

Use of the written contract in long-lasting business relationships

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ABSTRACT

In most business relationships, written contracts are not drawn up, since businessmen find the drawing of written contracts both complicated and a waste of time. There are, of course, companies that draw up detailed written contracts, but those contracts are seldom applied as a means to settle disputes. Nor is the contracted party sued or threatened to be summoned to court. Instead, the written contract is available if something very extraordinary occurs. They are primarily made when their use value exceeds the cost of making of the written contracts. A detailed written contract can for instance, function as a means of communication. Since knowledge about written contracts for internal reasons is limited, there was every reason to continue studying how written contracts are used. In an endeavour to find possible factors to explain the use of written contracts, the interaction model is used as a point of departure (Håkansson 1982).

Since contracts can be subdivided into richly varied and multidimensional processes, it is necessary to study them at a detailed level. Furthermore, to achieve a more holistic account, it is necessary to make use of both oral and written sources. In all, there are 14 propositions in this study. The empirical results demonstrate that the most important explanation for the use of the written contracts are the qualities inherent in the written contract itself, not the contract negotiations or the closeness between the party and other influencing factors. The written contract itself directly influences the actual use of the written contract. The production technologies of the individual parties, the product exchange between them, and the possible existence of standardised written contracts for the line of business in question influences the written contract. The closeness between the parties influences the written contract as well as the contract negotiations and the contract negotiations influence the written contract and the closeness between the parties.

INTRODUCTION

In his classical study, Macaulay (1963a,b) found that in most business dealings, no contracts are used. Business people appear to think that contracts are both complicated and a waste of time. Macaulay (1963a, p. 15) writes that, “The salesman finds the contract the work of the devil; it is just one more thing to get in the way of closing a sale.”

Doing business without a contract is not a big problem for most businesses since they know their customers and suppliers well. They have great confidence in each other. Naturally, there are companies that draw up detailed contracts, but such contracts are rarely used as an aid in conflicts. Nor do companies normally file complaints against the other party or threaten to institute legal action against each other. Instead, the contract is there should something quite extraordinary occur. If a conflict should arise, businesses avoid involving lawyers and using legal means. Business people try to solve their conflicts themselves and in so doing, they do not refer to the content of the contract. Macaulay (1963b) argues that lawyers play an insignificant role in the business world. Business people often set their commercial conditions themselves and only occasionally are lawyers consulted. The lawyers' role is limited to adjusting the formulations of the businessmen (Macaulay, 1963a).

Consequently, many business deals are concluded without a contract. The question that should be asked in this regard is why, and how, our economic life can function without contracts. According to Macaulay (*ibid.*), there are several reasons why few contracts are drawn up in the business world. Businesses generally have, so he claims, very few problems with their customers and suppliers. Good relations are built at all levels within the organizations themselves and some interbusiness connections have been developed into deeply personal relationships. This naturally stimulates the parties concerned to continue doing business with each other. However, the most important reason is that both (all) parties want to do business with each other in the future. A supplier will hardly continue to be trusted once they have mishandled a deal. It follows that acquiring a good reputation is an important motivation in this context.

In spite of such important reasons, contracts do get drawn up. Macaulay (*ibid.*) states that contracts are used primarily when their usefulness is perceived to be greater than their cost. One such occasion is when the written agreement serves internal purposes. A detailed written agreement can, for example, function as a means of communication. The sales manager and the company lawyer work out all conditions together with the customer, and the production manager is responsible for producing the exchange. The production manager must be informed about what they are to produce and how they are to proceed should unforeseen events come up. The written agreement in this case serves

the purpose of providing the directions established in advance (Macaulay, 1972 and 1963b).

