interaction necessary for the emergence of norms nor the requisite climate of cooperation for development of relational content in those norms that emerge. For these associations, discrete norms are more likely.

Authority and Social Norms Governance

An important contribution of our study is the examination of "plural forms" or multiple mechanisms of governance in exchange. Theoretical accounts of the dynamics of plural governance in exchange relationships are limited. In a macro social context it has been noted that the "quantity" of law increases as the quantity of other forms of social control decreases and vice versa [Black 1976]. Therefore, extending this notion to exchange relationships, H₃ hypothesized that the extent to which exchange relationships employ social norms of governance containing relational elements for regulating conduct is negatively associated with the use of legal contracts containing elements that simulate the operation of a hierarchy.

Table 8 reports the results of the data analysis. Across both manufacturer and distributor firms, the regression coefficients ($\beta = -2.82, p < .08$ and $\beta = -4.37, p < .04$, respectively) for relational content of social norms and authority governance are negative and significant. These results provide support for H₃.

Findings reported here furnish initial insight regarding the dynamics of plural forms governance. In the context of authority and social norms governance, previous research

and theory has emphasized a single continuum containing these forms. Findings here point to the presence of distinct forms of governance operating dynamically within exchange relationships. In particular, the presence of social norms containing relational content and the degree of decision control (i.e., hierarchy) were found to be inversely related. Each appears to provide the basis for regulating conduct within exchange; however, they are not complementary bases. Their inverse relationship suggests that in the absence of one mechanism the other manifests itself.

Though speculative, the basis of this finding may derive from the evolutionary development of exchange relationships. In the initial stages of development the use of legal contract for ensuring performance and regulating conduct could provide advantages. At the early stages, the lack of interaction among participants may constrain development of social norms. Under these conditions parties may opt for authority-driven governance. The established principles underlying contract law are well-known and generally common to both parties. Their unbiased enforcement through third parties (i.e., judiciary) also enhances their appeal. Over time, however, the use of legal contract may present disadvantages. Though flexible in many respects, contract law still remains oriented toward the transaction rather than long-term associations. Moreover, resort to the law often connotes an adversarial relationship among participants. Exchange relationships at latter stages of development require maximal flexibility and cooperative interaction. Social norms can provide both these features.¹⁰

Implications and Conclusion

The acknowledgment that contract law as a basis for governing exchange is limited in its ability to properly capture some forms of exchange has prompted attention and inquiry into alternative mechanisms for regulating the conduct of parties to an exchange. We examined factors affecting these differing mechanisms and their interrelated nature. Results obtained provide insight into the nature of contracting practice among parties to an exchange. Findings relating to the presence of uncertainty and its impact on the use of contractual terms for simulating hierarchical control parallel predictions underlying transaction cost analysis. Moreover, results suggesting that increasing interaction tends to promote the development of social norms contain-

Table 8. Regression Analysis: Authority and Social Norms Governance

Dependent Variable	Social Norms Governance	F Value	Pr > F
<i>Authority Governance</i>			
Manufacturer	-2.82 ^a (.08)	2.03	.16
Distributor	-4.37 (.04)	3.15	.08

^a Significance levels for regression coefficients indicated in parentheses (one-sided test).

ing relational elements follows from social contract theory. Of particular relevance here are those findings that relate to the interrelated nature of differing mechanisms of governance. Previous research has not empirically addressed the use of multiple regulatory mechanisms in exchange. Findings reported here suggest that the use of contract law and social norms of governance are inversely related.

Understanding the implications of these findings as they relate to public policy requires paradigmatic acknowledgment of the principle goals of policy underlying exchange. These include, in the context of organizational exchange, consumer welfare as advanced through economic efficiency and the prescription that exchange practices that increase economic efficiency should be encouraged and interference mitigated. Accepting these goals, theoretical insight regarding how exchange parties govern their relationship to enhance economic efficiency becomes of paramount concern to public policy.

Here, theoretical prescriptions advanced in transaction cost economics, relational exchange, and social control theory were evaluated and empirically tested. The common theme underlying these theories prescribes how exchange partners organize their relationships to enhance efficiency and solve inherent problems relating to the individual goals of exchange partners (i.e., opportunistic tendencies). For example, according to transaction cost theory, the purpose of hierarchical integration by legal contract is to ensure exchange efficiency and to make opportunistic behavior irrational.

