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Enabling roles of relationship governance mechanisms in the choice of interfirm conflict resolution strategies

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Enabling roles of relationship governance mechanisms in the choice of inter-firm conflict resolution strategies

Purpose – This study presents an integrated framework and investigates the enabling roles of governance mechanisms (i.e., contract, interdependence, trust, communication) in the choice of effective conflict resolution strategies (CRS) that in turn facilitate buyer-supplier relationship (BSR) performance.

Design/methodology/approach – Using web-survey, data are collected from 170 Finnish small and medium enterprises (SMEs) that have key relationships with suppliers. This study employs structural equation modelling to test the research framework and hypotheses of the study.

Findings – The results based on empirical evidence demonstrate how the firms' choice of CRS depends on the governance mechanisms. The problem-solving approach is the most preferable choice, while the legalistic approach remains the last resort influenced by different governance mechanisms. Interdependence and trust between firms drive them to compromise while resolving inter-organizational conflicts. The selected strategies by firms may also either reinforce or deteriorate relationship performance.

Practical implications – Supply chain managers should recognize the context in which these choices of CRS are made as it guides them to anticipate their partner's behaviour as well as influences their strategy choice decisions when coping with conflicts. A trustworthy environment supports in providing a certain level of confidence while interdependency drives firms to compromise. The legalistic strategy can hurt the partner's feelings and diminish relationship performance.

Originality/value – Conflicts in BSR have become inevitable, but the existing literature is missing evidence on how companies use CRS to enhance relationship performance. Hence, this study differs from those of earlier conflict studies as it provides a more integrative perspective of buyer-supplier conflict resolution process. This study argues that relationship governance mechanisms can be connected to the choice of effective CRS when tensions arise. Moreover, by assessing the relationship between CRS and relationship performance, this study offers valuable insights to understand that effective strategies enable partners to mutually adapt constructive approaches that facilitate cooperative behaviour and accommodate both parties' interests and needs.

Keywords: conflict resolution strategy, buyer-supplier relationship, governance mechanisms, relationship performance, structural equation modelling

Article Classification: Research paper

1. Introduction

Successfully managing buyer-supplier relationships drives firms towards superior relationship performance and competitive advantage. The constant attention by academics and practitioners, therefore, is evidence of the importance of improving capabilities to respond in problem-solving (Michalski et al., 2018; Shahzad et al., 2018). However, conflict is still a common and inevitable aspect of inter-firm relationship (Leckie et al., 2017) as partners are uncertain of a cooperative behavior (Liu et al., 2009) and they have unmatched business interests striving to accomplish their own objectives (Lumineau and Henderson, 2012). The cost of inter-firm disruptions stresses firms to explore the reasons behind the expensive and time consuming problems (Fawcett et al., 2015), because these problems function as threats that could turn a stable relationship into a failure (e.g., Fernandez et al., 2014). Further, the opposing perspectives and goals incongruence, strategic misalignment, lack of trust, information hoarding and asymmetric interdependence drive firms to conflict and relationship deterioration (Ratajczak-Mrozek et al., 2019; Murfield et al., 2016; Fawcett et al., 2015). The potential negative impact of these inter-firm conflicts overshadows the aggregate effects of relationship behaviors (Ratajczak-Mrozek et al., 2019). Therefore, conflict realization and resolution through a choice of suitable approaches becomes central to developing effective inter-firm collaboration, and receives a great deal of research interest (e.g., Gounaris et al., 2016; Lumineau and Henderson, 2012; Bai et al., 2016; Yang et al., 2017). However, focal companies in a supply chain differ in their choices of conflict resolution approaches – e.g. how they deal with emerging disagreements with suppliers.

Although there is considerable research on inter-organizational conflict and conflict resolution in the context of joint ventures (Le Nguyen et al., 2016; Lu, 2006; Wang et al., 2005), the applicability in the choice of conflict resolution strategies from the buyer-supplier perspective remains an important yet unidentified issue (Ndubisi, 2011; Lacity and Willcocks, 2017). The extant literature has also suggested the pivotal role of relational factors in mitigating inter-firm conflict (e.g., Bai et al., 2016; Ndubisi, 2011; Yang et al., 2017), with a premise that these factors drive appropriate approaches to conflict resolution. Trust and contractual governance emerge as significant factors in the literature specifying the conflict's origin and elucidate different aspects of conflict management (Ndubisi, 2011; Lumineau and Henderson, 2012; Bai et al., 2016). Despite this considerable research base and insights, the choice of conflict resolution techniques influenced by transactional (contracts and interdependence) and

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3 relational (trust and communication) governance factors remains under-examined in the
4 business and industrial marketing literature (Yang et al., 2017). The extant literature
5 significantly lacks evidence of such a variant relationship performance in effective strategies
6 used in emerging disagreements (Le Nguyen et al., 2016). Thus, additional empirical
7 assessments regarding the link between governance mechanisms, conflict resolution strategies,
8 and relationship performance are needed to better understand the comprehensive picture of
9 buyer-supplier conflict resolution process.
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16 Therefore, this study seeks to address these gaps in the literature. The research approach in this
17 study differs from those of earlier conflict studies as it provides a more integrative perspective
18 on buyer-supplier conflict resolution process. It contributes to business and industrial
19 marketing literature by determining how relationship governance factors influence the choice
20 of conflict resolution strategies and the impact that these strategies have on relationship
21 performance. To extend the discussion on the role of contractual governance and trust in
22 managing conflicts (i.e., conflict mitigation, constructive/destructive conflicts), we argue that
23 relationship governance mechanisms can be connected to the choice of effective conflict
24 resolution strategies when tensions arise. Relational partners should recognize the context in
25 which these choices are made (Lin and Germain, 1998), as it guides firms to anticipate their
26 partner's behavior as well as influences their strategy choice decisions when coping with
27 conflicts (Lin and Wang, 2002). Furthermore, this study offers valuable insights to understand
28 that effective strategies enable partners to mutually adapt constructive approaches that facilitate
29 cooperative behavior and accommodate both parties' interests and needs.
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42 **2. Theoretical background and hypotheses**