Another benefit in drawing up a contract becomes evident when there is a high degree of insecurity that one party may experience and that is related to the other party, or other actors, in the company's surrounding, so-called 'transaction' and 'market uncertainties' (see, e.g., Hallén, 1982; and Håkansson & Wootz, 1975). All business relationships between companies are based on more or less common interests. Each relationship has a certain duration, but it is above all in long-term business relationships that a mutual exchange dependency is created. Business relationships of major importance can be of a very long duration. However, since different parties control different resources and activities, their perceptions of what the collaboration involves and what will happen in the future are not always clear. This is why conflicts and power struggles occur, both within and between collaborating companies.

A third reason for drawing up a contract that does not depend on whether its usefulness is greater than its cost has to do with tradition. In the past, there were a number of rituals associated with entering into an agreement. For example, when an agreement was about to be entered into between a buyer and a seller, certain specific actions had to be performed in order for the agreement to be considered binding. "The buyer put his hand on the goods, threw a copper piece on the scales and simultaneously declared that the object from now on was his property" (Annars, 1974). We may ask ourselves whether today, any such rituals exist and if so, how they are expressed. Could it be simply that we sometimes write contracts only because it 'should be done' and because it is a tradition, in other words, that writing a contract is some kind of symbolic act that confirms the agreement that was made? A business deal without a contract is perhaps not a real business deal?

PREVIOUS RESEARCH AND RESEARCH QUESTIONS

Previous research in this field primarily deals with how the contract is used in order to replace the parties' lack of trust in each other. The uncertainty experienced by one party often refers to future conditions and some of them are directly related to the opposite party in the business relationship. The problem with this is that it is difficult and sometimes near impossible to guard against all possible future eventualities. This is

particularly difficult when the parties seek to protect themselves in a future collaboration that contains multifaceted and extraordinary exchanges. In such collaboration, unexpected situations will usually occur with the result that adjustments have to be made to the content of the collaboration. In other words, a contract is drawn up in order to reduce the uncertainty experienced. Assarsson (1989) reports, for example, that companies with flexible prices use explicit contracts, while companies with inflexible prices use implicit contracts. Skogh (1989) states that the bigger the business deal, the more detailed the contracts that parties write, and that the more rarely they do business with each other, the more extensive the contract tends to be. This means that the greater the trust in the counterpart and in the sanctions that are available, the less complicated will be the contract. Macaulay (1972 and 1963b) states that the advantages of a written agreement outweigh the disadvantages in those cases where it is probable that a considerable problem could occur. This applies in particular to undertakings that are complicated and extend over a long period of time.

How the contract is used as a means of reducing perceived uncertainty can also be expressed as how the parties choose to control their transactions in different ways depending on the degree of closeness and trust that exists between them. Both Williamson (1985 and 1979) and Macneil (1981, 1978, and 1975) have developed analytical models in order to understand how companies control their transactions and business relations. The basis for these analytical models is the three different approaches to contract theory: classical, neo-classical and relational contract law. In brief, it may be said that the simpler and the more occasional a transaction, the more classical the agreement will be and the more complicated and recurrent a transaction, the more relational the agreement will be. Despite the fact that both researchers start off largely from the same premise for their analyses, Williamson's view of business people differs from Macneil's in at least one significant way. Williamson assumes that business people are opportunistic in their behavior in order to achieve efficiency, while according to Macneil, business people look to their business partners for cooperation and solidarity.

Many researchers have employed the models of Williamson and Macneil to analyze companies and their transactions. Ring and Van de Ven (1992), for example, argue that different combinations of risk and confidence cause transaction parties to choose

between four forms of control: the occasional, recurrent, relational, and hierarchical form. In other words, the level of risk and confidence determines the control structure of the transaction. At a low risk and a low level of confidence, the market will control the transaction. With a high risk and low confidence, the transaction will be hierarchical. Low risk and a high degree of confidence result in recurrent control whereas, a high risk and high level of confidence leads to relational control. Bolton et al. (1994) claim that such relational control also reduces the transaction costs of the contracting parties. In their comparative study, these authors found that business relations in US companies are more short-term (neo-classical) than they are in Japanese companies (relational).