Findings here that point to the presence of differing levels of hierarchical integration under conditions of uncertainty provide insight into organizational governance responses directed toward enhancing exchange efficiency and deterring opportunism under varying environmental conditions. Indirectly, these findings may suggest alternative explanations for contractually born mechanisms of hierarchy found in vertical exchange relationships (e.g., manufacturer-distributor, franchisor-franchisee, etc.), including resale price maintenance, exclusive dealing, franchisee restrictions, long-term requirements contracts, and other price and nonprice vertical restrictions. Prior antitrust treatment of these mechanisms has emphasized their "restraint" nature, with the Courts failing to develop a "coherent" theory for their disposition. More recent decisions have begun to recognize the potential efficiencies of these contractual mechanisms. That exchange participants choose differing levels of contractually governed hierarchy dependent on environmental conditions provides an alternative explanation for the use of these devices. Possession of this explanation is critical for developing prudent public policy.

Findings relating to the presence and use of social norms governance across differing levels of exchange interaction provide insight into public policy relating to contract law, as a body of theory, for governing exchange. In this respect, policy theorists identify three operative forms of contract law—classical contract law,¹¹ neoclassical contract law,¹² and relational contracting. Sharp distinctions across these contract law forms in conjunction with evolving changes in how parties conduct exchange, in particular the trend toward greater interaction and longer-term exchanges, pose a

dilemma for integrating these distinct theories of law into a cohesive body of regulation.

At present, limited notions underlying relational contracting theory are reflected in modern interpretations of corporate and collective bargaining law, but as yet the learnings of relational contracting have not influenced the traditional common law of contracts. That we obtained findings that suggest exchange partners involved in more interactive exchanges employ social norms to a greater degree than less interactive exchanges suggests the importance of public policymakers acknowledging the governance aspects of these mechanisms and their importance in exchange. Moreover, noting the inadequacies of contract law and accepting that the purpose of many relational contracting arrangements is to enhance exchange efficiency and maintain exchange into the future, current trends toward long-term and more interactive exchange underscores the need for public policy theorists and policymakers to implement and "modernize" contract law to address the evolving nature of exchange.

Modern policy interpretations of contract law provide some illustrations of the law's attempt to implement alternative mechanisms of governance. Initial recognition of the limitations of contract for guiding long-term exchange has contributed to this outcome. For example, recent interpretations of contractual assent within the *Uniform Commercial Code* [1978] suggest the law's recognition of business customs and other normative aspects of exchange in the planning and formation of exchanges. In particular, "gap filler" provisions of the Code allow parties to conclude a contract without explicit recognition of essential terms [see Section 2-204(3), 2-305–2-311]. Under these sections, parties may conclude a contract even though the price, place of delivery, time of performance, or other particulars have not been settled. Rather than force parties to detail all terms of their agreement up front, the law allows parties to rely on practices and customs (i.e., social norms) developed in their trade or industry for settling these terms at a later point in time.

Another example of the Code's acknowledgment of alternative governance mechanisms is its explicit recognition of the duty of "good faith" and "commercial standards" for guiding negotiation, performance, and maintenance of exchange relations. Under the Code, "[E]very contract or duty within this Act imposes an obligation of good faith in its performance or enforcement" [Section 1-203] and "honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade" [Section 1-201(19)]. Obligating parties to perform their exchanges through observance of commercial standards and in good faith illustrates the Code's embrace of social norms and ethical precepts for guiding exchange.

Interestingly, with regard to the formal adoption of "informal" mechanisms of governance within current policy schemas, the dilemma for policymakers is the potential that incorporation of these governance mechanisms as law may undermine the very basis of their effectiveness—their informal and nonlegal status. On this point, Scott [1990, p. 615] notes:

[Exchange parties] behave under two sets of rules: a strict set of rules for legal enforcement and a more flexible set of rules for

social enforcement. It may be that the great lesson for the courts is that any effort to judicialize these social rules will destroy the very informality that makes them so effective in the first instance.

