NEW TEXTS

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Relational Exchange in Supply Chains and Its Constitutive Elements

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Abstract

This paper examines theoretical issues of direct interfirm exchange in supply chains and focuses upon the relational aspect of embeddedness. Exploring insights from contract theory, marketing research, and economic sociology, we distinguish between the transactional and the relational forms of market exchange. It is assumed that real-world market exchange should not only be associated with arm's-length ties but presents divergent combinations of arm's-length and embedded ties. Problematizing the notion of embeddedness, we treat it as a multidimensional phenomenon. Embeddedness is shaped by a variety of relatively independent constitutive elements that may be developed (or not developed) in relation with different exchange partners or with one partner that is attached to different elements or phases of the market exchange. An original typology of dimensions that are constitutive for embedded/relational exchange is constructed. These dimensions are attached to the phases of the interfirm contract cycle as opposed to the relationships life cycle. Applying a processual view of social structure, we explore the emergence of the relational exchange elements as they result from the strategic choices made by the market sellers as they move along the cycle of contractual relationships. We also define hybrid forms of exchange as ways of coping with market uncertainty. Finally, we set up a number of hypotheses regarding the factors that facilitate the emergence of embedded/relational exchange and suggest measurement tools for the future empirical research.

Keywords: economic sociology; embeddedness; economic exchange; contract relationships; markets; Russia.

Introductory Remarks

The social embeddedness of economic action undoubtedly became a central concept of new economic sociology in the 1980s. However, in recent decades, this concept was increasingly criticized for its structuralism and for ignoring (though not completely) the content of relationships. One acknowledged major shortcoming of this concept was the reinforcement of the separate existence of the economy and society and the treatment of the market as being alien to social relationships; this separation allows the market to elude researchers as a sociological object [Krippner 2001; Beckert 2007]. In addition, a lack of clarity was noted due to the multiplicity of meanings attached to embeddedness. This concept was criticized for becoming a self-referential narrative [Portes 2010] and a general methodological principle that implied that all economic activities are embedded without showing how they are embedded [Gemici 2008: 25–28]. As a result, there is a risk of transforming the notion of embeddedness into one more “black box” in the social sciences along with the “black box” of the market in mainstream economics. Although we share this critical concern, we nevertheless tend to argue that throwing this “box” away would be a wasteful policy. The notion of embeddedness should rather be unpacked, and a clearer understanding of its constitutive elements should be presented.

One more “disturbing return to embeddedness” [Portes 2010: 1] undertaken here is based upon four assumptions. First, the market should not be associated with atomized actions that deny social ties in a hostile-worlds’ fashion [Zelizer 2005]. Economic and social exchanges should not be treated as examples of opposition, as was done in the classic theories of social exchange [Blau 1967], and market exchange should not only be associated with arm’s-length ties, as was presented in new economic sociology [Uzzi 1996]. Exchange parties rarely meet each other as complete strangers, especially on the interfirm level, and we must categorize the market as being infused with social relationships.

Second, the embeddedness of the market exchange should not be treated as a general methodological principle but rather as a testable theoretical proposition. Embeddedness is not a universal and predetermined characteristic of market exchange. The degree of embeddedness of the market exchange in social relationships varies, and the forms of embeddedness are very diverse. Real-world markets present divergent combinations of arm’s-length and embedded ties. It is important to explore the concrete composition of these ties, measure their strength, and examine the actual degree of embeddedness of economic actions [Uzzi 1999: 488].

Third, problematizing the notion of embeddedness, we assume that it is multidimensional. Embeddedness is shaped by a variety of relatively independent constitutive elements that may be developed (or not developed) in relation with different exchange partners or with one partner that is attached to different elements or phases of the market exchange. We also need to explore the content of embedded ties, especially their relational aspects.

Fourth, we would like to explore embeddedness as a dynamic process and to avoid treating the interactions of the market actors as being structurally defined by the allocation of resources and network structures. We should take into account the active role of the market actors, who make multiple strategic choices at each phase of the market exchange. Market relationships are affected by these strategic choices, which are made under the conditions of uncertainty that are constantly produced by the market. We try to apply a processual view of social structure, according to which “in the short run, actors create relations; in the long run, relations create actors” [Padgett, Powell 2012: 2]. We will explore how actors produce relationships in the short run by choosing between embedding and disembedding strategies [Heidenreich 2012: 550] and thereby conduct their relational work [Zelizer 2012]. This study is limited in that we do not investigate how actors reach their decisions, though this task is important [Beckert 1996: 804], and we do not ask to what extent they are intentionally rational. We simply consider the content and underlying factors of these decisions.

Keeping these assumptions in mind, we focus upon relational embeddedness dealing with the effects of cohesive ties between market actors rather than structural embeddedness capturing he effects of the structure of relations around actors [Granovetter 1990; Gulati, Gargiulo 1999]. To narrow down this broad subject, we investigate direct interfirm market exchange and explore the emergence of its relational aspects as they result from the strategic choices made by the market sellers as they move along the cycle of contractual relationships. Special attention is paid to the institutional arrangements that govern the rules of exchange in the supply chain [Fligstein 2001].

We address the following primary questions: what criteria could be used to distinguish between different types of market exchange? What elements are essential for the emergence of embedded interfirm market exchange?

What factors could stand behind the strategic choices made by market actors in favor of different types of exchanges?

The structure of this paper is as follows. Starting from the ideas of Ian Macneil on discrete and relational contracts [Macneil 1978; 1980] and his followers in contract theory, marketing research, and economic sociology, we distinguish between the transactional and the relational forms of market exchange. Interpreting embedded exchange as a relational exchange in this paper, we construct an original typology of substantive elements/dimensions that are constitutive for embedded/relational exchange. Then, we attach these dimensions to the phases of the interfirm contract cycle as opposed to the relationships life cycle. Finally, we set up a number of hypotheses regarding the factors that facilitate the emergence of embedded/relational exchange for the future empirical research.