Two other researchers who have utilized the models of Macneil and Williamson are Campbell and Harris (1993), who have attempted to explain what types of behaviors are exhibited in connection with the establishment of long-term contracts (viewed as analogous to partnership). Their study shows that parties in a long-term business relationship want to preserve and develop the relationship as long as confidence remains; as long as the usefulness of the relationship is greater than what can be offered elsewhere; and, as long as neither of them refrains from continued investments in the relationship.

In the literature, we find three reasons for drawing up contracts. The first reason is that one party wants to use a contract to transmit information to another – in other words, the contract can be regarded as a communication tool. The second reason involves a desire to reduce perceived uncertainty and the task of the contract is therefore to function as a means of reduction and proof. The third reason is that it is customary to do so. Hence, the contract is a symbol that proves the existence of the business deal. Usually, it is one of these three reasons that leads to the writing of a contract. Of course, several reasons may also exist at the same time. For example, it cannot be excluded that there may be a need to reduce perceived transaction and market uncertainties while there is also a need to communicate.

Apart from the reasons for drawing up contracts, organizations also use contracts in three different ways, as discussed by Roxenhall (1996). Firstly, they use them as proof in case of a conflict. In the event of a conflict situation, the contract can be used to refer to the rights and duties agreed upon. In this way, both the principal party and the representative of the other party can be protected from damage. In cases where the

personal relationship between the negotiating parties is deep, the wish is to protect one another in case of a conflict; for example, if one of the two persons involved should leave their position. Secondly, the contract has the function of controlling individuals within the company's own organization, individuals in the organization of the other party and individuals in the organizations of competitors. Thirdly, the contract is used as an interpretation tool; as an aid to interpret those contents of the agreement that were not explicitly expressed.

In his case study, Roxenhall (1996) argues that often, there is a combination of different reasons. However, he named one common denominator in all the cases he studied, and this was that the contract was used as proof in all cases. Since this particular reason appeared so clearly, there is no reason to further discuss it here.

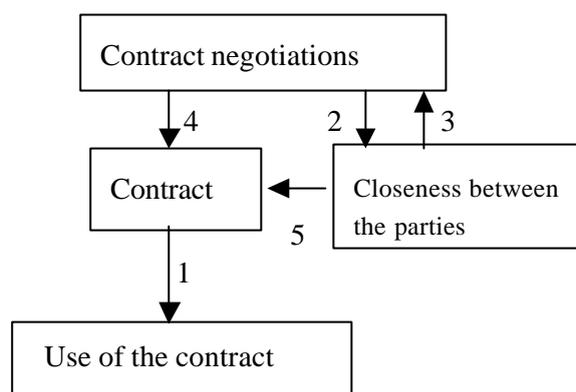
This study endeavours to answer the following questions: How is the contract, as a written agreement, used as a communication tool by its originator? Also, what are the particular aspects that affect its use? This question needs to be further defined. For one, all business relationships consist of at least two parties. The focus of interest here is primarily on how one of the two, namely the seller or the supplier, uses the contract. However, the influence of the other party must be taken into consideration. The study also takes a look at the originators of the contract. Since at least two parties are involved in drawing up a contract, this means that at least in purely conceptual terms, the representatives of the two parties should be regarded as originators. However, the identity of the representative and that of the originator are not always a given. The signatories do not necessarily have to be the authors of the text. In most cases, it is the individuals who actively work for the business relationship, the seller and the buyer, who compose the body of the text and organize the incorporated clauses. They are the ones called 'originators'. As previously mentioned, the focus of this study is directed towards one of the organizations and therefore, also towards how the originator or representative of one party uses the contract.

THE ANALYTICAL MODEL

The process of interaction between the parties has a mutual effect on the characteristics of the participants, the environment and the closeness between the parties. These factors are also considered to be the causes behind how the contract is formulated, which in

turn, affects the actual use of the contract. Independent factors are also considered to have an indirect effect on how the contract is used. Different product exchanges, negotiation processes, individual preferences, technologies and organizational structures not only affect the design of the contract, but also play a determining though indirect role in how the contract will be used. Also, branch contracts are considered to have a direct effect on how the contract is constructed (Figure 1).