43 *2.1 Conflicts and types of conflict resolution*

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45 Buyer-supplier conflict represents the disagreement between both partners, and emerges from
46 inconsistencies between actual and desired behaviors (Yang et al., 2017). Recently, few
47 empirical studies have delved into the details and recognized the significance of such disputes
48 and overall conflict management (e.g., Fernandez et al., 2014; Gnyawali et al., 2016; Claro et
49 al., 2018; Tidström, 2014). Inter-firm conflict drives confusions and operational interruptions,
50 and creates unstable behaviors of distrust and misleading information in decision-making
51 processes (Murfield et al., 2016). Earlier conflict studies have presented different perspectives
52 of conflict, such as functional/constructive or dysfunctional/destructive conflict (Claro et al.,
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2018; Leckie et al., 2017) and task conflict (Lee et al., 2017) in explaining the differences between strategies and value expectations (Fernandez et al., 2014; Gnyawali et al., 2016).

The conflict management literature has identified several strategies for resolving inter-firm conflicts determined by assertiveness (i.e., degree of concern for own benefits) and cooperativeness (i.e., degree of concern for other's benefits). These conflict resolution styles include competing or forcing, collaborating or problem-solving, compromising, avoiding, accommodating or obliging, confronting and ignoring, bargaining, and politicizing (Dant and Schul, 1992). Some scholars argued that the efficacy of these conflict resolution styles is determined by the ability with which a strategy is implemented in a specific situation (e.g., Kim et al., 2010). Prior empirical studies have endorsed a comprehensive set of conflict resolution approaches, including problem-solving, compromising, forcing and legalistic strategies being more explicit in their nature (e.g., Lin and Germain, 1998; Lu, 2006; Le Nguyen et al., 2016). Hence, we included problem-solving, compromising and legalistic strategies as the best fit for the analysis, while leaving the forcing strategy out because it mainly focuses on the international joint venture context where dominant ownership positions, power asymmetries and cultural distance prevail.

Problem-solving is an attractive strategy that encourages mutual discussion, coherent and efficient management of inter-organizational business processes and a search for better solutions, enhancing mutual benefits while avoiding any operational blockade by exchanging information (Michalski et al., 2018; Gounaries et al., 2016). The compromising strategy refers to accommodating both partners on a "middle-ground". The compromising strategy may not require considerable involvement from each partner. It may limit the possibilities of exploring the best available alternatives, but a common agreed solution may help partners to continue their relationship smoothly (Wang et al., 2005; Tidström, 2014). The legalistic strategy refers to dealing with a conflict by practicing written contracts and informal binding agreements, as it offers an institutional framework wherein partners reconsider their rights and responsibilities (Lumineau and Henderson, 2012; Le Nguyen et al., 2016). However, this approach may demonstrate high costs and a lengthy process, which may destroy a trusted environment in the long run (Fischer, 2013).

2.2 *Transactional governance mechanisms and CRS*

Transactional governance mechanisms (i.e., contract completeness and interdependence) are considered as formal institutional measures in managing partners' behaviors while offering structural ways to avoid opportunism and inter-firm conflicts (Liu et al., 2009; Mirkovski et al., 2016; Shahzad et al., 2018; Shahzad et al., 2015). Detailed contractual clauses are considered to be tangible expressions of confidence and commitment that promote inter-organizational harmonization and a problem-solving attitude by mutually acceptable alternatives and help to strengthen cooperative relational experience (Yang et al., 2017; Mirkovski et al., 2016). Similarly, Lumineau and Malhotra (2011) argued that contract completeness creates coordination driven perception among partners and facilitates valuable communication and information sharing. However, the legal support of a contract is a self-explanatory way for a partner to sanction the counterpart in case of contract terms violation (Cannon et al., 2000) and inability to engage in mutual conflict resolution. As a wide-ranging tool, contract functions in controlling predicted and unpredicted future circumstances (Liu et al., 2009), thereby minimizing behavioral uncertainty by enforcing formal rules, terms and procedures. This notion also makes the compromising approach ineffective because of the leverage of penalizing the counterpart offered by legal clauses in a contract (Wang et al., 2005; White et al., 2007). Therefore, as previous research has emphasized the impact of contractual governance in minimizing buyer-supplier conflicts (Yang et al., 2017; Lee et al., 2017; Bai et al., 2016; Lumineau and Henderson, 2012), this study extends earlier conceptualizations and examines the role of contract completeness on firms' preference of CRS. Thus, this study hypothesizes the following:

H₁. Contract completeness between the buyer and supplier is positively related to the (a) problem-solving and (b) legalistic strategies and inversely related to (c) the compromising strategy.

Interdependence explicates the equal idiosyncratic investments in physical and human assets (as non-legal sanctions) having less value for alternative uses (Wright and Lockett, 2003; Kumar et al., 1995; Khalid and Ali, 2017). This results in symmetric interdependence as both partners are equally dependent on each other based on the relationship-specific investment they have made (Kumar et al., 1995). In contrast, asymmetric interdependence creates threats of opportunism and inter-firm conflicts because of the forcible control of the partner with less dependence (Michalski et al., 2018). Therefore, the higher degree of equal interdependence

