



Research paper

## Effectiveness of contracts in marketing exchange relationships: A meta-analytic review

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### ABSTRACT

Exchange partners devise and implement contracts to improve performance within a relationship. Detailed, specific contracts provide a blueprint designed to guide desired interfirm behavior, and firms may use the contract to resolve disputes and to ensure the partner fulfills its obligations. Extant research, however, reports contradictory findings on the efficacy of contracts. The objective of our research is to provide a quantitative review of contract specificity and utilization in business-to-business marketing. The findings suggest that specificity and utilization enhance economic performance, relationship quality, and relational norms. Contract specificity is found to discourage opportunism, whereas contract utilization exacerbates opportunism. Theoretical (specific investments, product complexity, and relationship length) and contextual factors (product type, market type, and study location) moderate influences of contractual properties on exchange outcomes. Discussion of these results addresses the implications of the meta-analysis for marketing theory and practice.

### 1. Introduction

Contracting is ubiquitous to the flow of resources through supply chains. Contracts represent promises or obligations to perform particular actions and are legally enforceable in the event that a party fails to perform in conjunction with the specifications of the agreement (Kronman, 1985; Poppo & Zenger, 2002). By stipulating the roles and responsibilities of each party, a detailed contract can coordinate action, mitigate conflict, and ensure mutual gains (Griffin & Zhao, 2015; Williamson, 2002). And if a partner's performance veers off course, firms may utilize the contract to resolve disputes and to ensure the partner fulfills its obligations (Samaha, Palmatier, & Dant, 2011).

Despite the importance of contracting and the vast attention paid to it in marketing channels research, several issues remain unresolved. First, extant research on contracting provides mix results. Although some empirical studies support that contracts constrain opportunism and yield higher levels of performance (e.g., Griffin & Zhao, 2015; Kashyap, Antia, & Frazier, 2012), other research suggests otherwise. For example, Jap and Ganesan (2000) report that contracts are related

negatively to performance, while Lusch and Brown (1996) find that contracts have no impact on performance. Also, the number of studies that show a positive relationship between contracts and opportunism (e.g., Parkhe, 1993) is almost as many as those that report a negative relationship (e.g., Luo, 2007). These mixed results suggest that contracts may have some unintended consequences, such as perfunctory execution of role behaviors (i.e., performance to the letter of the contract) (Macaulay, 1963), the inability to adapt to unanticipated changes (Griffin & Zhao, 2015), and mistrust (Yang, Zhou, & Jiang, 2011).

Second, both scholars and practitioners often use two different dimensions—contract specificity and contract utilization—to characterize explicit contracts, yet theoretical arguments in extant research often muddle the two together. Specificity refers to the level of explicitness and precision of a contractual agreement (Griffin & Zhao, 2015). It describes the extent to which relevant clauses are clearly specified and codified in a contract (Kashyap et al., 2012). By contrast, utilization refers to the frequency of reference to the contract in the management of the relationship (Samaha et al., 2011). Specificity and utilization are not only conceptually distinct, they are fundamentally different in practice.

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Specificity is an *ex ante* governance strategy where exchange parties explicitly outline expected behaviors before engaging in a transaction (Huo, Ye, & Zhao, 2015). Utilization is an *ex post* governance strategy where exchange parties correct and sometimes penalize unexpected behaviors that occur during the transaction (Antia & Frazier, 2001). In short, specificity serves more as a coordination function, while utilization serves as a control function (Huo et al., 2015).

We draw on relational contracting theory (Macneil, 1978) and transaction cost economics (TCE) (Williamson, 1985) to develop arguments for the differential effects of specificity and utilization on economic and relational outcomes. Both theories underscore the importance of coordination in channel relationships but they emphasize contrasting mechanisms to secure control. From a coordination standpoint, both theories suggest that specific, detailed contracts align expectations to reduce unexpected behaviors (Poppo & Zenger, 2002; Rindfleisch & Heide, 1997). From a control perspective, TCE logic suggests that contract utilization constrains opportunism (Wathne & Heide, 2000) by increasing the marginal cost of guileful behaviors (Frey, 1993), whereas relational contracting theory views utilization as a violation of trust, which may provoke opportunism (Samaha et al., 2011). While these prevailing theories suggest differential effects of utilization on organizational outcomes, prior reviews have not examined this distinction.

Lastly, when delving deeper into the different dimensions of contracts, we find that there are inconsistent findings across studies on contract specificity and economical and relational outcomes, as well as across studies on contract utilization and outcomes. These inconsistent findings provide little guidance to practitioners on the effective design and utilization of contracts. It is unclear as to whether the costs of design and enforcement outweigh the benefits. To shed light on the contexts in which more specific contracts and utilization of contracts yield better outcomes, we examine theoretical and contextual factors as potential moderators.

In sum, the goal of this study is to answer the following questions using meta-analytic techniques: (1) Do contracts generate positive outcomes? (2) What are the influences of contract specificity and utilization on organizational outcomes? (3) What theoretical and contextual factors influence the effectiveness of contract specificity and utilization? By answering these questions, we strive to provide an empirical summary of the contracting literature, resolve conflicting findings, and shed light on effective contract strategy. We also note that our empirical summary of contract utilization is the first in the literature. We begin our analysis by defining and differentiating contract specificity and utilization. Then, we outline the theoretical foundations of our study and present methodological correlates of specificity and utilization. We subsequently present the research method and results. We conclude with a discussion of the implications of our findings and future research directions.

## 2. Conceptual framework

### 2.1. Contracts

Research has a rich history of studies examining contract specificity and contract utilization. For instance, Macaulay (1963) distinguishes between efforts to specify contractual terms and the use of these contracts to adjust relationships or settle disputes. *Contract specificity* refers to the extent that relevant clauses are clearly codified *ex ante* (Kashyap et al., 2012; Kashyap & Murtha, 2017) (see Table 1 for a summary of the key constructs). A more specific contract includes numerous clauses related to assignment of rights, terms of legal recourse, and contingency plans (Anderson & Dekker, 2005; Cao & Lumineau, 2015). Contract specifications serve as blueprints (Mesquita & Brush, 2008; Ryall & Sampson, 2009) that unify activities between exchange parties working together to achieve pre-determined goals. These guidelines outline the expected contributions and payoffs of the involved parties (Chen, Federgreen, & Zheng, 2001; Gulati, Wohlgezogen, & Zhelyazkov, 2012;

Joskow, 1987). For example, franchise contracts specify operational requirements and fees required under the agreement (Keating, 1991).

Contract specificity serves a coordinating function. The specification of responsibilities aligns and adjusts parties' activities in a deliberate manner to obtain the jointly agreed-upon goals (Gulati et al., 2012). By delineating the steps necessary for coordination, contractual terms map out responsibilities and rules that help synchronize interdependent tasks between exchange parties (Kashyap & Murtha, 2017; Mesquita & Brush, 2008). These specifications drive strategies and behaviors designed to raise financial and relational outcomes.

*Contract utilization* refers to the degree to which a contract serves as the basis for managing transactions (Samaha et al., 2011). Parties to contracts vary in the degree to which they employ contractual terms to manage a relationship. A detailed contract may delineate monitoring and enforcement measures, but these measures may not actually be used over the course of the relationship (Antia & Frazier, 2001). The financial performance provided by a contract stems from the specifications and the degree to which parties employ the specifications (Antia & Frazier, 2001). The frequent enforcement of contractual terms, however, may diminish cooperation and create a more formal, adversarial relationship environment (Samaha et al., 2011). Enforcement imposes guidelines that may be deemed intrusive by trading partners, resulting in reactance effects and increased malfeasance (Heide, Wathne, & Rokkan, 2007).

### 2.2. Theoretical foundations

#### 2.2.1. Transactional cost economics

Transactional cost economics (TCE) studies the costs associated with doing business under alternative governance structures. One such cost is opportunism, where a partner engages in self-interest seeking behavior with guile (Williamson, 1985). Opportunism may be blatant, as when partners deliberately violate or fail to carry out their contractual obligations, or more passive, wherein a partner takes advantage of the changing environment and refuses to adjust (Wathne & Heide, 2000). To mitigate opportunism, a contract can be drafted *ex ante* to align the behaviors of partners. From the TCE perspective, a contract reduces the cost of *ex post* monitoring and enforcement by the principal and increases the costs of a partner behaving opportunistically (Frey, 1993).