Figure 1. Factors influencing the use of contracts.



A common denominator between exchanges, contract negotiations, and the closeness between the parties is that the analysis finally ends up in the transactional-relational dichotomy. This also largely applies to the contents, properties, and structure of the contract. In other words, we can say that analyses can be performed at different stages, but they basically all involve determining whether the contract behavior of the parties is of a transactional or of a relational character. The discussion on how the various factors relate to each other will be further developed in the following sections.

The contract

The term ‘contract amount’ refers to the total amount that the buyer or owner of the right of use undertakes to pay. It is reasonable to assume that the higher the contract amount, the more careful and detailed the control that is exercised, both on the part of the party’s own individuals and on that of the other party.

The number of pages and how they are distributed in the main contract and appendices constitute the extent of the contract. An extensive contract is more cumbersome to send and more difficult to understand than is a less extensive contract. This should result in less frequent use of extensive contracts than of ones only a few pages in length. The

term 'character of the information' refers to the technical, administrative and commercial content of the contract. These categories are measured separately in number of words and pages and are related to each other and to the total content. A contract with a large technical content is probably used to control the production staff of both the party's own organization and the other party's organization, while a contract with a more commercial content serves to influence the party's own sales staff. A contract with a primarily administrative content is probably used to coordinate the delivery and goods reception activities of both parties.

In summary, Arrow 1 in Figure 1 illustrates the contract's effect on the use of the contract. An effect can come about in five ways: (1) a unilaterally drawn-up contract is used by the originator to control individuals in the other party's organization; (2) the less extensive the contract, the more it will be used; (3) the more technical a contract, the more it will be used to control the party's own production staff and that of the other party. Also, the more commercial a contract, the more commonly it will be used to control the party's own salespeople. Finally, the more administrative the content, the more the contract will be used to coordinate the delivery activities of the two parties; (4) if the signatories of the contract are marketing people, attempts will be made to control production and finance personnel, and if they are finance people, it will lead to attempts to control sales and production personnel; and finally, (5) if the contract contains liability exemption and penalty clauses, it will lead to attempts to control the staff of the other party in every detail. However, if the contract contains regulations for changes in the conditions, the contract will be used to coordinate the activities of the parties.

The contract negotiations

Contract negotiations are analyzed on the basis of five phases: the offer, discussion, adjustment, preparation and the final negotiation phase. Each individual phase is studied on the basis of its duration, the issues that are discussed and the contact the parties have with each other. The contract negotiations probably do not have any direct effect on the eventual use of the contract, but it is assumed that they will primarily influence the contract and the closeness that will be created between the parties. The contract negotiations can even be said to have the important function in bringing the parties closer together (Ghauri, 1983). It has been shown that if one of the contracting parties is strong and the other weak, the stronger negotiation party often sets both the agenda and

the contract proposal. This in turn has effects on the negotiation results. The result will probably be a unilaterally drawn-up contract.

There is also a probable mutual relationship between the duration of the negotiations and the closeness of the parties. Long-term negotiations, for example, are likely to result in increased closeness since the parties get to know each other better. On the other hand, if the parties already have a close relationship, the negotiations may be short. Ghauri (1983) proposes that the shorter the negotiations, the fewer the perceived conflicts.

There is probably also a relationship between the qualifications of the negotiators and the issues that are discussed. When the qualifications of the negotiators are of an overwhelmingly technical character, concrete issues will dominate. In cases where relational issues predominate, this is probably so because the qualifications of the actors are of a more social nature. This in turn is because negotiators with a technical background mostly prefer technical issues, while those from a commercial background give precedence to other issues (Ghauri, 1983). There is probably also a connection between the negotiation experiences of the participants, and how routine the negotiations are and their duration. Ghauri expresses the opinion that the more experience parties have of a certain type of negotiation, the shorter it will be.