Two Types of Market Exchange

Currently, the sociology of markets comes in terms of relational sociology, meaning that there is a common emphasis on relationships despite of any internal differences in approach [Fourcade 2007]. Relational embeddedness and relational work perspectives could be distinguished here. We agree that these perspectives are complements rather than alternatives [Whitford 2012: 260]. We apply the relational embeddedness approach but share many common inclinations with the relational work perspective. Both approaches consider the market and society to be connected worlds rather than hostile worlds. Similarly, we are interested in the content of relationships and not just in their structure. Our objective is to focus on creativity and constitutive relationships rather than to describe how existing social ties constrain and facilitate economic activity [Zelizer 2012: 149]. We share the understanding that it is important to reveal the mechanisms that govern the formation, confirmation, negotiation, reparation, and dissolution of economic relationships [Bandelj 2012: 191].

At the same time, our approach differs from the relational work perspective in some important aspects. Our primary emphasis is not on cultural symbolic work [Zelizer 2012] or its emotional underpinnings [Bandelj 2012] but on the institutional aspects of relational work in a broader sense, resulting in the divergent rules of exchange [Fligstein 2001]. We study interfirm rather than interpersonal relations, even though interfirm relations are implemented by individuals (company managers).

To explore the content of social ties, it is useful to start from the conventional dichotomy of the two ideal types of market exchange. The first type is defined as a transactional exchange based on casual contacts and arm's-length ties. The second type is categorized as a relational exchange based on continuous or embedded ties. Both types represent alternative forms of governance for managing market relations. We would argue that this distinction is productive as long as two conditions are met. First, we do not confuse market exchange with the transactional exchange of autonomous actors whose identities do not matter. Second, we do not treat relational exchange as the opposite of market exchange, assuming that relational/embedded ties are not any less (or any more) a market exchange than transactional/arm's-length ties. Thus, a market exchange should be considered to be a complex composition of various types of exchange that may intermingle and contradict one another.

Contract Theory

The idea of transactional and relational contracts was introduced by Ian Macneil (see: [Macneil 1978; 1980]), though the importance of the non-contractual relationships that accompany formal contracting was noted much earlier [Macaulay 1963]. Macneil starts with a detailed description of a *transactional contract*. He defines a transactional contract as a discrete contract in which no relationship exists between the parties apart from the simple exchange of goods. The participant in a discrete transaction plays the role of the individual utility maximizer who is interested solely in this transaction, which involves only a small part of his or her personality. The discrete transaction is short-term both in terms of the agreement process and the time of the performance. Discrete transaction planning is complete, specific, and binding; it does not rely upon future cooperation but attempts to fix all necessary terms and conditions in the present [Macneil 1978; 1980: 10–19]. A discrete transaction does not need further negotiation or mutual adjustment.

Macneil presents the transactional contract as an ideal type, meaning that every contract involves some relationship [Macneil 1980: 10]. Formal contracting is incomplete. There is a need for flexibility under the conditions of bounded rationality demonstrated by the exchange partners. The exchange partners mutually participate in planning, and they develop joint values and expectations about what behaviors are appropriate [Heide 1994]. These joint values and expectations cement contractual solidarity and are labeled as governance norms in the relational exchange perspective [Ivens 2004: 301].

The idea of *relational exchange* (or a relational contract) was also suggested within the framework of transaction cost analysis, which is concerned with the governance of contractual relationships. In this framework, a relational contract is treated as a hybrid form of governance between the market and hierarchy [Williamson 1985]. Williamson includes ex post features of contracting and adds the specificity of assets as an important dimension of the relational contract along with the durability of relationships. Relational contract is used in the case of repeated and nonstandard transactions requiring an investment in transaction-specific human or physical assets [Williamson 1985: 134]. These specialized investments contribute to mutual adjustment but also create strong incentives to continue, rather than terminate, relationships. "Faceless contracting is thereby supplanted by contracting in which the pairwise identity of the parties matter" [Williamson 1994: 91].

Marketing Research

Ideas regarding the types of market exchange were developed within the frame of marketing research, especially at the empirical level. Following Macneil's insights, Ivens identifies ten norms of relational behavior [Ivens 2004]. He defines these norms as expectations that are directed at the behaviors that the exchange partner may show. These norms include long-term orientation, role integrity, relational planning, mutuality, solidarity, flexibility, information exchange, conflict resolution, restraint in the use of power, and monitoring behavior [Ivens 2004: 309]. Ivens measures the links between these expected norms of behavior and the quality of relationships including the dimensions of trust, commitment, and economic and social satisfaction. In our view, the analytical distinction between expected norms and indicators of relationship quality provided by Ivens is not always clear (especially in cases of trust and mutuality, solidarity and commitment). However, we would support a productive idea that relational aspects of behavior may affect relationships quality.

Developing insights within relationship marketing research, Rajamma, Zolfagharian, and Pelton (also with direct reference to Macneil) characterize transactional exchange as having little social or informational sharing, no significant past ties, and little likelihood of a future relationship with the partners [Rajamma, Zolfagharian, Pelton 2011: 104]. In contrast, relational exchange is defined as a long-term, committed relationship with benefits for all parties involved [Siguaw, Baker, Simpson 2003]. A transactional exchange is one-shot, discrete, impersonal, economic, and functional whereas a relational exchange is long-term, on-going, interpersonal, social, and cooperative. Rajamma, Zolfagharian, and Pelton provide a more refined list of five relational exchange dimensions including solidarity, durability, flexibility, information exchange, and mutuality, and they provide three outcome variables: satisfaction, performance, and commitment [Rajamma, Zolfagharian, Pelton 2011: 106].

