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## **HOW TIME AFFECTS TRANSACTION COSTS AND RELATIONAL GOVERNANCE IN THE DISTRIBUTION CHANNEL: A REVIEW AND RESEARCH PROPOSITIONS**

by Pierre Barthon and Brian Jepsen

### **Introduction**

There has been a steady increase in the amount of research and theorising in the area of interorganisational research, especially with regard to buyer-seller arrangements in marketing channels (Andersen and Narus 1990, Bergen et.al., 1992, Boyle et.al., 1992). Alternative interorganisational governance models, such as joint ventures, strategic alliances, and sole-sourcing are the reality of modern business management (Borys and Jemison 1989, Buckley and Casson 1988), and so interfirm governance has become a strategic management issue. The much-cited work of Porter (1985, 1991) has focused on the optimal linkage of interfirm activities, and regards the planning and governance of interfirm relations as an important competitive strategic issue, a point reiterated by Heide (1994). The issue of channel relationships has been one of concern for both practitioners and academics, and theories such as those of transaction cost analysis (TCA), agency theory, and relational norms have on the one hand shed much light on the problems, and on the other provided a fruitful backdrop to much empirical research. Less attention has been given to the effects of time on these notions, both in the literature and in empirical research. In this article we provide an overview of the theories, and attempt an integration. The purpose of this article is to focus on transaction cost economics (TCE) and relational exchange theory to provide an overview of the areas of interorganisational research where relationships play a role. A number of areas where the theories diverge and converge are outlined. More importantly, we endeavour to bring the effects of time into consideration, and to develop propositions for further research.

With alternative governance forms (Oliver, 1990) between the extremes of market and hierarchy, the need for more theory and the development of explanatory models seems evident (Heide, 1994). Research paradigms now include institutional economics (Williamson, 1985), power dependence theory (Pfeffer and Salancik 1978, Pfeffer 1981), resource dependence theory (Teece et.al., 1990), agency theory (Bergen et.al., 1992) and contract law (Macneil, 1978; 1980). Each offers considerable insight into alternatives to market governance. It may be argued that the adequate amount of theory is present, but that the synthesis into a common platform has not yet been made. Robicheaux (1993) provides an overview of governance in marketing channels based on Reve and Stern's (1979) political economy framework, in which each theory and research paradigm has its perspective and explanation for the departure from market governance (Robicheaux 1993). Transaction cost theory traditionally describes the shift toward hierarchical governance (Williamson 1985, Robins 1987), whereas contracting theory (Macneil, 1980) views this shift as an increase in relational governance. Although both theories account for the move

away from non-market governance, they clearly represent two different research directions.

### **Transaction costs and governance**

According to transaction cost economics (Coase, 1937; Williamson's works from 1971 to 1993), the transaction is the key unit of analysis. Properties of the transaction are the main variables for understanding the results of different governance mechanisms. These governance mechanisms may extend from market to hierarchy, with bilateral or hybrid modes falling in between (Williamson, 1991). Williamson's (1991, 1993) position is increasingly going in a direction where long-term relations can be seen as hybrid governance modes. Heide (1994) argues that the move from market to hierarchy will follow either a unilateral or a bilateral route, characterised by relationship oriented governance. According to Heide and John (1992) transaction cost theory is occupied with the conditions that drive the structuring of relationships rather than specifying the mechanisms that provide the ability to implement the structures. The important transactional properties are asset specificity, uncertainty and frequency (Williamson, 1985). Transactions characterised by high asset specificity and high uncertainty need a more intricate governance mechanism than standard transactions with low uncertainty. Frequency is also important, since complex governance mechanisms may incur large costs, and these costs must be covered over later transactions. If transactions are infrequent, it is unlikely that the actors will invest in expensive and complex governance mechanisms.