Relations between the contracting parties

In order to determine whether business relations should be considered to be transactional, simple, or integrated, we scrutinized relations between contracting parties, as well as the coordination of activities, resource connections, duration of the agreements, the precision and planning of the contracts, and the shifting and distribution of advantages and obligations.

The relations between parties do not only affect how the contract is used, but also, what its content will be and how the contract negotiations will take place. In his 1983 study, Ghauri observes that closeness between negotiating parties increases with long-term negotiations, which in turn has a positive effect on the final negotiating phase. As previously mentioned, close relations can also result in short individual negotiations. For example, if there are strong connections between the parties, the seller does not have to 'sell' their services and products to the same extent that they have to do when the parties do not know each other. Likewise, discussions involving prices, delivery conditions and quality issues are probably less extensive when relations are close (Ford

et al., 1998). By the same token, a transactional relationship leads to a rigorous and concrete contract, and integrated relations lead to considerably softer and more abstract formulations. The transactional contract is primarily used as a concrete means of control, while the integrated contract is used to transmit information in a smooth manner. Transactional relations result in the contract negotiations being primarily concrete, whereas integrated relations lead to a discussion of issues that have to do with the future collaboration of the parties. In this context, Ghauri (1983) argues that if the parties belong to different cultural environments, if in other words, there is a transactional relationship, the parties will come to focus more on commercial and legal issues. However, if the parties are from the same country, and therefore, if it is a question of a less transactional relationship, the focus will be on more technical issues. Since in neither case, the relations can be characterized as integrated, the issues are concrete. Although parties from the same country have the advantage of being familiar with each other's customs and behavior, an integrated relationship will not necessarily ensue.

METHODOLOGY

Agreements are multifaceted and multidimensional processes, and it is therefore necessary to study them in detail. Early on in the research, the case study method emerged as the obvious choice for the present study. In order to obtain a holistic picture, it was deemed appropriate here to use both oral and written sources.

Since the individual characteristics of the parties affect the exchange, the interparty relations, and, consequently, the use of the contract, it was decided in advance that each individual study unit would represent three different characteristics. Firstly, the companies were located in different parts of Sweden. Secondly, they used different technologies, and thirdly, they differed in their exchanges with the other party.

By selecting parties with different technologies, the likelihood increased of finding contracts with a varied content. Since each contract consisted of both a supplier and a buyer, the concept of 'technology' was defined in two different ways. 'Supplier's technology' was taken to refer to the degree of complexity of the product (the exchange), while 'buyer's technology' refers to how technically complex the production method was (Håkansson, 1982). The values of low – medium – high were selected,

depending on how complex the supplier's products were considered to be. 'Low product technology' meant that the product in the exchange had a low degree of complexity and that it was therefore easy to define and specify, while 'high product technology' meant that the product had a high degree of complexity and that it was more difficult to define and specify.

This resulted in three cases hereafter referred to as the 'software', the 'component', and the 'plant case'. In the first case, the 'software case', the seller delivered an administrative computer system to the buyer. The product technology of the seller was deemed to be of high technical complexity, since their product was very multifaceted and complex and it consisted of license rights for a computer program, a plan for future development of the program, installation and training. The seller mass produces details for products such as cell phones.

In the business relationship that exists in the second case (the 'component case'), the seller delivers both standard and custom-made components, with the latter product having been developed jointly by the seller and the buyer. The third case (the 'plant case') involves a contract between a Swedish seller and a foreign buyer. The seller delivered a complete production plant to the buyer. The product technology of the seller was classified as high, since their products for the most part were considered to be very complex. The product technology that the buyer was considered to have was high, since they produce their products through automated processes.