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3 promotes mutual hostages, relational ties and knowledge sharing through binding firms to a
4 specific exchange arrangement (Shahzad et al., 2015; Huikkola et al., 2013; Shahzad et al.,
5 2018). It also affects their choices of alternative strategies in dealing with conflicts (Sharma
6 and Parida, 2018). As international marketing scholars argued that balanced control and equal
7 ownership facilitate integration and coordination among partners (Lin and Wang, 2002), the
8 interdependence of inter-organizational exchange motivates partners to drive combined actions
9 of joint problem-solving (Liu et al., 2009). Similarly, as idiosyncratic relational investments
10 foster inter-firm joint learning (Huikkola et al., 2013) as well as higher stakes and commitment
11 in relationships (Burkert et al., 2012; Le Nguyen et al., 2016), they may also guide firms to
12 develop circumstantial understanding to compromise. However, because of their equal stakes
13 in a relationship, partners might also seek legalistic remedies for reliability concerns as well
14 when a “middle-ground” approach is not successful. Thus, the following hypothesis is
15 proposed:
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26 **H₂.** The interdependence of the buyer and supplier is positively related to the (a) problem-
27 solving, (b) compromising and (c) legalistic strategies.
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30 2.3 *Relational governance mechanisms and CRS*

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33 Relational factors (trust and communication) are important socially embedded factors in
34 managing inter-organizational operational hazards (Shahzad et al., 2018; Wood, 2019; Shahzad
35 et al., 2015; Luokkanen-Rabetino et al., 2017). Trust is defined as a confidence in one’s
36 expectations about another’s behavior and partner’s goodwill, reliability and integrity (e.g.,
37 Dyer and Chu, 2011; Zaheer et al., 1998; Morgan and Hunt, 1994). A higher level of mutual
38 trust results in quick negotiations by hindering asymmetrical power because of partners’
39 readiness (Fawcett et al., 2015; Yang et al., 2017). Thus, trust functions as an efficient
40 facilitator in greater adaptability and enhances firms’ behavioral consistency (Yang et al., 2017;
41 Fischer, 2013; Wood, 2019), thereby influencing their choice of more collaborative strategies
42 in a disagreement (Gounaries et al., 2016). It is linked with an integrating, accommodating and
43 compromising style of conflict handling as partners are encouraged to learn jointly and express
44 feelings and concerns about their counterpart (Yang et al., 2017; Ndubisi, 2011). Furthermore,
45 a trustful environment facilitates a fair and optimal solution (Yang et al., 2017), looks for a
46 “middle-ground” and arrives at acceptable compromises (Ndubisi, 2011). In contrast, recent
47 seminal research has found that a higher level of inter-partner trust encourages cooperative
48 behavior while avoiding a legalistic approach in a conflict situation (Kozan et al., 2014; Le
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Nguyen et al., 2016). Firms do not prefer lengthy and costly legal support (Limuneau et al., 2015) but problem-solving and/or the compromising approach, as trust exhibits mutual commitment. Thus, the following hypothesis is proposed:

H₃. Trust between the buyer and supplier is positively related to (a) the problem-solving and (b) compromising strategies and is inversely related to (c) the legalistic strategy.

Communication as a relational governance factor reflects inter-firm cooperation and integration and refers to suitable, truthful, beneficial and reliable sharing of important information (Fischer, 2013; Shahzad et al., 2015). This level of formal and/or informal, important and well-timed information-sharing acts as an efficient safeguard in suppressing perceived risks, conflicts and uncertainty (Fawcett et al., 2015; Fan and Stevenson, 2018; Sharma and Parida, 2018). By strengthening partners' confidence, effective communication drives towards collaborative conflict resolution and effective interaction (Celuch et al., 2011; Fischer, 2013). This level of information-sharing supports joint decision making processes and safeguards the interest of both partners in order to attain "win-win" goals (Putnam, 1990; Koza and Dant, 2007). Thus, effective communication helps managers to better evaluate the nature of disagreements and openly express their views across promoting joint problem-solving (Phan et al., 2005). However, as the nature of compromising strategy, as a midrange approach, refers to accommodating both partners on a "middle-ground", it is often related to quick decisions and an unwillingness to explore the best available alternatives. Thereby, it may not require considerable open communication (Lin and Wang, 2002; Song et al., 2006). Furthermore, firms prefer not to seek lengthy and expensive legal processes (Wang et al., 2005) if they openly and readily share significant information. Therefore, a problem-solving approach becomes central when both relationship parties are more interested in sharing critical information and bilateral communication in order to end a deadlock. Thus, the following hypothesis is proposed:

H₄. Communication between the buyer and supplier is positively related to (a) the problem-solving and inversely related to (b) the compromising and (c) legalistic strategies.

2.4 *Conflict resolution strategies and buyer-supplier performance*

Several researchers have argued that conflict resolution can have significant impact on relationship performance as well as functional and/or dysfunctional implications (e.g., Le Nguyen et al., 2016; Leckie et al., 2017). Therefore, firms are more interested in using cooperative and integrative approaches such as problem-solving and compromising in order to

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3 seek synergy, collaboration and joint decision-making (Mirkovski et al., 2016). These efforts
4 are made to realize the interests and feelings of relationship partners and to satisfy their needs,
5 resulting in higher relationship performance (Lu, 2006; Koza and Dant, 2007; Michalski et al.,
6 2018). Furthermore, both of these approaches encourage partners to adopt constructive
7 approaches in a “deadlock” situation and foster a “win-win” solution. Firms quite often adopt
8 a “give-and-take” attitude to achieve a compromise in balancing the needs and concerns of both
9 parties (Lin and Germain, 1998). However, the legalistic strategy as a conflict resolution
10 approach is more assertive in nature than the other collaborative strategies (i.e., problem-
11 solving and compromising). Therefore, this legal approach might increase the likelihood of
12 future conflicts, as it can hurt the partner’s feelings and create inter-partner frustration and
13 rigidity. Similarly, some scholars found a negative impact of the legalistic strategy on
14 performance and satisfaction, explaining that the likelihood of collaborative efforts in
15 eliminating the causes of conflicts is minimized and thereby results in relationship destruction
16 (e.g., Le Nguyen et al., 2015). Tensions between relationship partners are aggravated when
17 they prefer legal approaches because partners might lose interest and motivation. Thus, the
18 following hypothesis is proposed:
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31 **H₅.** (a) The problem-solving and (b) compromising strategies positively relate to buyer-
32 supplier relationship performance, while (c) the legalistic strategy is negatively associated with
33 buyer-supplier relationship performance.
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37 ----- Figure 1 Research model approximately here-----
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39 40 41 **3. Methodology and design**