Williamson (1983:526), identifies four different types of transaction specific sunk asset investments: *site specificity*, *physical asset specificity*, *human capital specificity* and *dedicated assets*. Notably, the theory predicts that as asset specificity increases, market mechanisms are gradually replaced by organisational mechanisms based on authority and integration. Regarding a specific transaction with certain characteristics, it is according to the theory, possible to conclude the most efficient governance solution. The rationale of transaction cost economics is as follows: in the presence of bounded rationality, risk of opportunistic behaviour, and non-trivial uncertainty, asset specificity and frequency determine the efficient governance solution. Dissimilar governance modes follow from transactions that differ regarding asset specificity, uncertainty and frequency.

### **Relationships in transaction cost economics**

Investment in firm specific assets may take place to enhance uniqueness and competitive advantage (Balakrishnan and Fox, 1993; Heide, 1994). One party's asymmetric investments in assets may lead to a dependency situation where these assets are not redeployable for other use. Therefore investment in specific assets is both a problem and a challenge. Heide and John (1990 and 1992) analyse these asymmetric investments through buyer control and their effects on safeguarding and relational norm development. The assumption here is that unilateral dependence leads to the need for control and perhaps integration. In a bilateral situation where the investments in specific assets are more symmetric, a situation of mutual dependence may arise which again reduces the need for control and integration. This theme is described by Cook and Emerson (1984) for exchange situations in networks.

Transaction cost economics is based on two constant behavioural assumptions; bounded rationality and opportunism (Williamson 1985, 1991, 1993). It is not possible *ex ante* to identify opportunistic actors from non-opportunistic actors. However, under conditions of certainty, *ex ante* information can be gathered and contracts specified between parties, to take care of various future contingencies (Bergen et.al., 1992). *Ex post*, it is easy to control the fulfilment of the agreement between the parties. Under uncertainty conditions, contracts will be very complex and costly to construct and to enforce, especially in the case of small numbers bargaining (Williamson, 1985). Small numbers mean few alternatives for a buyer or seller to replace each other in a transaction, due to the investments in assets and therefore, high asset specificity.

Agency theory distinguishes between performance and outcome based monitoring (Eisenhardt, 1985). Outcome based monitoring aligns well with TCE's *ex post* orientation. However, when performance based criteria are of importance; performance monitoring takes place over time and takes place between people and is as such, relation oriented. There are relatively few examples where TCE empirical research is non-supportive or weak concerning internalisation in situations of high asset specificity, uncertainty and small numbers bargaining (Anderson 1985, Klein, et.al., 1990, Monteverde and Teece 1982, Walker and Weber 1984). These examples seem to be in situations where agency related performance monitoring is important. In other words, if no relational oriented catalytic effects are present, investments in specific assets do not provide any safeguarding mechanism against opportunism.

Opportunism is much-debated in TCE (cf. Williamson 1993). The shadow of the future makes opportunism a non-viable strategy for firms engaged in a committed relationship. *Opportunism risk* is associated with the lack of bargaining power or loss of bargaining power in a relationship, i.e. difference between *ex-ante* and *ex-post* bargaining power (Frazier, 1983). One source of opportunism risk is the specificity of the relation as described by Heide and John (1992), and which can be safeguarded through control defined and managed by asset investments and relational norms. As argued by Hill(1990), the reputation effects of opportunism, as found from game theory, seem to be strong. However, reputation may be difficult to disperse and with limited dispersion the effects of negative reputation have reduced effects. Reputation may be particularly effective (Granovetter, 1985) in social networks and trade association relations. Further, the opportunism may not be detectable after the exchange Hill(1990), especially in situations where there is uncertainty about the prespecified (*ex ante*) outcome of the transactions. Finally, market efficiency will probably lead to the shake out of opportunistic actors.

Williamson (1993:99) established a typology from non-trust, through low-trust, to high-trust bilateral governance. This may be linked to the development of relational norms, for relation oriented governance (Heide, 1994), and provide a framework for distinguishing where norm development is higher as a result of safeguarding by means of relational investments. Palay (1984:287), studying the governance and contracting of rail freight, found that in relations where idiosyncratic investments were needed for safeguarding, a typical bilateral and unique governance mechanism was established, whereas for more standard investment situations a reduction in governance specialisation took place. Heide and John (1988), established four safeguarding mechanisms grounded in dependence balancing, and where dependence is increased in a relationship: (1) When the outcomes are highly valued or of a significant size (2) When the outcomes are higher or better

compared to existing alternatives (3) Few alternative suppliers or buyers (4) Difficult to replace either exchange partner. *Ex post* the only active safeguarding mechanisms that can be actively influenced are (1) and (2). This transaction cost based model may provide a framework for separating where norm development is lower or higher for safeguarding by means of relational investments. *Ex ante* safeguarding could be verification and certification of the supplier based on independent or buyer defined criteria.