Contracts persuade compliance and deter opportunistic behaviors through the threat of legal enforcement (Joskow, 1987; Kashyap & Murtha, 2017; Wuyts & Geyskens, 2005). Legal clauses include the right to monitor a partner's activities and the right to discipline the partner when it fails to fulfill contractual obligations. Crocker and Reynolds (1993) find that past opportunism leads to more detailed contracts (see also Anderson & Dekker, 2005). Contracts reduce exposure to risk by specifying how parties fulfill contractual obligations. Transacting parties use these specifications to enhance performance and attenuate opportunism (Wathne & Heide, 2000).

#### 2.2.2. Relational exchange

Relational exchange describes a continuum in the management of relationships and the associated contract law. Simple transactions of minimal length are managed through classical contract law. Macneil (1978), for instance, describes a turnpike cash payment for gasoline as a discrete transaction. As a relationship progresses, the parties to the relationship codify expectations. For example, franchisors often develop elaborate operating procedures for franchisees. Neo-classical law enables contractual parties to incorporate flexible mechanisms into the contract. A retailer's transfer price for gasoline, for instance, may vary with the prevailing price for a barrel of crude oil. In enduring relationships, the bounded rationality of the transacting parties increasingly favors reliance on relational contracting rather than neoclassical law. Collaboration between exchange partners in long-term relationships is governed by mutual expectations and trust (Dwyer, Schurr, & Oh, 1987). Whereas neoclassical law interprets duties and obligations based on contracts, relational contracting law emphasizes the entirety of the relationship. Relations governed by relational

**Table 1**  
Review of construct definitions, aliases, and representative papers.

Constructs	Definitions	Common aliases	Measure types	Representative measures	Representative papers
Contract specificity	The extent to which the contract clearly specified and codified clauses relating to the business, such as business partners' roles, rights, obligations, procedures to cooperate, punishment of contract violation, and so on.	Contract completeness, explicit contract, contract extensiveness, and contract formalization	Coding	Natural logarithm of the count of contractual clauses pertaining to the franchisor's rights (1) to meter behavior and output and (2) to discipline contractual violations.	<a href="#">Kashyap and Murtha (2017)</a>
			Reflective	(1) Our relationship with this partner is governed by explicitly described and clearly written contract terms. (2) The contract with this partner includes everything in detail that we think important. (3) We and this partner have included all details relating to cooperation into the contract.	Luo et al. (2011)
			Formative	(1) Periodic written reports of all relevant transactions; (2) prompt written notice of any departures from the agreement; (3) the right to examine and audit all relevant records through a firm of CPAs; (4) designation of certain information as proprietary and subject to confidentiality provisions of the contract; (5) non-use of proprietary information even after termination of agreement; (6) termination of agreement; (7) arbitration clauses; and (8) lawsuit provisions.	<a href="#">Parkhe (1993)</a> ; <a href="#">Deeds and Hill (1999)</a> ; <a href="#">Reuer and Ariño (2002)</a> ; <a href="#">Judge and Dooley (2006)</a> ; <a href="#">Lumineau and Malhotra (2011)</a>
Contract utilization	The extent to which channel members depend on their contract to manage their business relationships.	Contract application, contract enforcement, contract-based governance, and use of contract	Reflective	(1) We often have to resort to our formal contract to resolve disputes with [Seller]. (2) We have to frequently point out to [Seller] that their request is beyond the scope of our contract. (3) [Seller] often resorts to our formal contract to resolve disputes with us. (4) [Seller] often reminds us of our contract to ensure that we are meeting our obligations.	<a href="#">Jap and Ganesan (2000)</a> ; <a href="#">Lusch and Brown (1996)</a> ; <a href="#">Samaha et al. (2011)</a>
Performance	Objective and subjective assessment of financial goals or business relationships.	Annual sales, market share, and cost reduction	One item	Please describe your current financial performance compared to leading competitors.	Luo et al. (2011)
			Formative	(1) Sales level; (2) market share; (3) profitability; (4) cost leadership; (5) management of venture; (6) technology development; (7) product design; (8) quality management; (9) labor productivity; (10) marketing; (11) distribution; (12) customer service; (13) reputation; and (14) parent involvement.	<a href="#">Gong, Shenkar, Luo, and Nyaw (2007)</a> ; <a href="#">Kashyap et al. (2012)</a>
Opportunism	Self-interest seeking with guile.	Opportunistic behavior, shirking, and perceptions of opportunistic behavior	Reflective	(1) In order to maintain our goals, we occasionally find it necessary to neglect some of our obligations to our headquarters. (2) We sometimes breach formal agreements for our benefit. (3) We have sometimes promised our franchisor that we would do things, though we actually had no intention of following through. (4) To get the needed support from our franchisor, we sometimes overstate the difficulties that our franchise faces. (5) Sometimes we have had to alter the facts slightly in order to get what we need from our franchisor. (6) On occasion we have had to lie to our franchisor about certain things in order to protect our interests. (7) We sometimes may hold back information that is important to us.	<a href="#">Williamson (1981)</a> ; <a href="#">Kashyap et al. (2012)</a>
Relationship quality	The overall strength of an exchange relationship; or a relationship is characterized by high levels of satisfaction, trust, commitment.	Relationship strength, relationship closeness, and network embeddedness	Reflective	(1) Our firm worked very intensively with one or more partners of this supplier. (2) Our firm had a very close relationship with one or more partners	<a href="#">Wuyts and Geyskens (2005)</a>

(continued on next page)

Table 1 (continued)

Constructs	Definitions	Common aliases	Measure types	Representative measures	Representative papers
				of this supplier. (3) Our firm's relationship with the partners of this supplier was arm's length, purely restricted to executing transactions (reverse coded). (4) Our firm had a very collaborative relationship with one or more partners of this supplier, like a real team.	
			Formative	Trust: (1) This supplier keeps the promises it makes to our firm. (2) We believe the information this supplier gives us... Satisfaction: How satisfied are you with (1) Your personal dealings with the sales representative. (2) The income received from the sale of X's products... Commitment: (1) We intend to maintain our relationship with this supplier for as long as possible...	Burkert, Ivens, and Shan (2012); Jap and Ganesan (2000); De Vries, Schepers, Van Weele, and Van Der Valk (2014)
Trust	Firms' belief of their partners' honesty and/or competence.	Trust-based governance, trustworthiness, relational trust, relational reliability, and socially-oriented trust	Reflective	(1) Our business relationship is characterized by a high level of trust. (2) This supplier is trustworthy. (3) This supplier has always been evenhanded in its negotiations with us.	Cavusgil, Deligonul, and Zhang (2004); Liu, Li, and Zhang (2010)
			Formative	Goodwill trust: (1) The partner is very honest. (2) The partner has a good reputation. Competence trust: (1) The partner is very capable of performing its. The partner is very capable of performing its job. (2) The partner shows very rich professional knowledge in the process of cooperation.	Jiang, Li, Gao, Bao, and Jiang (2013)
Satisfaction	Firms' positive affective assessments of their business relationships.	Relationship satisfaction and relational satisfaction	Reflective	(1) How satisfied are you with the business performance of this foreign distributor? (2) How satisfied are you with the territorial coverage provided by this foreign distributor for your products?	Gençtürk and Aulakh (2007); Schul, Little, and Pride (1985)
Commitment	Firms' desire to stable and long-term business relationships.	Long-term orientation and relationship continuity	Reflective	(1) We expect our relationship with this supplier to continue a long time. (2) Our relationship with this supplier is enduring. (3) We are loyal to this trading partner, because we like continuing to cooperate with them.	Cai, Yang, and Hu (2009); Liu et al. (2010)
Relational norms	The shared and mutual expectations between business partners about their behaviors; the combination of sub-constructs solidarity, flexibility, and information sharing.	Relational behavior, relational contracting, relational governance, solidarity, flexibility, and information exchange	Reflective	(1) This partner actively participates in our sales policy-making process. (2) The two sides are flexible to deal with unanticipated emergencies. (3) Our ideas for improving sales and services are welcomed by this partner. (4) The two sides work together to resolve the problems caused by whichever party.	Luo et al. (2011)
			Formative	Solidarity: (1) Both parties in this relationship do not mind owing each other favors... Flexibility: (1) Our major supplier is flexible in dealing with us... Information exchange: (1) Our major supplier will provide us any information that might be helpful...	Antia and Frazier (2001); Kashyap and Murtha (2017); Lusch and Brown (1996)

contracting law are grounded in the desire to maintain the relationship. Contract specification promotes relational norms designed to preserve the relation and lower conflict.