Finally, findings relating to contract law's interrelationship with other forms of governance also provides implications for public policy theory development. In particular, recognition that contract law and social norms as mechanisms of governance are inversely related compounds the importance of contract law's recognition of alternative mechanisms of regulation. Without such development, the law of contract risks the potential of becoming even more circumscribed in its exchange role. Increasing emphasis on long-term exchange in marketing amplifies this notion. As more and more exchanges tend toward the longer-term, contract law's effectiveness in governing these relationships can be expected to diminish as exchange parties favor more theoretically consistent and amenable modes of governance.

Contract law remains rooted in traditional common law and discrete notions of exchange. From a public policy perspective, embrace and definition of the role of alternative mechanisms of exchange (i.e., social norms) within some contract law "system" is required. Prior to advancement of such a system, however, continued investigation and development of a workable theory of contractual behavior is needed. The theory and research findings reported here provide initial contributions toward this end.

Notes

1. It is important to point out that we refer to exchange relationships and contract law as found within the United States. Differences in contract and exchange related law and cultural tendencies toward litigation preclude our generalization to exchange relationships outside this context. Interestingly, these differences may contribute to difficulties in exchange participants from different countries (i.e., United States and Japan) reaching and maintaining exchange relationships.
2. Isomorphic requirements include that game participants, as in life, be confronted with choices that have uncertain and interdependent outcomes within settings in which neither the outcomes, the choices, nor the rules are perfectly clear [p. 12]. Additional considerations extend from the particular concepts and theories of interest to the researcher. At a minimum, the game or simulation should create a context in which these concepts and theories are likely to occur and operate. When these critical junctures are satisfied, game analogies are appropriate for testing predictions derived from theory [p. 13].
3. Essentially, the basis for experimental methods, including simulation for informing public policy theorists and aiding in policy development, is cogently summarized by Plott [1989, p. 1112], who states:

While laboratory processes are simple in comparison to naturally occurring processes, they are real processes in the sense that real people participate for real and substantial profits and follow real rules in doing so. It is precisely because they are real that they are interesting. General theories must apply to special cases, so models believed to be applicable to complicated naturally occurring processes should certainly be expected to help explain what occurs in simple, special-case laboratory markets. Theories which do

not apply to the special cases are not general theories and thus cannot be advocated as such.

4. To avoid bias from initial simulation learning and the "wind-up" or semester-ending "grade" effect, participants completed questionnaires relative to their organization's interactions with channel partners over the preceding two weeks (quarters) at the completion of the sixth period of play.
5. The total number of relationships was 56. In some instances multiple contracts were observed within a manufacturer-distributor relationship. Analysis conducted employing contract data was therefore restricted to 56 manufacturer-distributor relationships.
6. On the basis of these assessments, three manufacturer items and one distributor item were dropped.
7. Because of the number of scale items constituting the composite scale of informal governance relative to the sample size, standard confirmatory factor analytic procedures were considered inappropriate for assessing the hypothesized second-order structure.
8. The concept of enactment stresses that participants do not react to environmental stimuli, but enact them. That is, not only do individuals engage in such a process by virtue of what stimuli they react to or select and how they process information, but also the composition and structure of the organizational system impacts what is received. In contrast to this line of thought, Pfeffer and Salancik [1978] argue that though environments must be perceived to influence organizational actions, they can influence organizational outcomes whether or not they are perceived.
9. Questionnaires were administered during the 1991 simulation. Parameter manipulations were identical across the two simulations [i.e., 1990, 1991].
10. Importantly, our results do not provide insight regarding parties' actual reliance on differing mechanisms of governance in exchange relationships. Though parties can construct exchange associations employing legal contract, resort to the law for regulating conduct and resolving disputes is distinguishable. An important research question remaining concerns parties' reliance on the differing forms of governance.
11. Developed in the nineteenth century and reflected in the first Restatement of Contracts [1932], this body of law conceives and enforces exchange as a discrete transaction.
12. Based on classical traditions of contract with some modifications with respect to requirements for a contract and recovery for breach, this body of law is reflected in Article 2 of the Uniform Commercial Code [1978] and the Restatement (Second) of Contracts [1981]. In general, neoclassical contract law reflects a more liberal philosophy toward maintaining exchange relationships that would otherwise be considered defective under traditional contract lineage.

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