The original dichotomy of markets and hierarchies has been extended (Williamson, 1985: 83) to include "transaction forms in the middle range" between markets and hierarchies because "these forms are more common than previously recognised". The transactions in the middle, characterised by, for example subcontracting arrangements, franchising and joint ventures are always considered to exist on the continuum from market to hierarchy. As stated by Bradach and Eccles (1989), this assumption masks the dynamics of economic control and social changes. Heide (1994) establishes an interesting trichotomy seeing hierarchical governance and relational governance as two alternatives to market governance. Where the hierarchical path is unilateral and "hard" compared to the relational path that is bilateral and "soft", the discriminating factors between the governance forms are as such defined by differences in governance processes.

Relation specific investments are investments made especially for one relationship, and have a lower value outside the relationship than inside. This makes the investing company more vulnerable and opens up for opportunistic behaviour. As a result of relation specific investments, resources and knowledge may be transferred between firms without control. It is difficult to establish the boundaries of the firm on what could be called "core competences" defined in the framework of asset specificity, frequency and risk. The more open the governance structures used, the higher the risk of diffusion of resources (Teece *et.al.*, 1990, Itami 1987). This means that there is a delicate balance between establishing informal vertical ties and safeguarding the same relations through relation specific investments. This will be even more pronounced when going from dyads to network structures.

### **Relationship governance**

Various researchers have problems with the fact that transaction cost economics only focuses on transactional characteristics, and relates the problem of governance to the market-hierarchy continuum (Bradach and Eccles 1989, Grabher 1993, Håkanson and Johanson 1993, Macneil 1980, Powell 1990). Emphasis is placed on the consequence of developing relationships, and the problem of governance is coupled to the relationship between the actors involved (Macneil 1980, Håkanson and Johanson 1993). Factors such as how long the relationship has existed (Heide 1994, Johanson 1989), the parties' efforts to form the relation, and the complexity or scope of activities (Porter, 1985) performed in the relationship is important for understanding the governance of on-going transactions. The mutual recognition that the success of each firm depends in part on the other firm is a foundation for close co-operation and partnership (Anderson and Narus, 1990) and affect the willingness to make one-sided or two-sided relationship specific investments (Johanson, 1989). In contrast to transaction cost economics, where the transaction is the main variable for understanding the specific governance mechanisms used, relational exchange theory focuses on the relationship itself and how it has developed. Mutuality and

interdependence (Heide and John, 1992) are key variables in relational exchange theory. The relationship itself is therefore in focus and a key variable in understanding the governance of supplier-buyer relations. The parties invest in the relationship to establish a permanent relationship to favour effective interactions. These investments are not associated with specific transactions as understood in transaction cost economics. The aim of the relationship is to establish a tool for conducting future, often unspecified and even unknown co-operation. However, antecedents to relationship are characterised by factors such as the length of relationship, frequency of interaction and complexity of exchange (Johanson, 1989), and as such the governing dimensions show similarities to transaction cost theory. The parties are often willing to build a relationship, because they anticipate benefits of future co-operation. Such investments can be called relational investments. Relational investments take place successively over time (Håkanson and Johanson, 1993). As the parties gain experience, and learn more about issues such as each other's willingness to collaborate, and the likelihood of opportunistic behaviour. In an ongoing relationship between buyer and seller, transactions are planned and administered instead of being conducted on an *ad hoc.*, basis (Arndt, 1979:70).