42 43 *3.1 Data and research design*

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46 This empirical study contains SMEs involved in buyer-supplier transactions. A list of 892
47 SMEs operating with key suppliers (i.e. suppliers providing key components and services) was
48 produced from a database developed by a financial services provider (Collector Finland) for
49 data collection. However, an attempt to identify transactional and relational governance
50 mechanisms relating to the CRS and BSR performance was ineffective for the dataset.
51 Therefore, we planned to gather primary data through a web-based survey in order to approach
52 vast amount of respondents (Dillman et al., 2009), as well as to attain the requisite level of
53 detail about these conflict resolution issues. Our survey was addressed to the potential key
54 respondents who were directly involved with buyer-supplier transactions. The respondents’
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names and emails were identified from this database. Of the key respondents, 66% operated as CEOs, 17% as managers, 16% as managing directors, and 1% as CFOs. Thus, the designed questionnaires were sent to these identified potential respondent firms (892 in total) in spring 2015 by sending follow-up reminders to non-respondents. In total, we received 170 responses, obtaining a reasonable response rate of 19.06%. The sample specifies that respondent firms have twenty four personnel/firm and €38m/firm turnover, on average; operate in quite a few industries (manufacturing: 66.47%, services: 33.53%); and have relationships with suppliers that are geographically located in different regions of Asia, Europe and the USA.

3.2 *Construct measurement*

Based on existing literature, each construct was operationalized by developing items on a seven-point Likert scale exhibiting satisfactory reliability and validity (see Appendix 1). Relationship performance was operationalized by four items obtained from prior empirical research (Kumar et al., 1992; Artz, 1999). These measures included firm performance outcomes, such as satisfaction, success, relationship expectations, and achievement of the set objectives. The three CRS (problem-solving, compromising, and legalistic) were taken into consideration from Lin and Germain's (1998) study. The respondents were asked about the extent to which a relationship partner resorted to specific actions in resolving conflicts. To measure trust, we adapted seven items from Morgan and Hunt's (1994) research. Communication between partners was measured by adapting four items drawn from Heide and John (1992) and Young-Ybarra and Wiersema (1999). Based on Luo (2002, 2009), contract completeness was measured using six items.

We followed an established approach used in recently published research (e.g., Khalid and Ali, 2017; Shahzad et al., 2018) to measure the level of symmetric interdependence. This approach portrays the degree to which both partners are interdependent by investing equal idiosyncratic relationship-specific assets with a scale from 1 = very low to 7 = very high. Thus, we split interdependence into both buyer and supplier dependence to measure the construct. Buyer dependence was determined by two items, adapted from prior research: A- size of the firm's investment in relationship, and B- the extent to which the investment is 'sunk', that is, we measure the difficulty in redeploying these assets outside the relationship (e.g., Zeng, 1998; Reuer and Arino, 2002; Young-Ybarra and Wiersema, 1999). These two items were collapsed into one, determining the dependence of buyer's firm. Supplier dependence was also measured asking similar questions on the supplier's size of investment and difficulty in redeploying the

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3 investments, and collapsed into one item. By taking the absolute difference between the
4 dependence of both buyer and supplier, we have determined the level of symmetric
5 interdependence. In this case, a zero (0) describes a perfectly equal symmetric interdependence
6 between both parties.
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11 For example, we have a case where A- a buyer's investment is 4 out of 7; and the difficulty
12 level in redeploying investments is 5 out of 7. We will determine the buyer's dependence by
13 multiplying A by B, that is, $4 \times 5 = 20$. Likewise, if a supplier's dependence calculations are
14 also 20, this represents the similar level of interdependence, i.e. 20. The absolute difference
15 between these values $20 - 20 = 0$, will determine an equal symmetric interdependence between
16 both partners, which helped us to analyze the data. In addition, we included the age of the
17 company, length of the relationship (Liu et al., 2009) and the buyer firm's size (Luo et al.,
18 2015) as control variables in our model.
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25 3.3 *Data checks*

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28 We analyzed the sample by performing a t-test to evaluate the survey's extent of non-response
29 bias as well as to see early and late respondents' differences (Werner et al., 2007), wherein no
30 significant differences were found with regard to firm size or the length of the relationship. To
31 avoid common method variance, ex-ante and ex-post steps were taken to limit and evaluate the
32 common method bias. In the ex-ante approach, the anonymity and privacy of this research was
33 assured for respondents and the questions' arrangement in the instrument did not determine
34 any apparent relationship between constructs. Furthermore, we executed Harman's single-
35 factor test as an ex-post step to determine the extent of negative influence by common method
36 bias in the data. There was not a single general factor that explained the variability of the data,
37 with the main factor accounting for 26.88% of total variance, signaling no issues in the analysis.
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46 3.4 *Measure validation*

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49 We employed PLS-SEM (SmartPLS 2.0 software) in order to test the research framework and
50 hypotheses of the study (Chin, 1998) because it enables the estimation of a series of
51 relationships, in which one dependent variable becomes the explanatory variable in subsequent
52 relationships. This method demonstrates higher statistical power for complex models and a
53 small sample size, and is considered appropriate in testing an explorative model (i.e.
54 transactional and relational factors influence CRS and CRS explain relationship performance).
55 It also enables simultaneous analysis of both formative and reflective models, and hierarchical
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models (Becker et al., 2012; Hair et al., 2012). As the sample size of this research is 170, this method becomes more applicable in this context. PLS also provides the fit indices in terms of descriptive statistics and specifies only the extent of variance of specified relationships accounted for in the model. Thus, a large amount of recent business and industrial marketing studies have recognized its importance and dynamic attributes and employed PLS-SEM (e.g., Michalski et al., 2018; Shahzad et al., 2018; Khalid and Ali, 2017).