Although TCE and relational contract theory both attend to managing transactions, relational contracting theory places heavier emphasis on efforts to maintain the relationship. Consistent reference to an agreement may undermine a relationship by signaling mistrust and leading to perfunctory execution of contractual obligations. When contractual enforcement degrades the relationship, trading partners may respond opportunistically (Heide et al., 2007). Therefore, relational

contracting theory suggests that contract utilization may quell organizational performance and trigger opportunism.

### 2.3. Contracts and exchange outcomes

In this section, we investigate the extent to which specificity and utilization influence economic and relational outcomes examined in prior exchange relationship research. The outcomes relevant to research include economic performance, opportunism, relationship quality, and norms. Fig. 1 summarizes the proposed relationships.

2.3.1. Economic outcome: performance

Performance refers to the economic outcomes realized in a relationship. From a TCE perspective, drafting a contract is viewed as an *ex ante* investment to reduce *ex post* transaction costs associated with monitoring and opportunism (Saussier, 2000). A detailed contract provides direction that can induce compliance. Similarly, a contract may be utilized to align a partner’s behaviors. When a partner fails to achieve contractual obligations, a firm may refer to the agreed-upon contractual clauses to correct, if not punish, a partner’s actions through legal measures. Relational exchange research also suggests that specificity and utilization influence performance. In relational exchange, specificity coordinates activities and provides guidance leading to heightened satisfaction and performance.

Studies in contracting, however, have provided mixed support for this perspective. Lusch and Brown (1996) find no support for the effect of contract specificity on performance, whereas Kashyap et al. (2012) report that more complete contracts reduce monitoring and enforcement costs, which should bolster economic performance. Others argue that the cost of drafting and enforcing a contract increases as it becomes more elaborate, and the cost becomes so high that it nullifies the *ex post* savings of the contract (Saussier, 2000). Barthélemy and Quélin (2006) show that a more complete contract is associated with higher expenses in monitoring and enforcement activities because more costs are involved in enforcing contractual clauses. Because a contract outlines the shared expectations of an exchange relationship, a partner may refer to a contract for guidance. Reference to the contract, however, can lead to perfunctory efforts to fulfill the contract. Samaha et al. (2011) report a negative relationship between contractual utilization and channel member performance.

2.3.2. Relational outcomes: relationship quality and norms

There are two perspectives on the relationship between contracts and relational exchange. One perspective views contracts and relational exchange as substitutes (Dyer & Singh, 1998). Contracts are unnecessary when a relationship has developed a high level of relational norms, which are shared expectations of behavior (Heide & John, 1992). When a relationship is based upon strong norms and relationship quality, which includes trust and commitment (Garbarino & Johnson, 1999), partners will act jointly to achieve common goals and resolve problems. In line with this point of view, Lusch and Brown (1996) find that contract specificity has no effect on relational norms. In fact, some researchers suggest that a detailed contract can be harmful to a close relationship because it may be viewed as a violation of trust (Frey, 1993; Yang et al., 2011). A contract may chase out the motivation of an agent

to act on a principal’s behalf leading to non-compliance or half-hearted compliance. Studies report a negative influence of specificity on perceptions of a partner’s commitment (Jap & Ganesan, 2000) and a negative influence of utilization on cooperation and flexibility (Samaha et al., 2011). In short, contract design and usage may undermine efforts to develop relational governance (Poppo & Zenger, 2002).

On the contrary, some researchers view relational exchange and contracts as complementary (Goo, Kishore, Rao, & Nam, 2009; Poppo & Zenger, 2002). Under this perspective, these two governance mechanisms sit along two different continuums. A relationship may have strong relational norms and a detailed contract (Lusch & Brown, 1996). Specific contracts and their enforcement (i.e., utilization) enhance financial outcomes while simultaneously enhancing relational norms. By serving as a medium for communicating expectations, identify responsibilities, and coordinating behaviors, specific contracts can enhance relational norms and relationship quality, particularly in the early stages of a relationship. Similarly, utilization of the contracts provides performance feedback and facilitates bilateral communication (Crosno & Brown, 2015). These interactions can strengthen relational norms and relationship quality. Indeed, studies have shown that formal contracts have a positive effect on relational norms and other relational outcomes (Cao & Lumineau, 2015; Charterina & Landeta, 2010; Goo et al., 2009).

2.3.3. Relational outcome: opportunism

TCE and relational contracting theory both suggest that a well-drafted contract can mitigate blatant and passive forms of opportunism. A contract works as a form of vertical control by increasing a partner’s cost of being opportunistic through the threat of legal actions (Mooi & Ghosh, 2010). A more complete contract also reduces the loopholes in which a partner may take advantage. In addition, a partner may restrain from engaging in blatant opportunism when contingency clauses require a partner to adjust or re-negotiate obligations based on environmental changes.

TCE suggests that enforcement of a contract illustrates that mechanisms are in place to prevent opportunism (Williamson, 1985). Effective enforcement measures reduce the partner’s net payoff from being opportunistic (Antia, Bergen, Dutta, & Fisher, 2006). Relational contracting, however, provides alternative logic for the contract utilization-opportunism relationship. Macneil’s (1978) relational exchange perspective emphasizes the importance of maintaining a relationship. As quoted in Macaulay (Macaulay, 1963, p. 61): “...if something comes up, you get the other man on the telephone and deal with the problem. You don’t read legalistic contract clauses at each other if you ever want to do business again.” Contract utilization may undermine the relationship as frequently referring to the contract to settle disputes may be viewed as a violation of trust (Kidd & Utne, 1978). Trading partners that repeatedly encounter contract enforcement likely view the enforcement as invasive and are prone to respond with miscreant behavior (Samaha et al., 2011).

3. Moderating variables

As outlined in the previous section, empirical research reports conflicting findings between contract specificity and outcomes, as well as between contract utilization and outcomes. In this section, we present several potential moderators that may account for conflicting results in extant contracting studies (see Fig. 1). Specifically, we examine specific investments, product complexity, and relationship length as theoretically-based moderators and product type, market type, and study location as contextual moderators.

3.1. Transaction specific investments (TSIs)

TSIs are specialized assets that have less value outside of the focal relationship (Williamson, 1985). The focal firm, which invests TSIs, is locked into the relationship, and, as a result, its partner can expropriate the value of the specialized assets (Rindfleisch & Heide, 1997).

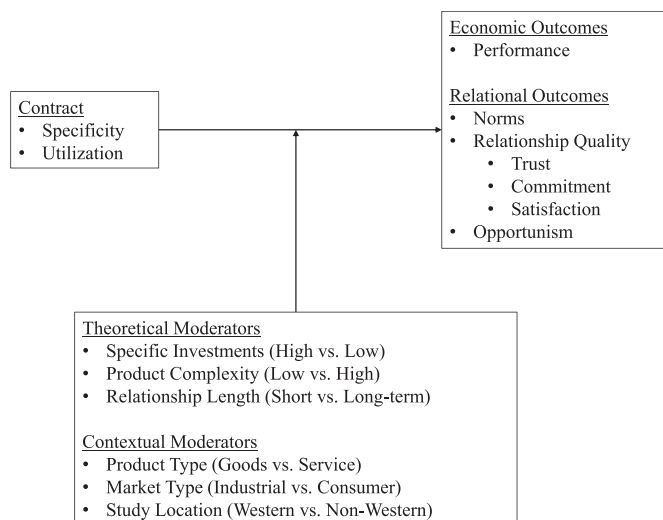


Fig. 1. Conceptual framework for meta-analysis.

Incomplete contracts are less enforceable and permit more opportunity for appropriation (Ghosh & John, 2005). To mitigate this safeguarding problem, a more detailed contract can be drafted to align the behavior of partners. Further, contracts will not only deter appropriation but they also enable exchange partners to leverage the value-creating capabilities of these assets (Ghosh & John, 1999). As a result, we expect the effect sizes of specificity and utilization with exchange outcomes to be stronger when more specific assets have been invested.

### 3.2. Product complexity

Product complexity represents a form of technological uncertainty that has implications for contractual relations (Solberg, 2008). Research has found that product complexity influences interfirm interactions and adaptations (Baptista, 2014). In general, more complex products, such as high-tech hardware and automobiles, require more interdependent exchange relationships. Extensive information exchange and interactions are required in the development, production, and distribution of complex products (Griffin, 1997; Solberg, 2008). Contracts may enhance coordination in the exchange of complex products by codifying product specifications, outlining roles and responsibilities, formalizing information exchange, and specifying adaptation processes (Poppo & Zenger, 2002). A software supplier, for example, may formalize the development schedule with project deliverables and the change request process in the contractual agreement (Crosno, Dahlstrom, & Manolis, 2015).