A key variable requiring attention is the complexity or the range of activities performed in a relationship between firms (Porter, 1985). A relationship where the parties co-operate on various activities such as product development, procurement and marketing may lead to closer and stronger relational ties. In a way the firms' hierarchical structure is being circumped by interorganisational links within the firm and between firms. In a relationship where the actors are co-operating on a wide range of activities, the actors must show willingness to exchange, work for mutual benefits, and be able to trust each other (Macneil 1980). This creates a safeguarding device against opportunistic behaviour (Heide and John, 1988) as well as stabilising the relationship. Killing (1988) considers task complexity (scope of activities) to be one of the most important factors explaining the particular governance solution used. This is also a key issue raised by Porter (1985), although his governance solutions are more strategically and economically supported. Co-operation has to increase efficiency and it has to be achievable and sustainable (Jarillo and Stevenson, 1991). Efficiency considerations may very well place a more short term perspective on the relationship which may lead to problems concerning co-operation in the longer term.

### **Relational norms**

Macneil (1980:59), defines norms in the following way: "Norm connotes both how people do behave and how they ought to behave, with the two typically going hand in hand". He also establishes a typology of norms; distinguishing between *common norms*, *relational norms* and *discrete norms*. He discerns between discrete and contractual relations, which as such is in line with the market-to-hierarchy continuum defined by Williamson (1985). According to Macneil (1980), the *common norms* that prescribe behaviour among people, are: (1) Role integrity (2) Mutuality (3) Implementation of planning (4) Effectuation of consent (5) Flexibility (6) Contractual solidarity (7) Linking norms: restitution, reliance, and expectation interests (8) Creation and restraint of power (9) Harmonisation with the social matrix. Similarly, the *relational norms* occurring in relationships are: (1) Role integrity (2) Preservation of the relationship (3) Harmonisation of relational conflict (4) Supracontract norms. Thirdly, the *discrete norms*, prescribe how people behave

whenever discrete or market defined transactional behaviour takes place. According to Macneil (1980), discrete norms can be explained within a context of implementation of planning, and effectuation of consent. However, the most useful way to look at discrete norms is within a framework of discreteness and presentation. Here discreteness is the separation of a transaction from all else between the participants and at any time. Presentation is the bringing of the future into the present, which means that if only the future is fully planned, can a transaction be discrete. With this definition most transactions in a marketing channel would be relational except for the downstream retail selling of undifferentiated goods.

According to Macneil (1980) the relational norms reflect an intensification of the common norms. It is interesting that no clear distinction is made between when the common norms apply and when relational norms apply. This means that in a research setting the relational norms to be tested have to be defined rather broadly, and if possible a measure of the stage of development of a relationship along the discreteness-relational continuum should be made. Norms are clearly dependent on the interorganisational setting, and probably also a function of the age of the relationship (Axelrod, 1984 and 1986). Empirical studies often underestimate the importance of trust as a key governance issue in relationships (c.f. Eccles 1981, Palay 1985, Gerlach 1987). According to these researchers, the governance of co-operative relationships cannot be described as market incentives against authority based mechanisms. Key elements are reciprocity and joint trust. Developing a long term relationship implies the formation of collateral social structures (Granovetter 1985). These social structures lead to the creation of trust between the actors. Trust in the relationship serves as a governance instrument and complements market and hierarchy (Bradach and Eccles, 1989).

Instead of viewing market and hierarchy as poles of a governance continuum, Bradach and Eccles (1989) suggest that price, authority and trust are three independent governance mechanisms. These governance mechanisms can be used in different combinations, constituting a governance list with three elements. This means that the focus moves away from understanding when market mechanisms are substituted by hierarchical mechanisms, and to reckon how price, authority and trust are combined, and how different combinations appear. Noordevier *et al.*, (1990), in their study of buyer-supplier dyads, found that relational norms affect performance under conditions of high uncertainty only, whereas the effect under normal uncertainty conditions is less pronounced. This is in line with the findings of Heide and John (1990) who assert that bilateral governance is not universally desirable, it is only useful when uncertainty and specific assets make it necessary to protect and adapt.