New Economic Sociology

The described distinctions between transactional and relational exchanges are very relevant for new economic sociology. Remarkably, these notions were drawn into the core of marketing research in the middle of the 1980s at a time when new economic sociology developed a new research program based on the concept of social embeddedness. It was not accidental that the two disciplines had some common sources of inspiration in the contractual theory of Ian Macneil and in a critical evaluation of the transaction cost analysis of Oliver Williamson. Marketing scholars have borrowed some categories from sociology, including borrowing the notion of embeddedness from Mark Granovetter. However, despite their common roots, economic sociology and marketing research took different paths. Even addressing similar subjects, they rarely explicitly trespass disciplinary boundaries and frequently operate in parallel today. The mutual exchange of ideas is still very limited, though marketing scholars have actively studied many relational aspects of market exchange [Kotelnikova 2012]. We will use these two bodies of literature in this study.

In new economic sociology, relational exchange is related to the notion of embeddedness that was borrowed from Karl Polanyi and reinterpreted by Mark Granovetter to become a focal point of new economic sociology and the sociology of markets [Krippner 2001; Beckert 2007]. Economic sociologists assume that both individuals and organizations tend to create stable, preferential relationships characterized by trust and the rich exchange of information with specific partners [Powell 1990].

Economic sociologists also distinguish between the relational and structural aspects of embeddedness, where the former highlights the effects of direct ties between social actors on the subsequent cooperation between those actors and the latter refers to the effects of the overall network of relationships [Granovetter 1990: 98]. The third aspect, positional embeddedness, is also added to this concept. Positional embeddedness captures the impact of the organization's position in the overall structure of the alliance network on their decisions about new cooperative ties [Gulati, Gargiulo 1999: 1448]. In this paper, we concentrate on *relational embeddedness* as a contextualization of economic exchange in patterns of on-going interpersonal (interfirm) relationships [Zukin, DiMaggio 1990: 18–19], which is very close to the notion of relational exchange in contract theory and marketing. This definition means that in this paper, we will treat an embedded exchange as a relational exchange.

Elaborating on the ideas of new economic sociology, Wayne Baker distinguished between the transaction orientation and the relationship orientation models of intertemporal market exchange. A transaction interface is implied by the competitive market of neoclassical economics with short-lived, episodic, and random market ties. A relationship interface is close to the notion of hierarchy in terms of Oliver Williamson. The firms using a relationship-oriented approach tend to construct stable market ties and do not switch from one partner to another implying that there is a lower likelihood that a market tie will be dissolved [Baker 1990: 594–595; Baker, Faulkner, Fisher 1998: 150–151]. However, in Baker's view, a dyadic tie with one exchange partner should be defined as being either transaction or relationship oriented while a hybrid interface is presented as a combination of the two orientations in connection with different partners [Baker 1990]. We would suggest a different approach, demonstrating that due to a multiplicity of relational exchange dimensions, a hybrid form of governance can be a characteristic of ties with one exchange partner when a transaction and a relationship orientation are attributed to different dimensions of a single dyadic tie.

Brian Uzzi uses a principal division between arm's-length and embedded ties [Uzzi 1996; 1999]. The arm's-length ties present an exchange system associated with the idealized atomistic market while embeddedness is an exchange logic based on on-going social ties that differs from the logic of markets. Embedded ties are characterized by trust, fine-grained information transfer, and joint problem-solving arrangements developed in a sustainable network structure [Uzzi 1996: 676–677]. We accept these useful insights; nevertheless, we do not share the view according to which embedded ties represent the opposite of market ties. In this study, we would rather assume that both arm's-length and embedded ties are alternative forms of market exchange. Market actors intermingle and recombine these logics without being able to identify which logic is in play across a particular relationship [Whitford 2012: 255]. We also do not identify market exchange with the negotiated exchange in opposition to reciprocal exchange [Molm 2003; Molm, Whitham, Melamed 2012]. We assume that market exchange may contain both negotiated and reciprocal elements which occur either sequentially or concurrently.

We would also take a processual view, according to which relationships emerge (or do not emerge) step-by-step from third-party referral networks and pre-existing personal relationships [Uzzi 1996: 679] or from short-term and casual contracts. To achieve this progress in relationships, one needs time and dedicated resources. Still, this progress is by no means automatic and self-sustaining. Progress is not a mere outcome of time and the continuity of exchange nor is it entirely defined by the structure of the market as an organizational field. Progress requires relational work and largely depends on the set of strategic choices regarding market interactions made by the market actors to control the behavior of their exchange partners. The market actors choose between embedding and disembedding strategies at each phase of their market relationship building. We would argue that this processual view should help economic sociology to explain the regularities in the market behavior of exchange partners.

The Cycle of Contract Relationships

Embedded exchange, interpreted as relational exchange and as opposed to transactional orientation, is a multifaceted phenomenon containing a number of elements. Our task is not to produce another static classification of these elements but to integrate them as parts of one cohesive and dynamic system. To accomplish this task, we borrow one more idea from the specialized marketing literature, i.e., the idea of the buyer-seller relationship life cycle, which moves toward commitment or dissolves over the years [Dwyer, Schurr, Oh 1987: 15–20; Cannon, Perreault 1999: 456]. This idea is also associated with the process approach in marketing research, distinguishing between the relationship stages of initiation, development and termination [Heide 1994].

Using the notion of the life cycle, we are going to attach the primary elements of the market exchange to the phases of relationship development. We use this idea in a different manner than the reported marketing literature. We need to adjust the life cycle to the specific context of the retailer-supplier relationships that we are going to investigate on an empirical level. Thus, we do not describe the entire life cycle of interfirm relationships that may run over many years but use the basic contractual cycle lasting till the moment when business contract is to be renewed or dissolved.