Although PLS estimates both measurement and structural models concurrently, this study followed the procedure recommended by Hulland (1999), and analyzed and interpreted the models in two steps: estimated the assessment and reliability of the measurement model in a first phase and tested the structural model in a second phase. The analysis of discriminant and convergent validity as well as individual-item reliabilities also support the validation of the measurement model (Chin, 1998; Hair et al., 2012). The loaded values were above the benchmark criteria of 0.70 (Gotz et al., 2010) on their particular latent variables, demonstrating a higher level of item reliability. Composite reliability scores were also calculated in order to assess construct reliability. As reported in Appendix 1, composite reliability for all constructs is above than the benchmark criteria of 0.60 (Gotz et al., 2010) for a statistically significant construct reliability. Convergent validity was assured with a higher than threshold value of AVE (0.50), demonstrating the validity of latent constructs (Fornell and Larcker, 1981; Gotz et al., 2010). The AVE also supports in proving discriminant validity when the square roots of a construct's AVE are greater than the correlations between the latent variables (Chin, 1998; Gotz et al., 2010). Further, VIF was also found to be well below the threshold 5 (the highest VIF value is 1.75), ensuring no significant multi-collinearity between the constructs (Hair et al., 2012).

----- Table I AVE and correlations approximately here-----

4. Structural analysis and results

To test our research hypotheses, a path weighting method in PLS analysis was employed, while a bootstrapping technique was used in generating t-values (Hair et al., 2012; Chin, 1998). The significance levels, path coefficients (standardized β), and R^2 (coefficient of determination) of dependent variables show the main effects of the structural model. The assessment of explained variance R^2 for each dependent variable ensured the nomological validity of our research model. The R^2 s for problem-solving, compromising and legalistic strategies are 0.42, 0.39, and

0.28, respectively. These results demonstrate that context variables explain 42% of the variance in problem-solving, 39% in compromising and 28% in legalistic strategies. Similarly, the R^2 for relationship performance is 0.36, explaining 36% of the variance in the dependent variable of relationship performance.

----- Table II PLS analysis results approximately here-----

The results indicate that contract completeness is positively related to the problem-solving ($\beta = 0.29, p \leq 0.001$) and legalistic ($\beta = 0.44, p \leq 0.001$) strategies and inversely related to compromising ($\beta = -0.15, p \leq 0.01$). These results completely support H_1 . Further, interdependence exerts a significant positive effect on the problem-solving ($\beta = 0.13, p \leq 0.01$) and compromising ($\beta = 0.19, p \leq 0.001$) strategies, but is negatively related to the legalistic strategy. These results partially support H_2 (H_{2a} and H_{2b} = supported, H_{2c} = not supported). The results for H_{3a} ($\beta = 0.22, p \leq 0.001$), H_{3b} ($\beta = 0.19, p \leq 0.01$) and H_{3c} ($\beta = -0.12, p \leq 0.01$) supported the notion that trust between buyer and supplier has a positive effect on the problem-solving and compromising conflict resolution strategies and a negative effect on the legalistic strategy. Moreover, the results of H_4 show a significant positive relationship between the communication and problem-solving strategies ($\beta = 0.18, p \leq 0.01$) and a negative significant relationship between communication and compromising strategies ($\beta = -0.12, p \leq 0.01$), supporting H_{4a} and H_{4b} . However, the predicted inverse relationship between communication and the legalistic strategy was non-significant, partially supporting H_4 . Table III also presents the results for the impact of CRS on buyer-supplier relationship performance. It indicates the significant positive relationship between the problem-solving ($\beta = 0.21, p \leq 0.001$) and compromising ($\beta = 0.17, p \leq 0.01$) strategies and relationship performance and a significant negative relationship between the legalistic strategy ($\beta = -0.13, p \leq 0.01$) and relationship performance. These results thus support H_{5a} , H_{5b} and H_{5c} . Table IV summarizes proposed hypotheses and results.

----- Table V Summary of hypotheses and results approximately here-----

5. Discussion and implications

5.1 Theoretical implications

This study contributes to business and industrial marketing research and provides new insights in different ways. As the current literature lacks explanations of the influence of governance

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3 mechanisms on firms' choices of CRS, this study extends earlier conceptualizations and
4 empirically investigates a combined model of transactional and relational governance
5 mechanisms. Concerning the first context variable, the findings affirmed and added to the
6 theoretical reasoning by an empirical demonstration that contract completeness encourages
7 relationship partners to describe and coordinate a mutual agreement. It facilitates a more
8 cooperative and integrative problem solving approach in order to satisfy their needs (Malhotra
9 and Lumineau, 2011; Lumineau and Henderson, 2012). However, if a problem solving
10 approach becomes ineffective, the presence of explicit safeguard clauses of a complete contract
11 encourages partners to legally sanction their counterpart in case of contract terms violation
12 (Cannon et al., 2000; Liu et al., 2010). Compromising as a conflict resolution strategy becomes
13 less prevalent in this situation, as partners have the possibility of following contractual
14 obligations (Wang et al., 2017; White et al., 2007).