### **Trust as a governance mechanism**

Trust between buyer and seller is a "sort of expectation" that reduces the risk that the business partner will behave opportunistically (Bradach and Eccles, 1989: 104). They also discuss how trust arises out of the social context of transactions, particularly emphasising the importance of (1) diffuse social norms of obligation and co-operation, and (2) personal relationships that overlap with economic exchange as means of establishing trust. Bradach and Eccles (1989) see trust as a key dimension for understanding how transactions are governed, and view the relationship itself as the core to understanding how trust is both created and how it functions as a governance mechanism. A particular relationship, with its own history, will

develop certain norms and personal relationships (Macneil, 1980), for as shown by Heide and John (1992), norms play a significant role in structuring economically efficient relationships between independent firms. This is fundamental to relationship logic: If we are to be able to understand how different forms of business relationships such as buyer-seller dyads, alliances and networks are governed, it is important to conceive what kind of relationship the actors have established and why.

The process of developing trust in a co-operative relationship between manufacturer firms and distributor firms has been analysed empirically by Anderson and Narus (1990). Their empirically based research shows that co-operation is an important antecedent to the development of trust, and that trust grows out of co-ordinated efforts rather than being present in itself. This indicates that trust may develop as a positive feedback system with a causal link to co-operation, the resolution of conflict (Dant and Schul, 1992) and satisfactory relations. Thorelli's (1986) views are as pertinent as they are eloquent: "...the cousin of power and influence is trust. Solidly based in the past, trust is about future behaviour. There is a general expectancy that if A meets a problem in fulfilling his transactional obligations, B is counted on to do what A would do if B's resources were at A's disposal".

### **Norms and governance mechanisms**

A number of authors have examined norms and relational norms between organisations, some of which fall into the categories delineated by Macneil (1980), and some of which do not. Examples of the norms that have been subject to research and defined by other researchers, table 1 is compiled. This table summarises the most important research concerning norm related governance mechanisms, interorganisational forms, theory and setting.

### **The time dimension and development of relations**

Macneil (1978; 1980) differentiates discrete transactions from relational contracts (exchange) along several key dimensions. Most important is that relationships develop over time, where each transaction has a history and a future. This introduces the time dimension into relationship development and a focus on the *ex ante* and *ex post* problems in defining the performance measures of the relationship. Heide (1994) also suggests a time dependent typology for development of relations that is important for further developments of theory in this field. Based on Macneil's (1978, 1980) work, Dwyer *et.al.*, (1987) compared discrete transactions and relational exchanges, and concluded that when relations start to develop the following happens: dependence is prolonged; performance is less obvious; increased uncertainty leads to deeper communication; co-operative planning and safeguarding against conflict increase. Furthermore, the multidimensionality of exchange is underlined, dependent on both situation and process characteristics. These relationships evolve through five general phases: (1) awareness (2) exploration (3) expansion (4) commitment and (5) dissolution. Each phase represents a transition in how parties regard each other. Heide (1994), also divides relationship evolution into: (1) relationship initiation (2) relationship maintenance and (3) relationship termination. This work not only introduces, but emphasises the importance of the time dimension to the governance process.

<b>Governance Mechanism</b>	<b>Interorganisational form</b>	<b>Theory and setting</b>	<b>Author and year</b>
Fiat	Hierarchy	TCA	Williamson
Trust, authority, price	Relationship	Social exchange	Bradach and Eccles, 1989
Flexibility, solidarity, information exchange	Relationship	Relational contracting (norms) and TCA	Heide and John, 1992
Flexibility, buyer and supplier dependence	Relationship	TCA, relational contracting, resource dependence	Heide, 1994
Communication, trust, co-operation	Relationship	Social exchange, power dependence	Anderson and Narus, 1990
Cost of monitoring, difficulty of measuring, goal conflict, risk aversion	Agency relation	Agency	Bergen et.al., 1992
Information exchange, adaptation process, product complexity and frequency	Relationship, network	Network, relational contracting	Johanson, 1989
Power, norms, communication, shared values	Relationship	Relational contracting	Dwyer et.al., 1987
Joint action, continuity, verification, specific investments	Uni-and bilateral governance	TCA	Heide and John, 1990
Mutual orientation, exchange, adaptation, specific investments	Relationship, network	Network, relational contracting, TCA	Johanson and Mattson, 1987
Control, expectancy, ability, effort, task difficulty, luck	Agency relation	Sociopsychology	Anand and Stern, 1985
Embeddedness	Market, relationship	Sociology, TCA	Granovetter, 1985
Time, trust, co-operation, structure	Relationship	Co-operation, TCA	Jarillo and Stevenson, 1991