We decompose this contract cycle into five distinct major phases that are implemented on a consequential basis, with substantive overlap between these phases. The phases include the following (see Graph 1):

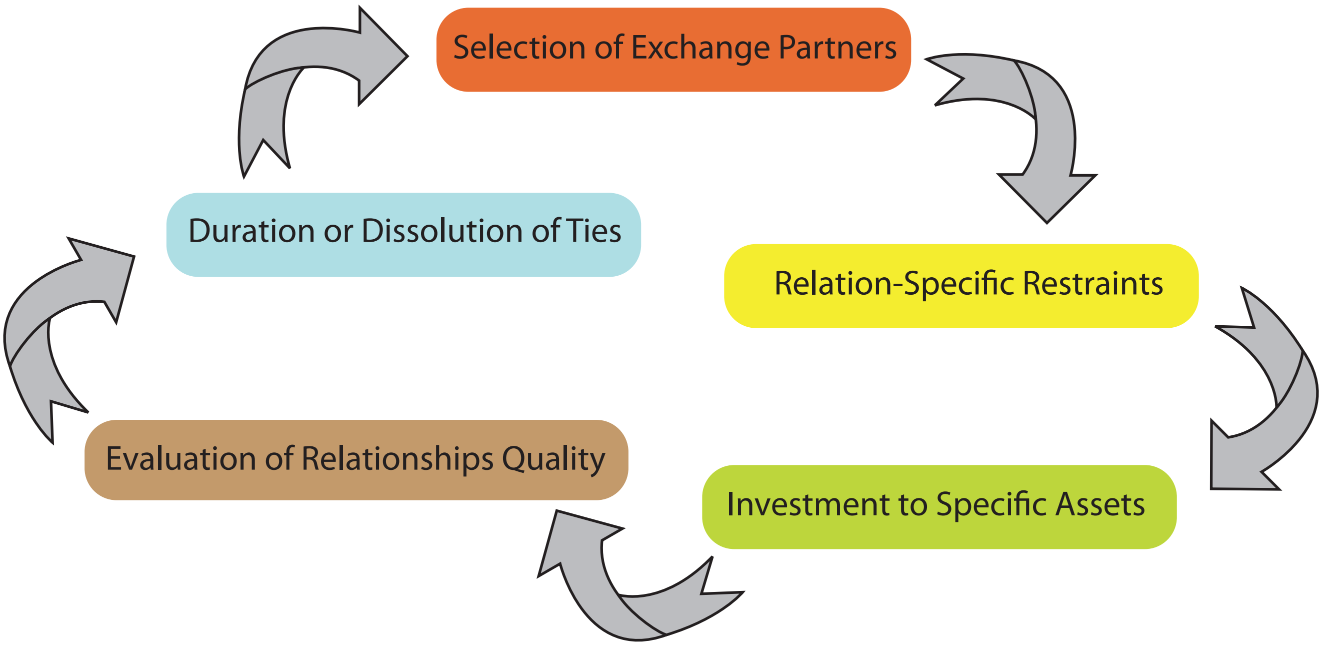
1. The selection of exchange partners for the next year, which could rely on transactional or relational criteria;

2. The bargaining over the terms and conditions of the formal procurement contract and the conclusion of this contract, which may rely upon standard terms regarding volume, price, and product quality or may involve vertical relationship-specific restraints;

3. The contract execution and enforcement, which may be accompanied by an adjustment for the partners' needs and the investment in specific relational assets including those beyond formal contracts;

4. The evaluation of relationship quality, including cooperative or non-cooperative orientations in relationships with the exchange partners;

5. The termination of the business contract or its renewal for the next contract cycle.



Graph 1. Basic Cycle of Contract Relationships

This classification of the relational exchange elements differs from the list of expected norms suggested by Ivens (see: [Ivens 2004]). However, in some important aspects, it is close to the classification of Rajamma, Zolfagharian, and Pelton, including five relational exchange dimensions: solidarity, durability, flexibility, information exchange, and mutuality [Rajamma, Zolfagharian, Pelton 2011: 106]. In our taxonomy, we use the cooperative orientation as an indicator of solidarity. The inclination to continue exchange ties may serve as a dimension of durability. Vertical restraints can be viewed as an indicator of flexibility. We also have information exchange and assistance provided by the exchange partners as a reflection of mutuality.

Our classification of relational exchange dimensions is also rather similar to the typology of relationship connectors introduced by Cannon and Perreault (see: [Cannon, Perreault 1999]). Relationship connectors are defined as dimensions that reflect the behaviors and the expectations for behavior in a particular buyer-seller relationship. The relationship connectors include information exchange, operational linkages, legal bonds, cooperative norms, and specific adaptations by sellers and by buyers [Cannon, Perreault 1999: 442]. Among our dimensions, we have information exchange, the use of information and computer technologies as a form of operational linkages, vertical contract restraints as a specific legal bond, partnerships as a cooperative norm, and mutual assistance as a manifestation of specific adaptation by the exchange parties.

At the same time, we add an additional dimension that is missing from the classifications above: a selection of business partners based on relational criteria. We believe that this dimension is of crucial importance as a starting point for each contract cycle and a significant element of the relational work performed by managers to build effective networks.

We emphasize that market sellers make their choice between transactional and relational types of exchange in each phase of the contract cycle. Resulting from these choices, the five relational elements become constitutive ties for the embedded exchange, meaning that they bring a new quality (and new rules) to the exchange relationships.

A Description of the Contract Cycle's Main Phases

Let us turn to a more detailed description of the contract cycle's main phases and corresponding exchange elements.