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17 Furthermore, the use of a problem-solving and compromising approach influenced by
18 symmetric interdependence demonstrates that due to increased level of relational investments
19 (Huikkola et al., 2013), it is very difficult for partners to redeploy these assets. This notion
20 creates mutual hostage and prevents partners' opportunistic behavior in disagreement (Wright
21 and Lockett, 2003; Shahzad et al., 2018), thereby facilitating integration and coordination (Le
22 Nguyen et al., 2016; Lin and Wang, 2002). These findings also complement the theoretical
23 notion that symmetric interdependence produces a socially embedded template where partners
24 willingly follow relational norms (Liu et al., 2009; Burkert et al., 2012). However, contrary to
25 our expectations, this study found no significant positive relationship between symmetric
26 interdependence and the legalistic strategy. A potential explanation for this may be that equal
27 relationship-specific investments bind both partners with a huge redeployment cost, thereby
28 squeezing the possibilities of seeking more expensive and lengthy legal support. Further,
29 several researchers have also argued that the impact of symmetric or asymmetric
30 interdependence in varying cooperation perspective is inconsistent, therefore, managers'
31 decisions in this situation should not be permanent (e.g., Michalski et al., 2018).

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34 Among the relational governance factors, the findings imply that trust is an instrumental factor
35 in a conflict situation (Sharma and Parida, 2018), facilitating a cooperative environment and
36 behavioral consistency. Similarly, relationship partners feel comfortable with openly
37 discussing their problems, expressing their opinions and learning about issues jointly, that
38 facilitate a problem-solving attitude (Morgan and Hunt, 1994; Yang et al., 2017). Further,
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relationship partners are encouraged to find fair and agreeable solutions and to look for a “middle-ground” to compromise (Zaheer et al., 1998; Ndubisi, 2011). While, in case of a higher level of trust, partners behave cooperatively and avoid using a legalistic approach (Kozan et al., 2014; Limuneau et al., 2015). Further, effective communication signals confidence and commitment between partners while driving them towards more interactions and knowledge sharing. This level of information sharing facilitates collaborative and integrative conflict resolution (Koza and Dant, 2007; Celuch et al., 2011; Phan et al., 2005). However, compromises for conflict resolution may not require considerable communication as quick decisions are required and relationship partners may not be eager to explore the best available alternatives (Ling and Wang, 2002; Song et al., 2006). Contrary to expectation, we found a negative but nonsignificant relationship between communication and the legalistic strategy. A potential explanation might be that partners think about a legal approach as open communication and information/knowledge-sharing can be a particular burden and will not always be effective. It will result in misunderstandings and make partners vulnerable to being exploited. For instance, a relational partner might adopt to use proprietary data against its counterpart for their own advantage (Fan and Stevenson, 2018). As prior research have also argued that overloaded information sharing must be avoided as sometimes it engenders the radiation of hard-to-decipher “noise” (Fischer, 2013).

Further, this study demonstrates that the problem-solving strategy is an effective cooperative approach in fostering relationship performance and satisfaction (Lin and Germain, 1998; Lacity and Wollcocks, 2017). This means that firms are more interested in cooperative strategies that enable partners to mutually adopt particular constructive approaches in a deadlock in order to foster a “win-win” solution (Shahzad et al., 2016). These integrative efforts facilitate cooperative behavior, concern both parties’ interests and feelings. This helps relationship partners to satisfy their needs by creating a positive impact on the relationship performance (Le Nguyen et al., 2015). The findings also demonstrate that the legalistic approach may not only aggravate future problems but also decrease the firms’ motivation for contributions to and involvement in the relationship (Lu, 2006).

5.2 *Managerial implications*

This study has several important implications for managers dealing with conflicts. The research framework (specifying a linkage between governance mechanisms, CRS approaches and relationship performance) provides an understanding and awareness of possible actions and

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3 behaviors of partners in their choices of the most suitable CRS through engaging them in
4 effective resolution. Most specifically, the results provide certain suggestions to managers who
5 directly face these situations of conflict. We recommend that managers should recognize that
6 cooperative and integrative problem-solving approach facilitates open discussion and mutual
7 agreement in order to get a “win-win” solution for both parties. For example, managers
8 willingly avoid to indulge in dispute as it negatively affects individual and collective
9 reputation. A trustworthy environment supports in providing a belief of benevolence and
10 reliability in case of compromise on a “middle-ground”, thus, enhancing the commitment to
11 continue the long-term relationship. Similarly, interdependency drives partners to compromise
12 because of relationship-specific investments they have made, thus, managers are required to
13 continuously look for accommodating each other in order to avoid the cost of investment
14 redeployment or investment loss. Further, for long-term collaboration and partnership, we
15 foresee the legalistic strategy as a last resort where no other possible solution works as well as
16 partners cannot mutually come out of a deadlock situation. As this approach is quite lengthy
17 and expensive and can hurt the partner’s feelings, the conflicts must resolved through
18 alternative approaches.
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31 *5.3 Limitations and future research suggestions*

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34 This research indicates some limitations and future research suggestions. Drawing upon the
35 relationship governance literature, the present research examines only four relationship
36 governance mechanisms, originating in their influence on CRS. Further studies should
37 integrate other important factors with their mediating effects, such as opportunism, relational
38 norms, uncertainty, and the reputations of buyers and suppliers. Notable outcomes can be
39 originated by using interaction effects (complementary or substitutive) of these mechanisms
40 influencing the choice of CRS and their impact on relationship performance. Furthermore, as
41 the present study is comprised of only Finnish SMEs operating with key suppliers in Europe,
42 Asia and the USA, this approach limits this research and opens up avenues for future research
43 in terms of replicating and extending it to the whole Nordic region. As this study adopts a cross-
44 sectional technique in probing only the buyer’s perspective of conflict resolution, the dyadic
45 perspective within a longitudinal research setting or a case study approach would offer
46 interesting results in understanding the holistic viewpoint of the link between governance
47 mechanisms, CRS and relationship performance. Similarly, by not testing the mediating effect
48 of the CRS, this study has limitations in answering the questions of how conflict can be
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resolved before it manifests into dysfunctional outcomes or how successful each CRS is, given the governance mechanisms of inter-organizational relationships. Further research should take this into account by utilizing other covariance-based techniques such as SEM via Mplus, AMOS or PROCESS, in the hypothesis testing. This might result in an intriguing different perspective on theoretical and managerial implications.