Specific contracts, however, may quell the flexibility needed in the exchange of complex products. Whether contracts enhance coordination or reduce flexibility may depend on the maturity of the industry. Firms operating in more mature industries may be better at accurately specifying and determining the aspects of a product or a contract. Given that most studies in our sample represent relatively mature industries, we expect to see the benefit of coordination outweigh the cost of inflexibility in these studies. Thus, we anticipate stronger effect sizes of contract specificity and utilization in the exchange of complex products (compared to non-complex products).

### 3.3. Relationship length

The maintenance of relationships is central to relational contracting theory and the history of the relationship likely influences channel outcomes. Crocker and Reynolds (1993) suggest contracts tend to become more detailed over the course of a relationship (also see Argyles, Bercovitz, & Mayer, 2007), yet these contracts may be utilized less as relational mechanisms play a larger role in governing the exchange. In the early stages of the relationship, contracts may clarify roles and responsibilities and enhance cooperation and coordination, resulting in stronger exchange outcomes. Over time, norms, trust, and commitment are cultivated through cooperative experience (Dwyer et al., 1987; Levin, Whitener, & Cross, 2006). These relational governance mechanisms may supplement or displace the utilization of formal contracts in the later stages of the relationship (Dyer & Singh, 1998), resulting in weaker effect sizes of contract specificity and utilization in the later stages of exchange relationships.

### 3.4. Product type

Goods and services differ in ways that may render a contract more or less effective in generating desirable exchange outcomes. Goods are tangible products, whose requirements and standards (e.g., quality) are more easily specified *ex ante* and evaluated *ex post* compared to services (Rushton & Carson, 1985). In addition to product specifications, roles and responsibilities to be performed to ensure a uniform offering can be more easily specified *ex ante*. Services, in contrast, are heterogeneous; service provision "...varies from producer to producer, from customer to customer, and from day to day" (Parasuraman, Zeithaml, & Berry, 1985,

p. 42). As a result, service provision is difficult to specify *ex ante* in contractual agreements. Further, services firms need more flexibility and freedom to co-create customized services with their business partners (Scheer, Miao, & Palmatier, 2015) rather than following rigid and specific contracts. Hence, we anticipate that the effect sizes of contract specificity and utilization with exchange outcomes to be stronger for goods versus services.

### 3.5. Market type

Firms operating in industrial markets require more coordinated action than firms operating in consumer markets (Palmatier, Dant, Grewal, & Evans, 2006; Skarmees, Katsikeas, Spyropoulou, & Salehi-Sangari, 2008). Therefore, firms operating in industrial markets "must combine resources and capabilities in a coordinated manner to achieve their superordinate goals" (Tong & Crosno, 2016, p. 171). As discussed earlier, specific contracts coordinate actions by stipulating the roles and responsibilities of each party; this specification of responsibilities aligns and adjusts parties' activities in a deliberate manner to obtain the superordinate goals (Gulati et al., 2012). By coordinating actions, contract specificity should yield stronger effect sizes in industrial markets than in consumer markets.

In contrast, since "working relationships" are critical to the success of firms operating in an industrial market, we anticipate that factors hindering the relationship will result in more adverse outcomes. Specifically, contract utilization may impinge upon trust and degrade the relationship (Kidd & Utne, 1978; Macaulay, 1963). As a result, we expect utilization to yield weaker effect sizes in industrial markets than in consumer markets.

### 3.6. Study location

Similar to other meta-analytic studies (e.g., Johnston, Le, & Cheng, 2017), we compared studies conducted in Western (U.S. and Europe) and Non-Western locations (e.g., China, Japan, India). These locations differ along several cultural dimensions, but two dimensions are particularly relevant to contractual agreements: individualism-collectivism and uncertainty avoidance (Hofstede, 2001). The individualism-collectivism dimension captures the extent to which a society is focused on the individual rather than the community (Hofstede, 2001; Samaha, Beck, & Palmatier, 2014). Western cultures tend to be more individualistic and "prefer arm's-length relationships that persist for self-serving (as opposed to mutually beneficial) reasons" (Samaha et al., 2014, p. 82). In contrast, Non-Western cultures tend to be more concerned about the collective well-being (Samaha et al., 2014). Non-Western cultures, therefore, may rely less on contractual agreements to secure relationship outcomes. As a result, the relationship between specificity and organizational outcomes, as well as utilization and organizational outcomes, may be weaker in studies conducted in Non-Western versus Western locations.

Uncertainty avoidance, another cultural dimension, refers to the extent to which a society tolerates uncertainty and ambiguity (Hofstede, 2001). Firms operating in locations with high uncertainty avoidance desire predictability and, therefore, would prefer rules and operating guidelines to be codified in formal contracts (Samaha et al., 2014). In contrast, firms operating in locations with low uncertainty avoidance value flexibility over formal rules and guidelines (Samaha et al., 2014). As a result, the relationship of contract specificity and utilization with organizational outcomes may be weaker in locations with low uncertainty avoidance (e.g., China) compared to high uncertainty avoidance locations.

## 4. Research method

### 4.1. Literature search

First, we searched for articles that included keywords related to

contracting in 17 relevant journals.<sup>2</sup> The keywords included contract, contract(ual) complete(ness), contract(ual) specificity, contract(ual) complexity, formalization, formal contract, and contract utilization. We found 2479 articles through the keyword search. Secondly, using an ancestry approach, we reviewed the references of these articles and identified 474 additional articles. Finally, we emailed scholars researching contracts to inquire about unpublished and work-in-progress papers and identified three additional articles.<sup>3</sup>

A study was included in the analysis if it reported an effect size (or at least sufficient information to calculate the effect size) between contract specificity and/or utilization and at least one other variable of interest (e.g., performance, opportunism, trust). Of the 474 articles, 128 examined the relationship between contract specificity and/or utilization and another variable of interest. Three articles were excluded because they did not include sufficient information to calculate an effect size (e.g., Fernandez, 2009), leaving 125 articles. Two pairs of articles from these 125 used the same data and reported on the relationships between the same variables. To maintain independence, we only retained the article that was published earlier for each pair. Therefore, our search gleaned 123 articles and one unpublished paper (see Appendix B); some articles used multiple samples (e.g., dyadic data) and some conducted multiple studies, resulting in 134 samples for the analysis (see Fig. 2).

#### 4.2. Coding

Two independent coders, with expertise in marketing relationships, coded the 128 samples. The following information was coded: sample size, Cronbach's alpha or composite reliability, effect size (or t-value and p-value), and potential moderators (e.g., product complexity, relationship length, study location, etc.). The overall agreement was 91%, and disagreements were resolved via discussion (Szymanski & Henard, 2001).

#### 4.3. Procedure

We utilized the Pearson's product-moment correlation coefficient as the effect size in this paper. We used the following procedures to calculate the effect size (Rosenthal, 1991) (see Appendix A): (1) When a study reports more than one effect size for a certain relationship between variables of interest, we calculated the mean  $r$  using Fisher's transformation. (2) To correct for measurement error, we calculated the reliability-corrected mean correlation using the attenuation formula  $r_{\tau i} = \frac{r_i}{\sqrt{\alpha_{ia}}\sqrt{\alpha_{ib}}}$  (Hunter & Schmidt, 1990) where  $r_i$  is the effect size between construct a and b in study  $i$ , and  $\alpha_{ia}$  and  $\alpha_{ib}$  are the reliabilities of construct a and b in this study. (3) To correct for sampling error, we calculated the sample-weighted, reliability-corrected  $r$  via the corrected correlation coefficients (Hunter & Schmidt, 1990).

Next, we performed an outlier analysis on the reliability-corrected effect sizes via box-and-whisker plots (Tukey, 1977). We found three outliers for contract specificity—two outliers for the relationship between contract specificity and opportunism, and one outlier for the relationship between contract specificity and norms. We identified five outliers for contract utilization—three for the relationship between contract utilization and performance, one for contract utilization and relationship quality, and one for contract utilization and norms. Since

<sup>2</sup> Management Science, Academy of Management Journal, Industrial Marketing Management, Journal of Marketing, Journal of Marketing Research, Journal of the Academy of Marketing Science, Administrative Science Quarterly, Journal of Retailing, Journal of Personal Selling and Sales Management, Marketing Science, Strategic Management Journal, European Journal of Marketing, Journal of Business Research, International Journal of Research in Marketing, Journal of Product and Innovation Management, Journal of Service Research, and Marketing Letters.