These three cases can also be said to represent three different types of business deals. In the software case, software and consultation services were delivered; the component case involved standard components. In the plant case, a complete industrial plant was delivered. These characteristics of course correspond to one of the independent variables of the study – the complexity of the product.

CASE STUDY RESULTS

The contract

The effect of the contract on the use of the contract is represented in Figure 1 by Arrow 1. In the analytical model, five different hypotheses were formulated, which are associated with this relationship. The first hypothesis proposes that a unilaterally drawn-up contract results in an attempt to control and coordinate the opposite party's

individuals. In both the software and the component case, the contracts were drawn up unilaterally. However, it was only in the software case that the stronger party was studied. In the component case, the buyer and not the seller produced the contract. In the software case, there was an attempt to coordinate the activities of the other party, with the intention of creating exactitude and precision in the deliveries. The originators tried, in other words, to control the other party's individuals by using the contract to delegate responsibility in such a way that everybody would know who should do what. This delegation was also directed towards individuals in the party's own organization. The software case was the only case that exhibited an effect on the organization of the other party; at the same time, it was the only case that involved a unilaterally drawn-up seller's contract. In this context, the following proposition can be formulated:

Proposition 1: A unilaterally drawn-up contract is used by the originator to control individuals in the opposite party's organization.

The second hypothesis puts forward the notion that a more extensive contract is used less frequently than is a contract only a few pages long. In two of the cases, this hypothesis was verified. In the software case, the contract was not particularly long (i.e., 32 pages), and it was used often and extensively. In the plant case, the contract was considerably more extensive (153 pages) and was not used very extensively. The third case, however, does not seem to support the hypothesis. The contract in the component case was not very extensive, and it was not used very extensively. One explanation could be that it was not the analyzed party that drew up the contract but the opposite party. In other words, it is quite possible that the party that was not studied, the one that unilaterally drew up the contract, may have used the contract extensively. In that case, the hypothesis would be supported. In spite of the fact that there were no clear empirical indications that this was the case, it can still be considered probable that there is a relationship between the extent of a contract and the degree to which it is used. In conclusion, this can be summarized as follows:

Proposition 2: The more extensive a contract, the less frequently it is used.

The third hypothesis has to do with the character of the information contained in the contract. In the analytical model, it was assumed that a contract with a predominantly technical content would result in it being used to control the party's own production personnel and that of the opposite party. A predominantly commercial content, on the

other hand, would be used to influence the party's own sales staff, while a contract with a mostly administrative content would probably be used to coordinate the delivery operations of both parties. The empirical result, however, shows that the contracts in all the cases had a predominantly commercial content and that they were not used to control the party's own sales staff. For this reason, this hypothesis must be rejected. However, if we disregard the commercial content, the contracts appear to be very characteristic. Both the software contract and the component contract were characterized by administrative information, while the plant contract had considerably more technical substance. From this perspective, the hypothesis is supported. The administrative contracts (i.e., the software and component cases) were used to create accuracy and precision in the deliveries, and the technical contract (i.e., the plant case) was used to ensure that the product conformed to the contract specifications and that it was delivered in accordance with standard procedures, which implies control of the party's own production personnel. In other words, the original hypothesis should be adjusted to state not that it is the predominant content of the contract that is the determining factor for how it is used, but that if the contract is extensively administrative or technical in content, this will determine its use. The following propositions can be formulated based on hypothesis 3:

Proposition 3: A contract with an extensive administrative content is used to coordinate the delivery operations of the two parties; and

Proposition 4: A contract with an extensive technical content is used to control the party's own production operations.

The fourth hypothesis deals with the individuals who sign the contract. If a sales manager or another person in marketing is the signatory, it is assumed that an attempt is being made to control production and finance personnel, while people in finance are assumed to want to control individuals in sales and production. The results show that in all cases, the analyzed companies' marketing and salespeople signed the contracts. And at the same time, it was found that all of them tried, to a varying extent, to control their own production personnel. Since no variations exist in these cases, it is difficult to report a possible support for the hypothesis.