Phase 1. During the first phase, market sellers select a business partner, choosing between existing and new partners. The sellers should examine their partners before negotiating the terms and conditions of the business contract. The *selection of business partners* has been treated as exogenous by the organizational sociologists [Pfeffer, Salancik 1978; Burt 1983], and little scholarly attention has been paid to the difficulties that market sellers may face in determining with whom to enter into exchange ties [Gulati, Gargiulo 1999: 1440; Li, Eden, Hitt, Ireland 2008: 315]. The importance of the partners' selection for market relationship development was underlined by marketing scholars [Wilson 1995: 340]. Economic sociologists also pay attention to the identity of the exchange partner. According to Granovetter, the microfoundations of embedded economic action rest on "the widespread preference for transacting with individuals of known reputation", or for relying on "information from one's own past dealings" [Granovetter 1985: 490]. Business reputation and reliance on past dealings are two complementary parts of the endogenous network embeddedness mechanisms that help to determine with whom to build partnerships [Gulati, Gargiulo 1999: 1441].

We assume that multiple criteria can be used to select exchange partners. Some of the criteria concentrate on transaction parameters, while the others focus upon the partners' identity and the relational aspects of interaction. We could treat selection as containing relational elements when the market actors use the following criteria: (a) successful experience of transactions with the exchange partner in the past; (b) good personal ties with the exchange partner; and (c) the flexibility of the exchange partner on the deal, meaning his/her ability to negotiate the terms and conditions of exchange. All in all, if the exchange partners use relational criteria for selection, they tend to build closer relationships and establish stronger interfirm ties.

Phase 2. During the second phase of the contract cycle, the market actors negotiate the terms and conditions of exchange and sign their business contracts. We have an explicit example of negotiated market exchange here when the market sellers jointly bargain over the terms of the transaction and secure them with binding formal agreements [Molm 2003; Molm, Whitham, Melamed 2012: 143]. It is important that these terms and conditions not be confined to the standard dimensions regarding price, volume, and product quality. Many exchange partners use specific *vertical restraining agreements* in these business contracts. For example, vertical agreements may include: (a) marketing fees and (b) fees for the volume of sales. Marketing fees are paid by the supplier ex ante to see the goods on the store shelves, to introduce new goods, and to change an assortment of goods. Marketing fees hedge the risk of low sales and compensate for the retailers' opportunity costs. Fees for the volume of sales (retro-bonuses) are paid by the supplier ex post if the volume of sales exceeds the expected level. These fees are an instrument for the redistribution of additional profits from the supplier to the retailer [Radaev 2013].

In contrast to the selection of partners on the basis of their identity, vertical restraining agreements are based on the calculation of expected costs and revenues rather than on strong ties with the exchange partner. These binding contractual agreements including fees added to the regular price of the product reflect the intentions of exchange partners to obtain formal financial guarantees rather than to rely upon interpersonal trust. Thus, these restraining agreements are transaction-specific but largely impersonal.

These binding agreements may be interpreted as an abuse of power by the retail companies or rationalized using efficiency arguments [Bloom, Gundlach, Cannon 2000]. We would argue that the function of these vertical restraints and additional fees is not confined to the redistribution of value added to the firms with bargaining capacity, though these firms can indeed use this type of coercive power [Brown, Lusch, Nicholson 1995]. However, vertical restraints are also used as an important instrument of relationship building. Suppliers pay these fees, using them as an investment in a series of specific transactions stimulating the loyalty of the retailer and also as an instrument of competition applied to push away competing suppliers of the same goods from the shelf space. For retailers, these vertical restraints represent tools of control over the future behavior of the suppliers aimed at disciplining their behavior and reducing the risks of opportunism [Provan, Skinner 1989: 203–205; Kelly 1991; Radaev 2011]. Thus, at the second phase of the contract cycle, the market exchange is transactional or relational depending on the use of vertical restraining agreements in the business contracts.

Phase 3. This phase of the contract cycle starts after signing the business contract. Then, the market sellers focus upon the contract execution and enforcement with the goal of eliminating opportunistic behavior. When the contract is being executed, the exchange partners turn from explicit to implicit contracting arrangements. Adjusting the terms of the exchange, they can invest in relational assets or abstain from such investment. This investment is not into the generalized assets of business reputation or the advertising and promotion of one's goods and services but is a concrete *relationship-specific investment* including joint planning, mutual adaptation, use of the same technology, information sharing instead of withholding information, training and assistance provided to the business partners. All of these types of support can be treated as indicators of non-coercive power applied to increase technical and economic interconnectedness as well as to stimulate the loyalty of the exchange partner. This type of non-coercive power relies on rewards and assistance as opposed to coercive power that is based upon the punishment of opportunistic behavior [Gaski 1984: 12; Brown, Lusch, Nicholson 1995: 364–365]. Anderson and Weitz argue that relationship-specific investments act as potent pledges in the channel relationship and have a positive effect on their commitment to the relationship [Anderson, Weitz 1992].

Considering the third phase of the contract cycle, we could point at least to three types of investment in specific relational assets and support to the exchange partner, including communication, alignment, and assistance: (a) information sharing on sales for communicative aspects; (b) the joint use of information and computer technology (ICT), which is a form of technical alignment that is especially important for the retail trade; and (c) providing assistance to the exchange partner in problem resolution and the readiness to bear additional costs. We have an example of reciprocal market exchange that may avoid the potential disadvantages that come from strong and close ties with the exchange partners or from relationships based upon calculations of immediate material gain. However, this type of reciprocity serves as a form of relationship-specific investment, raising the expectations of adequate behavior from the object of investment. This reciprocity also signals to the exchange partner the intention to collaborate in the future.

Phase 4. This phase of the contract cycle is implemented in the course of business contract execution. When approaching the end of the contract period, the market sellers monitor the economic performance. At the same time, they evaluate the quality of their relationships with their exchange partners. The *evaluation of relationships* is an important dimension of their development. It is not confined to defining or redefining the identity of the exchange partners but to evaluating the relationships *per se*. The quality of the relationship includes aspects of normative commitment (higher value of relationship) and instrumental commitment (absence of conflict and opportunism) [Ivens 2004; Rajamma, Zolfagharian, Pelton 2011].