<sup>3</sup> Only one of the three unpublished papers was included in the analysis. Two of the three unpublished, contracting papers did not measure another variable of interest (e.g., performance, opportunism).

outliers might skew the results of the meta-analysis, they were excluded from the analysis (Behrens, 1997). With the deletion of these outliers, the analysis included 242 effect sizes. The sample sizes ranged from 61 to 1457, and the total sample size (i.e., combined N) was 33330.

We then calculated the Chi-square for association ( $df = 1$ ), 95% confident intervals of the sample-weighted, reliability-corrected correlations, and the fail-safe  $N_s$  (Crosno & Brown, 2015; Palmatier et al., 2006). We also conducted Chi-square tests of homogeneity to test for the presence of moderators (Hunter & Schmidt, 1990). We conducted moderator analyses for correlations with significant heterogeneity (i.e., when the Chi-square value was significant). Focused contrasts were used to determine if the moderator significantly influenced the pairwise relationship (Rosenthal, 1991).

## 5. Results

### 5.1. Do contracts generate positive outcomes?

Table 2 reports the meta-analytic results for contracts (in general) and economic and relational outcomes. Contracts are related positively to performance ( $r = 0.25$ ,  $p < .01$ ), relationship quality ( $r = 0.24$ ,  $p < .01$ ), trust ( $r = 0.27$ ,  $p < .01$ ), commitment ( $r = 0.94$ ,  $p < .01$ ), satisfaction ( $r = 0.92$ ,  $p < .01$ ), and relational norms ( $r = 0.32$ ,  $p < .01$ ). Contracts are positively related to opportunism ( $r = 0.02$ ,  $p < .05$ ). In general, the results suggest that contracts yield desirable outcomes with the exception of opportunism.

The chi-square tests of homogeneity indicate that there is significant variation in the univariate results; hence, moderator analyses are conducted to identify the source(s) of heterogeneity in these effect sizes. We first examine the potential differential effects of contract specificity versus contract utilization.

### 5.2. What are the influences of contract specificity and utilization on organizational outcomes?

As Tables 3 and 4 show, specificity and utilization influence the outcomes differently. First, specificity is related positively and more strongly to performance than utilization ( $r = 0.27$  and  $r = 0.19$ , respectively,  $p < .01$ ). Second, specificity is related negatively to opportunism ( $r = -0.11$ ), yet utilization is related positively to opportunism ( $r = 0.28$ ,  $p < .01$ ). Third, contract specificity is related positively, and marginally stronger to relationship quality ( $r = 0.25$ ) than contract utilization ( $r = 0.22$ ,  $p < .10$ ). Lastly, utilization is related positively and more strongly to relational norms than specificity ( $r = 0.46$  and  $r = 0.28$ , respectively,  $p < .01$ ).

### 5.3. What theoretical and contextual factors influence the effectiveness of contract specificity and utilization?

The chi-square tests of homogeneity of the relationships between the contract variables (i.e., specificity and utilization) and constructs of interest are all significant (see Table 4), suggesting that moderator analyses are needed to explain the heterogeneity in effect sizes. Therefore, this study also examined the moderating effects of theoretical factors (TSI's, product complexity, and relationship length) and contextual variables (product type, market type, and study location). See Table 5 for moderator results.

#### 5.3.1. Transaction specific investments (TSIs)<sup>4</sup>

Specificity exhibits a stronger relationship with performance and

<sup>4</sup> To examine the moderating effects of transaction specific investments (TSIs) on the correlations of contract specificity/utilization and constructs of interest, we classified TSIs into low versus high levels based on the median split of TSIs adjusted for different scale points.

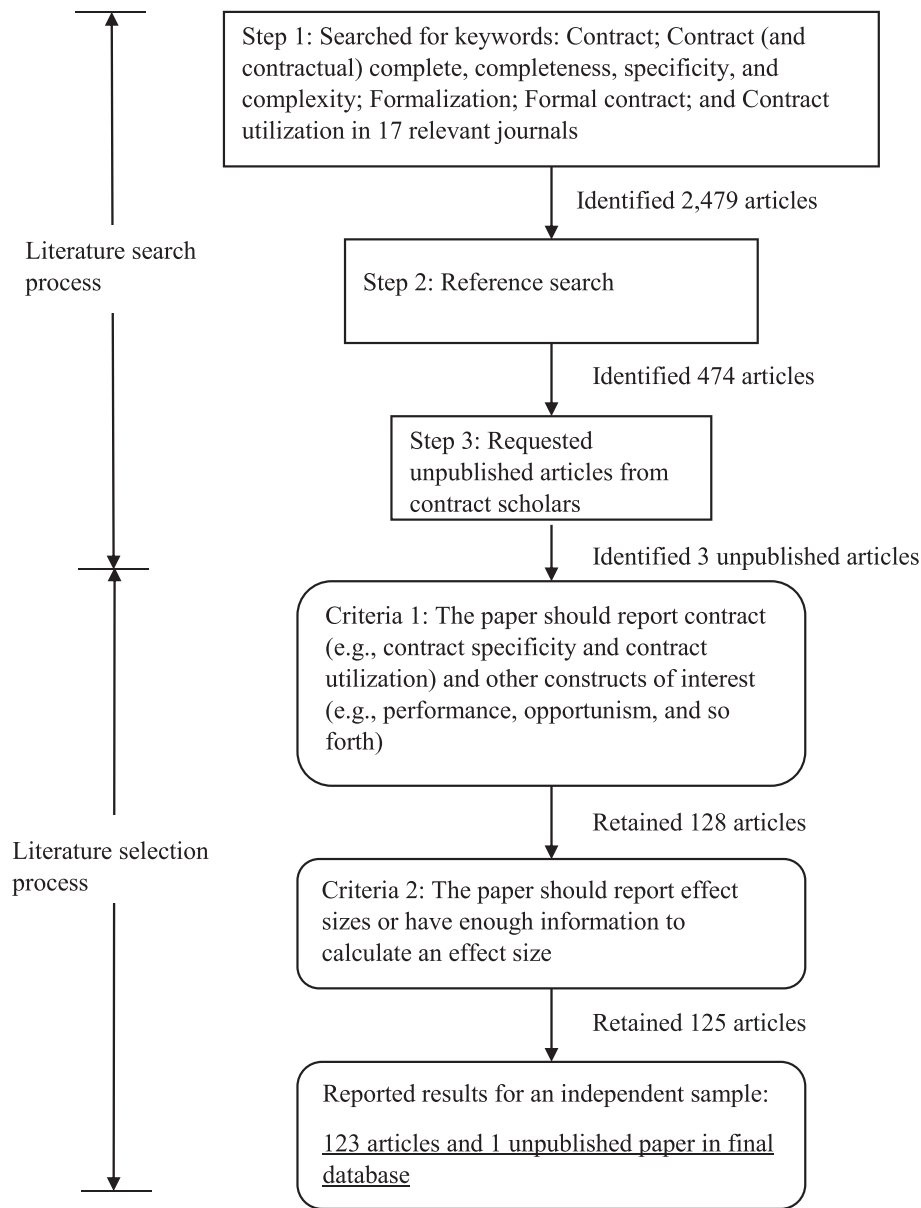


Fig. 2. Literature search and selection process.

Table 2  
Univariate results for contract.

Relationship	<i>k</i> <sup>a</sup>	Total N	Simple Average <i>r</i>	Average <i>r</i> Corrected for Reliability	Sample-weighted Reliability-corrected <i>r</i>	$\chi^2$ for Association (d. f. = 1)	95% CI Lower Bound <sup>b</sup>	95% CI Upper Bound	Fail-safe N	Q-Statistic for Homogeneity Test (d.f.)
Contract-Performance	70	17,621	0.21	0.26	0.25	1150.70	0.24	0.27	25220.80	942.01 (69)
Contract-Opportunism	28	6,516	-0.02	-0.02	0.02	3.97	0.00 <sup>c</sup>	0.05	326.89	681.01 (27)
Contract-Relationship quality	76	18,304	0.19	0.23	0.24	1104.80	0.23	0.26	23548.41	1355.99 (75)
Contract-Trust	58	12,973	0.16	0.24	0.27	948.50	0.25	0.28	12465.41	974.80 (57)
Contract-Commitment	14	4,338	0.21	0.48	0.94	5733.44	0.94	0.95	151.39	22,240.11 (13)
Contract-Satisfaction	10	4,726	0.23	0.58	0.92	12,259.41	0.92	0.93	49.55	23,577.93 (9)
Contract-Norms	52	12,290	0.23	0.35	0.32	1373.02	0.31	0.34	15437.29	5203.85 (51)

<sup>a</sup> *k* = number of studies.