The fifth hypothesis deals with different types of contract clauses. Contracts that contain liability exemption and penalty clauses, but lack clauses to regulate changes in

conditions, are assumed to be used for detailed control of the individuals of the opposite party, in other words, for exercising power over them. By contrast, contracts that contain regulations for changes in conditions and preambles are assumed to be used to coordinate the activities of the two parties. The empirical results show, however, that all the contracts contained both types of contract clauses. Consequently, the hypothesis must be rejected. We should point out, however, that there was an important difference between the contracts. In the software contract, there was a renegotiation clause that was not found in the other contracts, which, however, should not be accorded too much importance. The contract and the renegotiation clause were drawn up unilaterally by the stronger party in the business relationship, but the clause gave the weaker party the opportunity, albeit insignificant, to change the agreement should a certain event take place. In other words, the clause could have been included in order to satisfy the wishes of the weaker party. No other originator objective could be clearly discerned.

The contract negotiations

With regard to contract negotiations, six hypotheses connected to Arrows 2, 3, and 4 in Figure 1 were formulated in the analytical model. Firstly, it was assumed that the stronger negotiation party dictates the content of the contract (Arrow 4). We found that in the software case, the contract was drawn up unilaterally by the stronger party. Consequently, the hypothesis provides support for the following proposition:

Proposition 5: The stronger negotiating party draws up the contract unilaterally.

It was assumed that long-term negotiations lead to increased closeness between the parties (Arrow 2) and that if close relations already exist, the result is short negotiations (Arrow 3). The negotiations in the software case were considerably longer lasting than were negotiations in the two other cases. However, whether the negotiations in the software case had created closer relations between the parties could not be determined. Still, there seems to be a connection between the closeness of parties and the duration of the negotiations. Business relations between the parties in the software case were considered to be superficial and transactional and they also had the longest negotiations. Relations in the two other cases, however, were deemed to be more relational and the business negotiations in these two cases were considerably shorter. This suggests that

the relations between the parties affect the duration of the negotiations. The following proposition can therefore be formulated:

Proposition 6: The closer the relationship between the parties, the shorter the individual contract negotiations.

The third hypothesis deals with the issues that are discussed during the negotiations (Arrow 4). If predominantly concrete issues are discussed, the result is a detailed contract with a technical content. On the other hand, if the issues are of a mostly relational character, there will be a less detailed contract with an administrative content. In the empirical material, it is clear that in all the cases, it was concrete issues that predominated. However, the hypothesis was not supported since the contracts were not dominated by technical content, and this therefore does not support a formal proposition.

The fourth hypothesis (Arrow 2) involves the contact pattern of the negotiators. It was proposed that extensive contact between the negotiators leads to increased closeness. However, the results show that most of the contact was seen to take place between the participants in the business relationship that was considered to be the least relational. In the other two cases, considerably fewer individuals were involved in the negotiations. The following proposition can therefore be formulated:

Proposition 7: The closer the parties, the fewer the participants involved in the contract negotiations.

The fifth hypothesis deals with the qualifications of the participants. If their qualifications are predominantly technical in nature, it is assumed that concrete issues will be discussed almost exclusively during the negotiations. If their talents are of a more social character, this is assumed to lead to predominantly relational issues. In the three studied cases, all involved individuals had the task of representing a specific technical, legal, or economic issue. In other words, none assumed a social role. And in all the negotiations, the focus was on concrete issues. Consequently, the hypothesis appears to be supported and the following proposition can be postulated:

Proposition 8: The more technically inclined the negotiators, the more concrete the content of the issues will be.

The sixth hypothesis deals with the experience of the participants in a certain type of negotiation and the duration of the negotiations. The contract negotiations in the

component case were very short compared with the other cases. In the plant case, they were somewhat more extended and in the software case, they were relatively long. The negotiations in the component and plant cases can be considered to have been more or less routine and in both cases, the negotiators had long-term experience of similar business deals and deliberations. The negotiations in the software case cannot be considered to have been routine since though they were certainly routine for the selling party, the buyer's negotiators did for obvious reasons not have much experience in this type of negotiations. The following proposition can therefore be formulated:

Proposition 9: The greater the negotiating experience of the participants, the shorter the negotiations.