We distinguish between three perceptions of relationships, including (a) conflicting, (b) neutral, or (c) cooperative. We would treat the mode of exchange as transactional if the relationships with the exchange partners are perceived as being neutral or conflicting and as relational if the relationships are perceived as being cooperative. In this sense, relational exchange is close to the notion of relational solidarity [Molm, Whitham, Melamed 2012: 143].

Phase 5. At the final phase of the contract cycle, as the procurement contract is coming to an end, the market sellers must make a decision regarding the *renewal or dissolution of business contracts*. The higher hazards of dissolution of a market tie present an indicator of a transaction orientation while the continuation of ties and a reluctance to terminate the relationship is an important element of relational exchange [Baker, Faulkner, Fisher 1998: 150–151]. Relational exchange makes the self-interested behavior of exchange partners more predictable and reinforces their social ties. The preference for continuous and long-lasting relationships rather than casual (arm's-length) contacts may result from pure economic considerations (the continuation of existing relationships may reduce the costs of bargaining if compared with switching from one partner to another) or from more socially oriented and less calculating reasons, such as trust and commitment to the existing exchange partner.

We would argue that if the market sellers tend to dissolve contracts and terminate relationships, they are inclined toward transactional exchange. If they prefer to continue contract relationships, writing a new contract, they are inclined to relational exchange. Thus, the absence of contract dissolution could be used as a measure for the relational mode of exchange. It is important to underline that the exchange partners do not just passively avoid the termination of business contracts. Given that they must conclude a new contract for the next period, they factually re-enter the relationship, often after reconsidering the terms and conditions of their business contract.

Hybrid Forms of Exchange as Ways of Coping with Market Uncertainty

Market relationships are built up through repeated choices between embedding and disembedding strategies made by both exchange parties. These choices are not always easy. On one side, the transactional exchange due to its simplicity leaves a large room for uncertainty and instability in relationships. It brings additional costs of mutual adjustment to the new partners while longer-term relation-specific investment makes no much sense. On the other side, embedded ties may also produce negative outcomes for the market actors who could lock in dense networks of closed social relationships with strong dependence on a limited number of partners and high relation-specific investment. Weak ties may have certain advantages over strong ties not only in interpersonal relations [Granovetter 1973: 1371] but also in the interfirm relationships allowing interactions with a larger number of exchange partners without making significant investments to specialized assets.

It is not a maximum level but an optimal degree of embeddedness that is important for the survival in the market and obtaining competitive advantage as it was demonstrated in economic sociology literature. "Embeddedness, however, yields positive returns only up to a threshold point. Once this threshold point is crossed, returns from embeddedness become negative" [Uzzi 1996: 694]. Wayne Baker also claims that most of the firms use a hybrid interface that combines hierarchical and market characteristics [Baker 1990: 589]. However, in his approach Baker does not go far beyond Williamson's dichotomy of market and hierarchy. In his view, a dyadic tie with one exchange partner should be defined either as transaction or as relationship oriented while hybrid interface is presented as a combination of two orientations in connections with different partners [Baker 1990]. We would suggest a different approach demonstrating that due to a multiplicity of relational exchange dimensions, hybrid form of governance can be a characteristic of ties with one exchange partner when transaction and relationship orientation are attributed to different dimensions of one dyadic tie.

Similar conclusions were also made in marketing studies pointing out that relational/embedded ties may produce controversial outcomes. On one hand, prior interactions with the exchange partners reduce uncertainties and information asymmetry. On the other hand, they increase risks of opportunism [Li, Eden, Hitt, Ireland 2008:

318]. Findings by Cannon and Perreault indicate that the move to cooperation is not universal. Companies do not need close ties with all exchange partners. Many of them continue to rely on more transactional orientation or on combination of divergent relationships connectors [Cannon, Perreault 1999: 440]. Given their multivariate profiles, a portfolio of buyer-seller relationships with different types and degrees of relation-specific investment is developed [Cannon, Perreault 1999: 657].

Pursuing mixed strategies and building symbiotic relationships, the market sellers respond to uncertainty continuously produced by the market as a situation in which actors cannot predict outcomes and even cannot assign probability distributions to possible outcomes [Beckert 1996: 814]. Hybrid forms of market exchange provide more efficient ways of coping with uncertainty and controlling the future behavior of partners under conditions of power asymmetry.

The notion of hybrid forms of exchange proposed in this paper differs from existing notion of hybrid governance defined as intermediate forms between market and hierarchy, like networks organizations [Ménard 2004] or business groups [Granovetter 1994]. We define hybrid forms as divergent combinations of transactional and relational elements of market exchange with the same partners. These mixed forms may differ from one another by their dominant characteristics like partners' identity, successful experience of past dealings, transaction-specific restraints, calculation of material gains for exchange partners, and relation-specific investment stimulating cooperation between exchange partners.

Main Hypotheses for Future Research

In this section of the paper we define the main factors that could facilitate relational exchange and set up a number of testable hypotheses regarding the effect of these predictors on the emergence of relational exchange. The factors include the location of the firm in the supply chain and the type of chain, the characteristics of the product and the firm, and the structure and the intensity of the interfirm relationships.

Turning to the hypotheses for the future empirical research, first, we assume that the *location of the market seller in the supply chain* can play an important role in shaping relationships. Economic sociologists underline that "buyers and sellers sometimes have different interests in the stability of market ties" [Baker, Faulkner, Fisher 1998: 170]. It was also explicated in the marketing literature that the basis for the evaluation of a relationship differs between the upstream partners and the downstream partners [Rajamma, Zolfagharian, Pelton 2011: 110]. The evaluation may depend on the degree and structure of resource dependence [Pfeffer, Salancik 1978]. For example, the most closely coupled relationships arise when supply is important for the buyer, while a greater transaction orientation and more competitive forces are applied when supply is less important for the buyer [Cannon, Perreault 1999: 457].