<sup>b</sup> Confident interval for sample weighted reliability-corrected *r*.

<sup>c</sup> The lower bound for Contract-Opportunism is a positive value but rounds to zero.



**Table 3**  
Contract results moderated by contractual dimension<sup>a</sup>.

Moderated relationship	<i>k</i> <sup>b</sup>	Contract dimension	
		Contract specificity	Contract utilization
Contract-Performance	70	0.27*** (58)	0.19*** (12)
Contract-Opportunism	28	-0.11*** (21)	0.28*** (7)
Contract-Relationship Quality	76	0.25* (63)	0.22* (13)
Contract-Norms	52	0.28*** (39)	0.46*** (13)

\* *p* < .10.

\*\*\* *p* < .01.

<sup>a</sup> Each cell includes the average effect size for different moderator levels and the number of effect sizes for each level in parentheses. The *p*-value tests whether effect sizes are significantly different for contract specificity versus utilization.

<sup>b</sup> *k* = number of studies.

**Table 4**  
Univariate results for contract specificity (CS) and contract utilization (CU).

Relationship	<i>k</i> <sup>a</sup>	Total N	Simple Average <i>r</i>	Average <i>r</i> Corrected for Reliability	Sample-weighted Reliability-corrected <i>r</i>	$\chi^2$ for Association (d. f. = 1)	95% CI Lower Bound <sup>b</sup>	95% CI Upper Bound	Fail-safe N	Q-Statistic for Homogeneity Test (d. f.)
CS-CU	3	750	0.56	0.63	0.63	398.59	0.58	0.67	312.75	16.40 (2)
<i>Contract specificity</i>										
CS-Performance	58	13,575	0.21	0.26	0.27	1023.43	0.25	0.29	17,251.00	772.62 (57)
CS-Opportunism	21	4,282	-0.05	-0.06	-0.11	51.48	-0.14	-0.08	178.62	86.20 (20)
CS-Relationship Quality	63	15,051	0.19	0.23	0.25	947.52	0.23	0.26	16,181.06	1197.65 (62)
CS-Trust	46	9,889	0.20	0.24	0.28	822.71	0.26	0.30	1405.04	799.67 (45)
CS-Commitment	12	2,567	0.16	0.18	0.17	1035.08	0.13	0.20	281.22	144.45 (11)
CS-Satisfaction	8	3,100	0.15	0.17	0.11	37.38	0.07	0.14	29.09	171.72 (7)
CS-Norms	39	8,752	0.22	0.27	0.28	689.08	0.26	0.29	8056.58	370.29 (38)
<i>Contract utilization</i>										
CU-Performance	12	4,046	0.20	0.25	0.19	148.88	0.16	0.22	742.44	147.79 (11)
CU-Opportunism	7	2,234	0.07	0.07	0.28	177.02	0.24	0.31	89.16	370.27 (6)
CU-Relationship Quality	13	3,253	0.17	0.21	0.22	159.60	0.19	0.25	669.57	156.01 (12)
CU-Trust	12	3,084	0.16	0.20	0.21	139.42	0.18	0.24	532.64	161.51 (11)
CU-Commitment	2	1,771	0.47	0.99	1.00	29,604.49	1.00	1.00	740.71	156,039.66 (1)
CU-Satisfaction	2	1,626	0.52	0.99	1.00	32,431.74	1.00	1.00	729.46	3233.87 (1)
CU-Norms	13	3,538	0.28	0.61	0.46	869.94	0.43	0.49	1607.03	4850.85 (12)

<sup>a</sup> *k* = number of studies.

<sup>b</sup> Confident interval for sample weighted, reliability-corrected *r*.

relationship quality for high levels of TSIs (*r* = 0.25 and *r* = 0.26, respectively) than for low levels of TSIs (*r* = 0.13 and *r* = 0.13, both *p* < .01). Specificity exhibits a negative relationship with opportunism at high levels of TSIs (*r* = -0.04) and a positive relationship at low levels of TSIs (*r* = 0.13, *p* < .01). TSIs do not moderate the relationship between specificity and norms (low TSIs: *r* = 0.25; high TSIs: *r* = 0.31, *p* > .10).

By contrast, a stronger positive relationship between contract utilization and performance is realized under low levels of TSIs (*r* = 0.31) compared to high levels of TSIs (*r* = 0.19, *p* < .05). Utilization shows a stronger positive correlation with relationship quality for high levels of TSIs (*r* = 0.32) than for low levels of TSIs (*r* = 0.04, *p* < .01). Lastly, TSIs do not significantly moderate the effect size between contract utilization and norms (low TSIs: *r* = 0.10; high TSIs: *r* = 0.13, *p* > .10).

### 5.3.2. Product complexity

Product complexity is a statistically significant moderator for the

effects of contract specificity on performance and norms. Specificity exhibits a stronger positive relationship with performance for high levels of product complexity than for low levels of product complexity (*r* = 0.26 and *r* = 0.18, *p* < .01). Specificity, in contrast, shows a weaker positive relationship with norms for high versus low levels of product complexity (*r* = 0.20 and *r* = 0.33, *p* < .01). Product complexity does not moderate the relationships between specificity and opportunism or relationship quality (low: *r* = -0.05, and *r* = 0.22, respectively; high: *r* = -0.10, and *r* = 0.19, respectively, both *p* > .10).

Product complexity moderates the effects of contract utilization on opportunism and norms. First, the relationship between contract utilization and opportunism is negative for low levels of product complexity (*r* = -0.21) and positive for high levels of product complexity (*r* = 0.32, *p* < .01). Second, contract utilization has a stronger positive relationship with norms for low levels of product complexity (*r* = 0.77) than for high

levels of product complexity (*r* = 0.13, *p* < .01). Finally, product complexity does not moderate significantly the relationship between contract utilization and performance and relationship quality (*r* = 0.29 and *r* = 0.28 for low, and *r* = 0.28 and *r* = 0.29 for high levels of product complexity, respectively, both *p* > .10).

### 5.3.3. Relationship length<sup>5</sup>

Contract specificity exhibits stronger positive relationships with performance and relationship quality in long-term relationships (*r* = 0.33 and *r* = 0.34) than in short-term relationships (*r* = 0.08 and *r* = 0.23, respectively, *p* < .01). Similarly, long-term relationships yield a

<sup>5</sup> To investigate the moderating effect of relationship length on the correlations of contract specificity/utilization and constructs of interest, we used the median of relationship length to separate relationships into short- versus long-term relationships.

**Table 5**  
Theoretical/contextual moderators results<sup>a</sup>.

Moderated Relationship	k <sup>b</sup>	TSIs		Product Complexity		Product Type		Market Type		Study Location		Relationship Length	
		Low	High	Low	High	Good	Service	Consumer	Industrial	Western	Non-Western	Short	Long
<b>CS<sup>c</sup></b>													
CS-PERF	58	0.13*** (7)	0.25*** (8)	0.18*** (12)	0.26*** (11)	0.25 (34)	0.26 (9)	0.28 (8)	0.24* (18)	0.16*** (23)	0.32*** (33)	0.08*** (10)	0.33*** (14)
CS-OPPT	21	0.13*** (3)	-0.04*** (4)	-0.05 (3)	-0.10 (5)	-0.08 (12)	-0.03 (3)	0.00 (2)	-0.04 (4)	0.03*** (11)	-0.15*** (9)	-0.08* (4)	-0.28** (1)
CS-RQ	63	0.13*** (11)	0.26*** (8)	0.22 (18)	0.19 (6)	0.27 (35)	0.24 (13)	0.34*** (9)	0.21*** (21)	0.14*** (30)	0.30*** (29)	0.23*** (14)	0.34*** (8)
CS-NORM	39	0.25 (2)	0.31 (6)	0.33*** (9)	0.20*** (8)	0.28 (20)	0.29 (8)	0.32 (5)	0.28 (13)	0.22*** (23)	0.38*** (13)	0.25 (6)	0.23 (10)
<b>CU</b>													
CU-PERF	12	0.31** (2)	0.19** (3)	0.29 (3)	0.28 (3)	0.15*** (7)	0.35*** (3)	0.15** (2)	0.28** (3)	0.30 (6)	0.29 (4)	0.03*** (3)	0.42*** (2)
CU-OPPT	7	-	-	-0.21*** (2)	0.32*** (2)	0.27 (5)	0.30 (2)	-0.03 (2)	0.04 (3)	0.22*** (3)	-0.20*** (3)	-	-
CU-RQ	13	0.04*** (1)	0.32*** (4)	0.28 (5)	0.29 (1)	0.21 (8)	0.26 (3)	0.29** (4)	0.44* (1)	0.04*** (5)	0.38*** (7)	0.32*** (2)	0.02*** (1)
CU-NORM	13	0.10 (2)	0.13 (4)	0.77*** (7)	0.13*** (3)	0.05*** (4)	0.92*** (5)	0.22	0.65*** (5)	0.31*** (6)	0.80*** (5)	0.28*** (1)	0.76*** (3)

\* p < .10.  
\*\* p < .05.  
\*\*\* p < .01.