Moreover, the data in this research were collected from single key informant, which opens up avenues for future research in terms of obtaining the data from several respondents evaluating independent and dependent variables to further minimize common method bias. Additionally, in this study, types of conflicts (e.g., constructive and destructive conflicts) are not specified. Therefore, future research can include this notion and examine whether the choice of CRS depends on conflict types. Finally, we suggest that future researchers should consider some additional challenges. It might be interesting to investigate the direct and indirect effects of relationship governance factors and CRS on transaction costs and opportunism. The challenges of optimal operationalization for the construct of interdependence producing contradicting results exist in literature (Caniëls and Gelderman, 2007; Kumar et al., 1995). Therefore, the development of more refined measures of interdependence amid several different aspects is needed. Beyond concerns of symmetry, interdependence might include the degree of high or low mutual dependence, as firms vary in their sizes (Shahzad et al., 2018). Interestingly, further research can also categorize the governance factors into four quadrants by using typological approach of configuration with one transactional to relational axis and strength of relationship as another axis. This relationship between relationship's strength and governance mechanisms will provide another angle to investigate the transition of transactional factors to relational factors, strengthening the relationship. Further, as SmartPLS 2 does not provide validity indices such as heterotrait-monotrait ratio (HTMT), ρ_A and effect size, we strongly recommend further research to utilize SmartPLS 3 or above in order to report these additional validity indices (Henseler, Ringle and Sarstedt, 2015).

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18 -----**Appendix 1** approximately here-----
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Table I AVE and correlations

Constructs	AVE	1	2	3	4	5	6	7	8	9	10	11
1. Contract completeness	0.77	0.88										
2. Interdependence	1	0.04	1									
3. Trust	0.93	0.12	0.02	0.96								
4. Communication	0.83	0.20	0.04	0.47	0.91							
5. Problem solving	1	0.32	0.14	0.25	0.20	1						
6. Compromising	1	-0.16	0.22	0.23	-0.15	0.13	1					
7. Legalistic	1	0.42	-0.09	-0.11	-0.07	-0.21	0.36	1				
8. Relationship performance	0.77	0.14	-0.06	0.37	0.51	0.23	0.19	-0.14	0.88			
9. No. of employees	1	0.08	-0.07	-0.06	0.02	0.06	0.20	0.11	-0.05	1		
10. Age of the relationship	1	0.08	0.07	0.04	0.23	0.02	0.06	0.09	0.02	0.28	1	
11. Age of buyer firm	1	0.06	0.06	-0.01	0.19	0.04	-0.00	0.08	0.05	0.32	0.52	1

Table II PLS analysis results

Constructs	Problem solving	Compromising	Legalistic	Relationship performance
Contract completeness	0.29 (3.28)***	-0.15 (1.82)**	0.44 (6.50)***	
Interdependence	0.13 (1.75)**	0.19 (2.20)***	-0.07 (0.86)	
Communication	0.18 (1.93)**	-0.12 (1.70)**	-0.08 (0.88)	
Trust	.22 (2.40)***	0.19 (2.10)**	-0.12 (1.74)**	
Problem solving				0.21(2.25)***
Compromising				0.17(1.84)**
Legalistic				-0.13 (1.69)**
Control variables				
No. of employees				-0.02 (0.28)
Age of relationship				0.02 (0.19)
Age of buyer firm				0.03 (0.36)
R ²	0.42	0.39	0.28	0.36