The effect of the channel role on long-term orientation is confirmed in the empirical study of Shankar Ganesan (see: [Ganesan 1994]), according to which retailers are likely to have a long-term orientation with the suppliers that they are more dependent on, while the suppliers are likely to develop a long-term relationship with a retailer only if the retailer is highly dependent on them [Ganesan 1994: 14]. Ganesan suggests that the suppliers are more cautious in their efforts to manage dependence. In our view, the market sellers with more bargaining power tend to be more transaction oriented while the market sellers with less bargaining power try to compensate by developing the tools for relational exchange. Thus, we start with a simple proposition:

> *H 1. Market sellers with less bargaining power are likely to develop a relational exchange compared to market sellers with more bargaining power, which are more inclined toward a transactional exchange.*

Considering the *types of supply chains*, we make two complementary assumptions. The first assumption is inspired by the power/dependence theory. The market sellers managing a larger number of exchange partners are more transaction oriented because they have more available alternatives. Thus, these sellers are less resource dependent [Emerson 1962] and can switch partners more easily. For example, the grocery sector is characterized by a larger number of market sellers whereas the home electronics sector has a lower number of market sellers. Companies with a larger number of market alternatives, and therefore, more market power could be expected to be more transaction oriented when compared to companies having fewer available alternatives. It is reflected in the following statement:

> *H 2. More resource dependent market sellers are likely to develop a relational exchange compared to less resource dependent market sellers, which tend to rely more on a transactional exchange.*

The second assumption comes from the distinction between the buyer-driven and producer-driven types of supply chains [Gereffi 1994]. We would assume that the downstream partners in the buyer-driven supply chain have higher bargaining power and, therefore, could be more transaction oriented while the downstream partners' bargaining power in the producer-driven supply chain is generally lower, implying that they are relatively more relationship oriented. Hence, our next hypothesis is formulated as follows:

> *H 3. The downstream exchange partners in the buyer-driven supply chain are more inclined toward transactional exchange while the downstream exchange partners in the producer-driven supply chain rely more on relational exchange.*

We would next assume that the type of exchange could depend on the *category of exchanged goods*, meaning not so much their material (physical) properties but rather the symbolic characteristics of the product. The distinction between branded and non-branded goods is relevant here. Brands present an important tool for attaining relationship stability with the customers, and most of the literature on brand management explores the consumer-brand context [Fournier 1998]. However, if the exchange partners want to obtain benefits from the consumer-brand relationship, it may also affect the relationship stability. When selling private label and especially no name goods, collaboration would not make much difference. It is standard product quality and the cheapest price that matter. As for branded goods that offer unique and specific value to consumers, promoting these goods is more risky and costly for the exchange partners. Thus, promoting branded goods requires long-term, mutually beneficial exchange relationships [Elg, Paavola 2008]. Our next hypothesis is the following:

> *H 4. The sale of branded goods is positively related to a preference for relational exchange because it requires a more selective approach and more attention to the identity of a potential business partner.*

We take the *firm size* as one of the primary company characteristics. Size is widely used as an indicator of the firm's structural and bargaining power in the market exchange [Uzzi 1996; Baker, Faulkner, Fisher 1998: 157]. The potential influence of the firm size on the types of exchange appears to be more ambivalent. On the one hand, larger firms can demand more from the exchange partner by virtue of their size [Baker 1990: 603]. They are less resource dependent and can easily drop existing exchange partners and switch to new ones. From this viewpoint, we could expect that smaller firms would have a stronger interest in maintaining durable relationships with their larger exchange partners. On the other hand, size does not necessarily lead to a transaction orientation. On the contrary, some empirical evidence has been obtained in the advertising market that the company size is negatively related to the hazards of dissolution of a market tie. Large firms may have more interest in continuity and a stable relationship due to their better bargaining capacity [Baker, Faulkner, Fisher 1998: 172]. The higher potential costs for larger firms to switch an exchange partner may also contribute to their willingness to continue relationships. A positive effect of the company size on the stability of relationships is also confirmed in the organizational studies of auditors' relationships with their clients [Levinthal, Fichman 1988]. An additional and more complicated proposition could be that larger firms have more capacity to make a strategic choice between the types of exchange and still tend to develop a relationship orientation, while smaller firms must follow the imposed rules. If this proposition is true, then the larger firms may have very divergent orientations. Keeping these complexities in mind, however, we suggest a following proposition:

> *H 5. The size of a firm is positively related to the preference for a relational exchange due to the better capacity of larger firms to control the exchange relationship and the higher cost of switching exchange partners.*

Turning to the *structure of interfirm relationships*, we suggest the duration of contract ties as a particular characteristic that varies in relation to different exchange partners. According to Max Weber, sociological investigation is concerned with the typical modes of action, in which courses of action are repeated by the actor [Weber 1978: 29]. The idea that the market actors' attempts at purposive action are embedded in on-going systems of social relationships was also noted by Mark Granovetter in his programmatic article [Granovetter 1985: 487]. Thus, the duration of the business relationship is another important parameter that may influence the type of relationship [Baker, Faulkner, Fisher 1998: 150; Gulati, Gargiulo 1999: 1439]. If exchange relationships continue after the single transaction period, they may develop from arm's-length ties into embedded ties.

At the same time, relational exchange could not be defined by the length of ties alone. The continuation of ties does not lead automatically to a different quality of ties. Some parties may contact for a long time without paying much of attention to identity of the exchange partner and making no relation-specific investment. It may result, for example, from non-availability of alternatives or from receiving best commercial offers from the same partner if price considerations alone are taken into account. Embeddedness is substantive rather than formal characteristic of relationships. The repetition and duration of exchange is a necessary but not sufficient precondition of relationship formation.