Agency theory (Bergen *et.al.*, 1992; Eisenhardt 1985; White 1985) distinguishes between *ex-ante* and *ex-post* contents of contracting, and in the time context is more important than TCE, which only emphasises the *ex-post* dimensions. The *ex-ante* verification problem is important from a measurement point of view; are we measuring the relationship at a time when no contractual agreements have been made and the negotiation power of the principal is relatively high (perfect competition) with no commitments or investments in specific assets? Eventually the measurement takes place at a time when the contract is already in action and all safeguarding mechanisms of investments in specific assets and the power dependence structure of the relationship is established. After the contract is entered into, the switching costs involved may create a situation of a very different balance of power to the advantage of the agent or the principal. Often there is no real possibility of switching, as in the case of critical supplies to a project with a fixed cost and deadline, or the distribution of branded or regulated products. The definition of who is the principal and agent is affected by the same time variation. If the definition of the principal is the strongest party, we encounter problems of definition if there is a major shift in the real power balance over time.



### Implications in Marketing Channels

Both transaction cost economics and relational exchange theory explain the shift from market to non-market governance. According to transaction cost economics, non-market governance implies a shift from market governance to hierarchical governance (Williamson, 1985). Relational governance theory views this shift to be from market to relational governance (Macneil, 1980). Transaction cost economics identifies and explains governance through transactional properties whereas relational theory explains governance through relational properties. Through these transactional and relational properties a number of governance stages can be characterised from non-market conditions in the beginning, to more relational oriented TCE based governance, followed by increasingly relational based governance stages. These governance stages and their related characteristics are shown in table 2.

<i>Governance stage</i>	<i>Characteristics</i>
TCE, Non-market	Opportunism, unilateral governance, both goal and performance incongruencies, focus on the past
TCE, Relational	Increasing element of trust, bilateral governance, increasing focus on relation, still performance ambiguity. Relation specific investments, building of trust, reduced performance ambiguity
Relational governance	Co-operation based on trust, continuous exchange, increased uncertainty, co-operation on multiple activities, economic incentives
Mutual relationship	Solving of hidden information problems, focus on the future, reduced and shared asset specificities

The same governance stages are illustrated in table 3 in relation to the variance of particular dimensions through the stages.

Governance stage	Trust	Governance	Time focus	Performance and goal ambiguities	Dependence	Relational norms
TCE, Non market	Low	Unilateral	Past	High	Asymmetric	Low
TCE Relations	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
Relational governance	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
Mutual relationship	High	Bilateral	Future	Low	Symmetric	High

### Research propositions

Theoretically the basis for the identification of a number of governance stages is valid. The question is whether these interorganisational governance stages can be uniquely defined by the characteristics identified in table 2 and the dimensions identified in table 3. The link between relationship and relational norms is especially relevant (Heide and John, 1992). Is relationship an antecedent to relational norms

or vice versa? What relationship dimensions are coupled to what relational norm dimensions? These questions are important to answer to be able to define the differences between governance stages, and are as such pertinent starting points, before the time related challenges. With this in mind, relevant research propositions investigating the relationship and dependence antecedents to relational norms can be established for buyer-supplier dyads:

*P<sub>1</sub> : Increased relationship exchange will increase the level of relational norms*

Higher levels of relationship exchange through joint action, understanding common goals and verification efforts (Heide and John, 1988) will increase the level of relational norms. For unilateral relations more uncertainty is introduced into the decision process, because one party is under stronger influence by the other party and therefore has to give away some of its autonomy (Pfeffer and Salancik, 1978). If the relationship is ongoing and successful this means that the uncertainty in the relationship is under control and that the interaction between parties is creating higher levels of relational norms. For bilateral relations both parties' expected behaviour is founded in a norm structure based on higher levels of trust and where interaction will lead to an increase in relational norms. Verification will reduce the consequences of joint action because of a reduction of the inherent performance ambiguity in the relationship (Bowen and Jones, 1986), and is expected to support development of relational norms.