<sup>a</sup> Each cell includes the average effect size for different moderator levels and the number of effect sizes for each level in parentheses. Dashes indicate that we did not conduct moderator analysis since there are too few studies in one or two levels for that moderator. The p-value tests whether the effect sizes are significantly different under different moderator levels.

<sup>b</sup> k = number of studies.

<sup>c</sup> CS: Contract specificity; CU: Contract utilization; PERF: Performance; OPPT: Opportunism; RQ: Relationship quality; and NORM: Norms.

stronger negative correlation between contract specificity and opportunism ( $r = -0.28$ ) than short-term relationships ( $r = -0.08$ ,  $p < .05$ ). Finally, relationship length does not moderate significantly the relationship between contract specificity and norms (long-term:  $r = 0.23$ ; short-term:  $r = 0.25$ ;  $p > .10$ ).

Relationship length moderates the relationship between utilization and performance, relationship quality, and norms. Utilization has a stronger relationship with performance and norms for long-term relationships ( $r = 0.42$  and  $r = 0.76$ , respectively) than short-term relationships ( $r = 0.03$  and  $r = 0.28$ , respectively, both  $p < .01$ ). In contrast, utilization and relationship quality exhibit a stronger positive correlation in short-term relationships ( $r = 0.32$ ) than long-term relationships ( $r = 0.02$ ,  $p < .01$ ).

5.3.4. Product type

Product type (goods vs. services) does not significantly moderate the relationships between contract specificity and any of the outcomes. Specifically, contract specificity exhibits similar relationships with performance, opportunism, relationship quality, and norms for goods ( $r = 0.25$ ,  $r = -0.08$ ,  $r = 0.27$ , and  $r = 0.28$ , respectively) and services ( $r = 0.26$ ,  $r = -0.03$ ,  $r = 0.24$ , and  $r = 0.29$ , respectively, all  $p > .10$ ).

However, product type moderates significantly the relationships between contract utilization and performance and norms. Specifically, contract utilization exhibits stronger positive relationships with performance and norms for services ( $r = 0.35$  and  $r = 0.92$ , respectively) than for goods ( $r = 0.15$  and  $r = 0.05$ , respectively, both  $p < .01$ ). The moderating effects of product type on the relationships between contract utilization and opportunism and relationship quality (goods:  $r = 0.27$  and  $r = 0.21$ ; services:  $r = 0.30$  and  $r = 0.26$ , both  $p > .10$ ) are not statistically significant.

5.3.5. Market type

Market type moderates significantly the effects of contract specificity and utilization in an unexpected manner. We posited that contract specificity, serving as a coordinating function, would yield stronger effect sizes in industrial markets. We found, however, that contract specificity has a stronger positive relationship with performance in consumer markets ( $r = 0.28$ ) than in industrial markets ( $r = 0.24$ ,  $p < .10$ ). Similarly, contract specificity has a stronger positive relationship with relationship quality in consumer markets ( $r = 0.34$ ) than in industrial markets ( $r = 0.21$ ,  $p < .01$ ).

Contract utilization, in contrast, yielded stronger effect sizes in industrial markets. The relationship between contract utilization and performance was positive, and stronger, in industrial markets versus consumer markets ( $r = 0.28$  and  $r = 0.15$ , respectively,  $p < .05$ ). Contract utilization also has a stronger positive relationship with relationship quality and norms in industrial markets ( $r = 0.44$  and  $r = 0.65$ , respectively) than in consumer markets ( $r = 0.29$  and  $r = 0.22$ , respectively,  $p < .01$ ).

5.3.6. Study location<sup>6</sup>

Study location moderates significantly the effects of contract specificity and contract utilization on all pairwise relationships of interest except for the correlation between contract utilization and performance. First, contract specificity has stronger positive relationships with performance, relationship quality, and norms in the Non-Western countries ( $r = 0.32$ ,  $r = 0.30$ , and  $r = 0.38$ , respectively) than in the Western countries ( $r = 0.16$ ,  $r = 0.14$ , and  $r = 0.22$ , respectively, all  $p < .01$ ). Second, contract specificity is related negatively to opportunism in Non-Western countries ( $r = -0.15$ ), yet it is related positively to opportunism in Western countries ( $r = 0.03$ ,  $p < .01$ ).

Similarly, contract utilization yielded more desirable outcomes in

<sup>6</sup> Western countries included USA, Canada, Australia, Netherlands, Germany, and Finland. Non-Western countries included China, Japan, and South Korea.

Non-Western countries than in Western countries in terms of opportunism, relationship quality, and norms (Non-Western countries:  $r = -0.20$ ,  $r = 0.38$ , and  $r = 0.80$ , respectively; Western countries:  $r = 0.22$ ,  $r = 0.04$ , and  $r = 0.31$ , respectively, all  $p < .01$ ). Study location does not moderate the relationship between contract utilization and performance significantly ( $r = 0.30$  for Western and  $r = 0.29$  and Non-Western countries,  $p > .10$ ).

## 6. Discussion

While explicit contracts can guide and coordinate behaviors of exchange partners, some argue that the costs may outweigh the benefits and others believe that contracts may not even be necessary (e.g., Macaulay, 1963). By quantitatively summarizing research on specificity and utilization, we conclude that having a contract is valuable and that the benefits of a contract generally outweigh its costs. Our findings suggest that contracts generally have a desirable impact on exchange relationships. Contracts enhance economic performance, relationship quality, and relational norms, yet contracts promote opportunism. Delving into the facets of contracts, contract specificity and utilization influence opportunism differentially. Whereas contract specificity decreases opportunism, contract utilization increases opportunism.<sup>7</sup>

We further advance the literature by examining whether the effects of contract specificity and utilization on the economic and relational outcomes are contingent on the exchange contexts. Supporting the TCE perspective, our results suggest that a detailed contract can safeguard transaction specific investments (TSIs) put forth by exchange parties and lead to more positive economic and relational outcomes. A contract that has an extensive list of rules specifying the employment and management of TSIs may help exchange parties better leverage these investments in value creation. A detailed contract may also alleviate exchange parties' suspicion about the exploitation of TSIs, which helps to improve relationship quality and cultivate relational norms. A formal contract, however, acts as a double-edged sword. When TSIs are high, the stakes are higher when an exchange partner manages the transaction through legal recourse. With a high level of TSIs, the utilization of a contract diminishes economic performance.

Consistent with the notion that explicit and implicit contracts are complementary, our findings suggest that the use of a contract can benefit an exchange relationship that is tightly-knit or has a long history. A contract outlines expected contributions and aligns the activities of exchange parties. Contracts help to fill gaps in relational governance when unforeseen circumstances arise. The role of relationship marketing is crucial in Asian countries as exemplified by the notion of *guanxi* in China and the practice of the *keiretsu* system in Japan (Samaha et al., 2011). Contrary to our expectations, our findings suggest a detailed contract and contract utilization produce more desirable economic and relational outcomes in Non-Western countries, where business relationships often have close ties. Similarly, we observe a consistent pattern that the use of contracts drives better performance and relational outcomes for longer relationships (i.e., relationships in the later stages of the life cycle). Overall, the findings indicate a complementary role of explicit contracts in relational exchange.

We also examine whether the effects of contract specificity and utilization on exchange outcomes are contingent on the types of product under study. Our results show that when a product offering is complex, contract specificity leads to better financial performance but may lead to poorer relational outcomes. A specific contract can coordinate interdependent tasks between exchange parties to achieve better efficiency for complex product offerings. However, exchange parties may find that pre-determined, specific procedures and responsibilities outlined in

contracts limit autonomy and flexibility in the provision of complex products. Exchange parties may also feel upset when contractual terms are utilized to manage a transaction that involves complex products. Our findings suggest that contract utilization triggers opportunism when products are complex, potentially through reactance effects (Brehm, 1966). In general, the specification and utilization of a contract for complex products may improve the bottom line yet may harm exchange relationships.