The positive impact of durable ties on relational outcomes is also noted in the marketing literature [Hingley 2005: 871], claiming that relationships are constituted by a series of repeated exchanges [Fournier 1998: 346]. Relationships emerge with a higher probability if they are based on a successful past experience with the exchange partner. Keeping it in mind, we formulate the following hypothesis:

> *H 6. The ratio of long-term exchange partners is positively related to the preferences of relational exchange because the continuation of relationships makes them more sustainable and mutually oriented.*

Market deals are not conducted in automatic and frictionless fashion. Contract conclusion and execution need time and continuous efforts, especially in the field of business-to-business relationships. Thus, a market exchange should be treated as a system of negotiated exchange associated with contacts between the exchange partners during the time of contract conclusion and execution [Molm 2003]. The temporal reductionism of neoclassical economics was criticized within the framework of the transaction costs approach [Williamson 1985], new economic sociology [Baker, Faulkner, Fisher 1998], and marketing research [Poppo, Zenger 2002; Mesquita, Brush 2008].

Here, we distinguish between two forms of interfirm interaction. The first form of interaction implies negotiations over contract terms and conditions. The second is aimed at contract enforcement after the conclusion of the contract. We would argue that the length of the negotiation before the contract conclusion does not influence the type of exchange in any predictable way. The length of the negotiation may result from the complexity of the contract, a lack of negotiation efficiency, or even the existence of a relational conflict that needs additional time to be resolved.

The intensity of business contacts during the time of contract execution serves as an important element of contract enforcement, control over the partners' behavior, and relationship development. Given that most of the contracts are imperfect and incomplete, the formal contractual mechanisms are complemented with relational governance. These mechanisms are introduced to safeguard the owners of specialized assets from the losses that may result from exchanges with opportunistic partners [Mesquita, Brush 2008: 785–786]. Frequent contact during the contract execution means that the business parties care about their relationship, learn to cooperate, try to control transactions, and mutually adjust to the requirements of their exchange partners. These contacts indicate the intensity of the relational work performed by the managers. We measure the frequency of these ex post interactions as the average number of contacts within one month during the time of contract execution and suggest our final hypothesis:

> *H 7. The frequency of business contacts during the time of contract execution is positively related to a preference for relational exchange because it contributes to effective contract enforcement, reduces the risks of opportunistic behavior, and makes relationships more sustainable.*

All these theoretically grounded hypotheses could be used for investigating the constitutive elements of emerging relational exchange.

Conclusions

We assume that we should not treat market and social exchange as oppositions, allowing the market to elude researchers as a sociological object [Krippner 2001]. The market is not only affected by social relationships but also contains social relationships as a built-in element. We also argue that it is not productive to identify a market exchange as the transactional exchange of autonomous actors whose identities do not matter or to treat social exchange as an opposite form associated with relationships. Real-world markets present divergent combinations of transactional and embedded ties. It is important to explore the concrete composition of these ties, to measure their strength, and to examine the degree of actual embeddedness of economic actions [Uzzi 1999].

In this study, we apply the relational embeddedness perspective, contextualizing economic exchange in patterns of on-going interfirm relationships [Zukin, DiMaggio 1990]. At the same time, we share some important ideas with the relational work perspective [Zelizer 2012], trying to move beyond the conventional context approach. Using ideas from contract theory and marketing research, we treat embedded exchange as a relational exchange and study direct market exchange on the interfirm level.

It is also assumed that relational/embedded exchange is multidimensional. Relational/embedded exchange is constituted by a composition of relatively independent elements, which may be developed concurrently not only in relationships with different exchange partners but also in a relationship with one partner if they are attached to different aspects of the market exchange.

We take the basic interfirm contractual cycle and decompose this cycle into five distinct major phases implemented on a consequential or partially on a concurrent basis. This process starts with the selection of business partners, which could rely upon transactional or relational criteria, and proceeds to the conclusion of the business contract, which may rely upon standard terms and conditions or may involve vertical transaction-specific restraints. The process then moves along to contract enforcement, which may involve (or not involve) investment in specific relational assets. Finally, the exchange parties evaluate the quality of the relationship and consider whether to continue or terminate their contract ties for the subsequent year.

Market relationships are built through repeated strategic choices made by both exchange parties, who may shift between transactional and relational modes of exchange in each phase of the contract cycle. We argue that neither relational nor transactional exchange necessarily prevails, and most of the market actors are more inclined toward a hybrid interface than toward a pure transactional or relational exchange [Baker 1990; Uzzi 1996; Cannon, Perreault 1999]. Different elements of transactional and relational exchange are interspersed with one another. It is not a combination of transactional exchange with some partners and relational exchange with others, but a combination of divergent dimensions of market exchange in relationships with the same partners.

Making a general conclusion, we would claim that the market exchange is represented by a variety of hybrid forms in which transactional and relational elements are interspersed. Hybrid forms are reflected not just in a portfolio of divergent ties with different exchange partners but also in a combination of divergent ties with one partner. When decomposing a contract cycle into distinct phases, we find that "simple" dyadic ties are very complex as well.

Rejecting the "hostile worlds" argument, economic sociology should study the markets as being infused with social relationships. To implement this task, it is important to take the direct market exchange into the core of sociological research and reveal the multiple combinations of ties in which market sellers are sequentially or concurrently engaged.

When studying the degree and the concrete forms of the relational embeddedness of market actions, it would be useful for economic sociology to learn from the new contract theory and marketing research, which have developed a relational focus in their studies. It would also be helpful to unpack the notion of embeddedness and explore its constitutive elements.

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