Relations between the parties

The effect of the relations between the parties is illustrated by Arrows 3 and 5 in Figure 1. The first hypothesis that was put forward regarding the relations between the parties involves how concrete or abstract the contract will be, depending on the relations between the parties (Arrow 5). It was assumed that a transactional relationship leads to a concrete contract while more relational dealings lead to a softer and less lucid, contract. A transactional contract in turn leads to it being used as a concrete means of control, while the relational contract functions more as a means of coordination between the parties. The empirical results, however, do not support this hypothesis. The parties in the software case had a transactional relationship, but the contract that was issued was not particularly concrete or lucid. The plant contract, however, must be considered to be relatively concrete, while the relationship of the parties must be described as considerably more relational.

Secondly, it was proposed that a transactional relationship leads to a concrete content in the contract negotiations (Arrow 3) and that an integrated relationship leads to discussions about the future collaboration of the parties. In all three cases, the contract negotiations were classified as lucid, which means that the hypothesis is not supported. Consequently, this does not lead to a formal proposition.

CONCLUSION

From the outset, we claim that the core of the study consists of the negotiation process and the contract and its use. The empirical results show that the contract itself, rather

than the characteristics of the contract negotiations, appears to have the greatest influence on how the contract is used.

The contract itself therefore largely influences the use of the contract. A unilaterally drawn-up contract that may have been written by the granting party in a right-of-use agreement is used to control individuals in the opposite party's organization. Such a contract is also used in a more differentiated way than otherwise. We found that a standard contract leads to nondifferentiated use. A less extensive contract is used in a more differentiated way than is a contract that is extensive. A contract with a large administrative content is used to coordinate both parties' delivery operations, while a contract with a considerable technical content appears to be used to control the party's own production activities.

The relations between the parties have a direct effect on the use of the contract. A transactional business relationship appears to lead to a differentiated use of a contract, while a relational relationship leads to a nondifferentiated use.

Contract negotiations do not have a direct effect on the use of the contract; nor do they have any obvious effect on any other group of variables. However, they are affected by the relations between the parties. A relational business connection leads to short-term negotiations with few negotiating delegates participating. The reverse situation is thought to arise where a relationship exists between negotiating experience and the duration of the negotiations. The more experience a person has in the negotiating process, or the more routine the negotiations are, the shorter the negotiations will be. It was also shown that negotiators with technical skills would have discussions of predominantly concrete issues during the actual negotiations.

As was previously mentioned, not all the hypotheses in the analytical model were supported by the empirical evidence. This applies to the relationship between the closeness of the parties and the contract and between the contract negotiations and the contract. However, certain additional observations were made, which can be summarized in propositions that extend beyond the analytical model.

Finally, we will close by repeating the three reasons for why a contract is drawn up, the point of departure for this study. The first reason is that contracts are used to serve internal company purposes by transmitting information to certain individuals. In other words, the contract is viewed as a communication tool. The second reason is that the

negotiators wish to reduce perceived uncertainties, in which case, the task of the contract is to act as a reduction tool, or proof. The third reason for a contract to be drawn up is that it is the 'normal' thing to do.

Regardless of the reason, one may wonder whether it is a common occurrence that contracts are drawn up only to remain lying in a drawer. The three cases studied clearly show that they were not left there unopened. On the contrary, they were used in different ways as a means of communication and a means of influencing individuals and organizational units. And in the case where the contract was used in a differentiated way, one can claim that its role as proof was secondary right from the start, since it appears to have been written primarily to serve as a means of communication. To respond to Macaulay (1963a), then, a contract does not necessarily have to be the 'work of the devil'.

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