With increasing use of service transition strategies (Fang, Palmatier, & Steenkamp, 2008), managers should be cognizant of the benefits of utilizing contracts in a service setting. Interestingly, specificity does not impact the outcomes differentially for goods versus services. By contrast, utilization increases performance and strengthens relational norms for service (versus goods) transactions. Contract utilization is also more beneficial in industrial (versus consumer) markets, resulting in higher levels of performance, relationship quality, and relational norms. While research suggests that utilization or enforcement of contractual clauses may provoke reactance effects (Brehm, 1966; Frey, 1993), our results demonstrate that utilization yields better performance and relationship quality in some settings.

In sum, these results suggest that explicit contracts can be valuable, and their benefits appear to outweigh their costs. We find that contracts can be used to safeguard TSIs, which leads to more favorable financial and relational outcomes, as predicted by TCE. Our findings are also consistent with the notion that explicit contracts complement implicit contracts. Exchange relationships governed by relational norms perform better when they are also guided by formal contracts. Lastly, the effects of contracts on exchange outcomes are contingent on the types of products and markets used in the research studies.

## 7. Managerial implications

Although specific contracts may provide economic and relational benefits, managers should use discretion when determining the level of detail in a contract. Consistent with TCE logic, managers are advised to draft more specific contracts when TSIs are being investing into the relationship to secure higher economic and relational outcomes. Similarly, specific contracts are related more strongly to economic performance for firms producing complex products. Managers should be cognizant, however, that specific contracts can undermine relational norms for these types of transactions. Therefore, managers should strive to foster the development of norms, trust, and commitment when producing complex products under specific contracts.

Managers are advised that overreliance on contracts hinders performance and exacerbates opportunism for services and complex products, respectively. Services and complex product transactions may benefit from less contract utilization due to the need for adaptability. Sellers, for example, often have to alter their course of action based on buyer feedback in the service provision process (Scheer et al., 2015). Under these circumstances, managers should refrain from following the contracts to the letter. By contrast, they should consider a specific contract that provides a blueprint or direction yet allows for more autonomy in fulfilling the agreement.

Contrary to our expectations, managers should (should not) use specific, detailed contracts for channel relationships located in Non-Western (Western) countries, as doing so enhances (hinders) economic and relational outcomes. As for utilization, managers of channel relationships in Non-Western countries can decrease opportunism and enhance relational outcomes by utilizing the contract. Together, our results suggest that managers in Non-Western countries should develop specific contracts and utilize these contracts in their channel relationships. Managers in Western countries, in contrast, should use contracts more sparingly to yield the optimal outcomes.

Lastly, it is important for managers to note that specific contracts and contract utilization become even more integral as the relationship ages. Specific contracts are more strongly associated with economic and

<sup>7</sup> Few studies examined these dimensions simultaneously. Future research may benefit from examining the interaction effects of contract specificity and utilization on relationship outcomes.

relational outcomes later in the relationship, whereas contract utilization is more strongly associated with economic performance. Many relationships may shift away from contractual governance over the long-term (Macaulay, 1963), but this opens the door to potential shirking and exploitation. Utilizing specific contracts may provide guidance and direction and keep opportunistic tendencies in check over the course of the relationship.

**8. Limitations and future directions**

The meta-analytic results should be tempered by the following limitations. We limited our study to variables studied most frequently with contract specificity and contract utilization. As a result, the outcomes examined in our study are only a subset of potentially relevant outcomes. Future research may benefit from examining other outcomes (e.g., conflict, compliance, innovation), as well as other potential moderators (e.g., subjective versus objective performance). Relatedly, some of the relationships examined (e.g., contract utilization and satisfaction) suffer from small numbers. Hence, we grouped relationship quality variables (i.e., commitment, trust, and satisfaction) for the moderator analyses. As more studies accrue on contracting, examining these facets of relationship quality separately may add to our understanding of how contract specificity and utilization impact each facet under various moderating conditions.

The results do not offer a clear path concerning the governance recommendations outlined in TCE and relational contracting theory. The predictions concerning the influence of specificity are consistent with both theories, yet the influence of utilization is enigmatic. Consistent with TCE, utilization enhances relationship quality and performance. TCE calls for higher levels of enforcement to ensure asset viability, yet contrary to TCE logic, utilization raises the level of opportunism. Relational contracting theory suggests that utilization can lead to alienation which manifests in opportunistic behaviors, which bears out in the results. But the results do not support the argument that

utilization engenders mistrust and hinders relational quality. Future research, therefore, should strive to understand what explanatory mechanisms account for the positive relationship between utilization and opportunism.

The inconsistent findings suggest that prior research is not equivocal in empirical assessments of the efficacy of contract specificity and utilization. Although few studies have simultaneously examined contract specificity and utilization, research would benefit from exploring how *ex ante* specifications influence *ex post* utilization. Information overload research indicates that as information increases, individuals become overwhelmed, resulting in reduced productivity and performance (Jackson & Farzaneh, 2012). Thus, the level of specificity likely influences utilization and moderates the effect of utilization on organizational outcomes. Simultaneous analysis of these constructs provides the opportunity to examine more complex effects of contracts unaddressed in extant research. In addition, future research should consider the specificity and utilization of outcome versus behavioral-based contracts. A firm’s contracts may emphasize outcome or behavioral factors in its design and implementation (Heide et al., 2007). The alignment of expectations—whether outcome or behavioral-based—and their utilization have potential to contribute to managerial thought and governance theory (Kumar, Wathne, & Heide, 2001).

**9. Conclusion**

The aim of our study was to quantitatively review contracting literature to shed light on the contradictory results reported in extant research. Except for the positive relationship between contract utilization and opportunism, our findings suggest that contract specificity and utilization enhance economic performance and relational outcomes. We identify several moderators that impact the effectiveness of contract specificity and utilization. We hope these findings stimulate additional discussion and research on the design and use of contracts in exchange relationships.

**Appendix A. Technical appendix**

1. In this paper, we report the sample-weighted, reliability-corrected mean correlation ( $r_{cw}^-$ ). The raw correlations from the samples are corrected following the four-step procedure below:
  - (1) We employ an attenuation formula,  $r_{c;i} = \frac{r_i}{\sqrt{\alpha_{ia} \alpha_{ib}}}$ , to correct for the measurement error (Hunter & Schmidt, 1990), where  $r_i$  is the raw correlation of constructs a and b,  $\alpha_{ia}$  is the reliability of construct a, and  $\alpha_{ib}$  is the reliability of construct b, indexed by study i.
  - (2) We then transform the reliability-corrected correlations,  $r_{c, i}$  to Fisher’s z scores,  $z_{c, i}$ .
  - (3) To adjust for sampling error, we calculate the mean Fisher’s z scores using the formula outlined by Rosenthal (1991):

$$\bar{z}_{cw} = \frac{\sum_{i=1}^K [(N_i - 3) * z_{c,i}]}{\sum_{i=1}^K (N_i - 3)}$$

where K is the number of studies of this meta-analysis.

- (4) Lastly, we use Fisher’s inverse to transform the mean Fisher’s z scores,  $\bar{z}_{cw}$ , to obtain the sample-weighted, reliability-corrected mean correlations,  $r_{cw}^-$ .
2. Chi-square for associations (*df* = 1) are calculated using the following formula (Palmatier et al., 2006):

$$\chi^2_{(1)} = \bar{z}_{cw}^2 \left[ \sum_{i=1}^K (N_i - 3) \right]$$

3. We calculate the Fail-safe Ns using the following equation proposed by Rosenthal (1979):

$$x_i = \frac{K \left[ K \bar{Z}^2 - 2.706 \right]}{2.706}$$

where each  $Z_i = r_{c,i} \sqrt{N_i}$  and  $\bar{Z} = \frac{\sum_{i=1}^K Z_i}{K}$ .

- We compute the confidence intervals of the sample-weighted, reliability-corrected mean correlations using the formulas below and then transforming the calculated Fisher's z scores to correlations.

$$\text{Lower bound : } CI_L = z_{\text{rw}} - 1.96 / \sqrt{N - 3K}$$

$$\text{Upper bound : } CI_U = z_{\text{rw}} + 1.96 / \sqrt{N - 3K}$$

- We calculate the Q-statistic for homogeneity using the following equation (Hunter & Schmidt, 1990):

$$\chi^2_{(K-1)} = \sum_{i=1}^K \left[ (N_i - 3) (z_{c,i} - z_{\text{rw}})^2 \right]$$

## Appendix B. Literature included in the meta-analysis

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