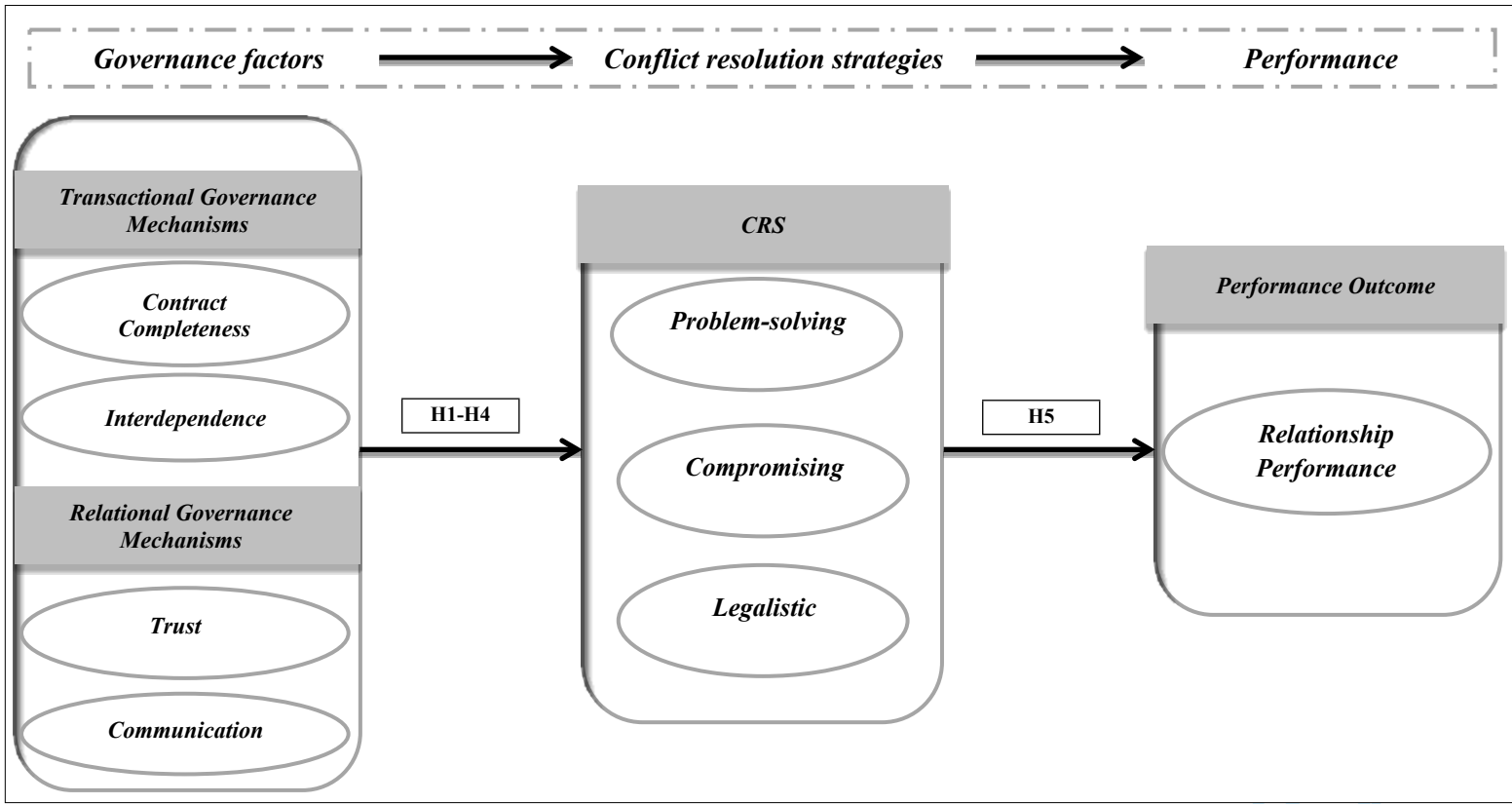
*** P ≤ 0.001, ** P ≤ 0.01, * P ≤ 0.05

Table III Summary of hypotheses and results

Hypotheses	Description	Results
H1	Contract completeness between buyer and supplier is positively related to (a) problem solving and (b) legalistic strategy, and inversely related to (c) compromising strategy	Supported
H2	Interdependence between buyer and supplier is positively related to (a) problem solving, (b) compromising and (c) legalistic strategy	Partially supported (except the relationship between Interdependence and legalistic strategy, all else supported)
H3	Trust between buyer and supplier is positively related to (a) problem solving, (b) compromising and inversely related to (c) legalistic strategy	Supported
H4	Communication between buyer and supplier is positively related to (a) problem solving and inversely related to (b) compromising and (c) legalistic strategy	Partially supported (except the relationship between communication and legalistic strategy, all else supported)
H5	(a) Problem solving and (b) compromising positively relate to buyer-supplier relationship performance, while (c) legalistic strategy negatively associates with buyer-supplier relationship performance	Supported

Jour.

Figure 1 Research model



Marketing

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Appendix 1 Constructs, item loadings, Cronbach's alpha (CA), AVE and composite reliability values (CR)

Constructs and items	Loadings	Item source(s)
Relationship performance (AVE: .77; CA: .90; CR: .93)		Artz (1999) and Kumar <i>et al.</i> (1992)
The performance of this relationship has? (very difficult 1-7 very easy):		
...been very satisfactory	0.8251	
...been very successful	0.8886	
...fully met our expectations	0.8979	
...achieved the set objectives	0.8963	
Conflict resolution strategies		Lin and Germain (1998)
When there are disagreements/conflicts between buyer and supplier regarding operations and/or strategic decisions, your actions are? (never used 1-7 always used):		
...use spirit of mutual consensus to fully satisfy both own and supplier's concern (i.e. problem solving)	1	
...use "give and take" to achieve compromise (i.e. compromising)	1	
...use legal provisions in the contract to obtain compliance (i.e. legalistic)	1	
Trust (AVE: .93; CA: .81; CR .93)		Morgan and Hunt (1994)
Please indicate your level of agreement with the following statements (strongly disagree 1-7 strongly agree):		
Our key supplier firm:		
...cannot be trusted at times (R)	0.9489	
...is perfectly honest and truthful	0.9303	
...can be trusted completely	0.9571	
...can be counted on to do what is right	0.8956	
...is always faithful	0.9303	
...is someone I have great confidence in	0.9221	
...has high integrity	0.9135	
Communication (AVE: .83; CA: .93; CR .95)		Heide and John (1992) and Young-Ybarra and Wiersema (1999)
Regarding communication between you and your key supplier, please indicate your level of agreement with the following statements (strongly disagree 1-7 strongly agree):		
...we always keep each other informed about events or changes that may affect the other party	0.8855	
...it is expected that any information, which might help the other party, will be provided to them	0.9228	
...it is expected that proprietary information will be shared if it can help the other party	0.9061	
...exchange of information in this relationship takes place frequently and informally, not only according to a pre-specified agreement	0.9322	
Contract completeness (AVE: .77; CA: .93; CR .95)		Luo (2002) and Luo (2009)
To what extent are the following arrangements with your key supplier firm formalized in the written contract (not at all 1-7 entirely)?		
...how to operate and manage the relationship	0.8767	
...how to cooperate, coordinate, and resolve conflicts between your firm and key supplier	0.9234	
...how to terminate the relationship	0.8602	
...how to handle the unanticipated contingencies during relationship formation and operation	0.8779	
...cost and quality of resources invested in relationship	0.8660	
...how to secure invested resources from exploitation	0.8752	
Symmetric dependence		Zeng (1998), Reuer and Arino (2002) and Young-Ybarra and Wiersema (1999)
Items measuring the dependence of buyer firm (very low 1-7 very high):		
...our investment in the relationship is		
...if this relationship was to dissolve, our non-recoverable investments would be		
Items measuring the dependence of key supplier firm (very low 1-7 very high):		
...supplier firm's investment in the relationship is		
...if this relationship was to dissolve, the key supplier firm's non-recoverable investments would be		
Symmetric dependence:		
Level of symmetric dependence between buyer and key supplier (i.e., difference between dependence of buyer and supplier firm) [0 = 7, 1-8 = 6, 9-16 = 5, 17-24 = 4, 25-32 = 3, 33-40 = 2, 41-48 = 1]	1	