Four relational norms (Heide and John, 1992), based on Macneil's (1980) typology of relational norms, are relevant as lower order constructs. The four norms are:

- \* *Flexibility*, which defines a bilateral expectation of willingness to make adaptations as circumstances change.
- \* *Information exchange*, which defines a bilateral expectancy that parties will, proactively provide information useful to the partner.
- \* *Solidarity and mutuality*, define a bilateral expectation that a high value is placed on the relationship.
- \* *Expected continuity* describes the perception of the firm that both parties expect the relationship to continue into the future.

*P<sub>2</sub> : Relationships with high levels of symmetric dependence will develop high levels of relational norms*

Heide (1994) showed that symmetric dependence promotes bilateral governance, whereas unilateral dependence has a negative effect. Symmetric dependence promotes flexibility as a means of preserving the relationship (Macneil, 1980), and will probably have a positive effect on the level of other relational norms. The antecedent to relational norm development here is symmetric dependence. At the same time relational norms may be necessary for the development of both bilateral governance and symmetric dependence. Asymmetric dependence, in the form of, for example supplier replaceability, will lead to a quest for safeguarding. Safeguarding can take place through either investments in specific assets or in relational investments (Heide and John, 1992). A dependent supplier will have to proactively influence the relationship through, for example verification, joint action and building of common goals, and hope that this investment will lead to higher levels of

relational norms and perhaps more symmetric dependence. The dependence balancing may start out as relationship building as an antecedent to increasing norm levels.

Pfeffer and Salancik (1978:45) argue that dependence comprises three elements:

1. importance of the resource
2. one of the party's discretion over the resource
3. number of alternatives for access to the resource

This means that dependence increases under certain conditions. When the outcome of a relationship is important or highly valued, one of the parties will be more dependent. The same applies if the magnitude of the exchange is high. This means that asymmetric dependence is created when for example one supplier provides a large proportion of supplies to the buyer. The same applies when the product or service from a supplier is better than any alternative supply relationships. This means that dependence is increased under conditions of no alternative or potential sources. The link to TCE is obvious when considering replaceability; investments in transaction specific assets make it difficult to sustain negotiation power grounded on a threat to switch to another supplier. As such the investing party is potentially more dependent due to immobility of assets. Therefore the investment in transaction specific assets can create dependence (Anderson, 1988).

#### **Research setting**

It is intended that the propositions outlined above will be investigated using the supplier-buyer dyads of the Norwegian oil industry as a research setting. This industry is characterised by high levels of buyer power exercised over a relatively large number of suppliers. However, dependent on the kind of supplier (from commodities to R&D), the relationships vary from market governed and asymmetric, to relational and symmetric with high levels of relational norms. Clear performance related contractual arrangements exist for most of the suppliers. This research setting provides the necessary variation of relationships, and should enable the measurement of the related dimensions with high degrees of validity. The oil business is international and this setting provides an interesting base for comparison between buyer-supplier arrangements in other countries.

#### **Conclusion**

Transaction cost economics (TCE) and relational exchange theory explain the shift from market to non-market governance. According to transaction cost economics, non-market governance implies a shift from market governance to hierarchical governance, while relational governance theory views this shift to be from market to relational governance. Transaction cost economics identifies and explains governance through transactional properties whereas relational theory explains governance through relational properties. Through these transactional and relational properties a number of governance stages can be characterised from the beginning of non-market conditions to more relational oriented TCE based governance, followed by increasingly relationship-based governance stages. The research implications of this are a need to investigate the linkage between relationship, relational norms and TCE investments in specific assets, to define these governance stages. Definitions of antecedents and prerequisites to relational norm development are also

important. Work is currently underway to investigate these issues, and as such the present article has focused on the theoretical foundation for some of the research propositions outlined.

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