The Role of Contractual Design in the Formation and Development of Business Service Relationships

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Abstract
This paper explores the role(s) of contracting in the formation and development of service exchange relationships. Based on review and synthesis of industrial networks and contracting theory, a preliminary conceptual framework is developed to argue that contracting can be conceived as a means of stabilising and changing/adapting service exchange relationships, particularly in terms of their associated activity and resource structures. A single, exploratory case study in the construction consultancy industry context is conducted to test the conceptual frame. Preliminary findings appear to provide some support for the main theoretical conjecture – contracting has a stabilising function since it facilitates a common understanding of service activity and resource requirements at the early stages of exchange relationship formation and it explicates and codifies the exchange object. At the same time, contracting fulfils a changing function by allowing for certain activity and resource adaptations during the exchange.

Keywords: Contracting, contracts, business services, exchange relationships

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1. Introduction

Business service outsourcing and off-shoring relationships have been forming and developing at an increasing pace as organisations both in private and public sectors tend to un-bundle their business processes and capabilities in order to reduce cost and asset investment and improve business performance (McIvor, 2008). Outsourcing firms hand in critical activities and processes to business process outsourcing providers in areas as diverse as human resources, logistics, finance/accounting and ICT (Youngdahl and Ramaswamy, 2008; Sako, 2006). Inevitably, such ventures are not risk-free; key concerns regarding relationship set up and management include the ability to understand and define the exchange object (e.g. in terms of key activities, resources, infrastructure and output), realise the exchange and measure performance as well as the ability to monitor and adapt the business relationship according to changing requirements (see Ellram et al., 2008). Contracts often form an inextricable part of outsourcing relatioships insofar as, and up to the extent to which, they deal with the above concerns. Contracting can help in developing a mutual understanding of the exchange between parties and codiyfing the exchange object (Selviaridis and Spring, 2007; Lindberg and Nordin, 2008). Contracts hedge against economic and operational uncertainties that could potentially obstruct relationship development and exchange effectiveness (Harrison, 2004; Kern and Willcocks, 2000). Different contractual types/forms serve as frameworks for relationship governance e.g. build-operate-transfer (BOT) offshoring contracts are well-known in various industries (Youngdahl and Ramaswamy, 2008) and design-build-finance-operate (DBFO) agreements are widely used in public-private partnership (PPP) projects such as hospital construction/maintenance or facility management services provision (see Zheng et al., 2008).

Contracting processes and contracts, then, seem to play an important part in exchange relationship formation and development. And yet, their role appears to be underplayed within the Industrial Marketing and Purchasing (IMP) research tradition which emphasises co-operation for relationship implementation, trust and relationship continuity instead. Traditionally opposed to the Williamsonian paradigm and its opportunism-based economics of organisation, the IMP scholarship tends to play down the importance of contracting; following the recieved wisdom, it treats contracts as things that are ”incomplete” and ”useless” and fail to capture the interdependent and embedded nature of exchanges (e.g. Collins, 1999; Ring and van de Ven, 1992; Macaulay, 1963). As well-placed as these criticisms may be, one cannot ignore recent conceptual and empirical research which seems to suggest that contracting does matter. Contracting may contribute towards a mutual understanding between parties at the early stages of relationship formation, help construct a shared definition of the exchange and build trust (e.g. Blomqvist et al., 2005). Drawing on Callon and collegaues’ (2005; 2002) work on the qualification process, Araujo and Spring (2006) suggest that service exchanges are constructed and defined through an ongoing process of negotiation among all interested parties e.g. client, service provider, consultants. Such negotiations are often embedded in, and centred around, the *process of contracting* since the final contract agreement (temporarily) stabilises the object of exchange (Selviaridis and Spring, 2007; Lindberg and Nordin, 2008). At the same time, contractual clauses attempt to foresee future destabilisations and changes regarding the exchange; thus contacts also often act as frameworks for ongoing inter-firm interaction and exchange adaptation (cf. Mouzas and Ford, 2006).

Building on such recent insights, the purpose of this study is to explore the role of contracting in the formation and development of service exchange relationships. More specifically, the paper aims at: a) exploring the role of contracting and its outcome, i.e. contracts, in shaping and stabilising the exchange object so as to make services tradable b) exploring how, and to what extent, contracts help in managing and adapting the service exchange relationship. In the next section we present the theoretical background of the study and synthesise IMP and contracting literature to develop our conceptual argument. In particular, we propose that contracting can be conceived as a means of stabilising and changing/adapting service exchanges. Section 3 discusses the methodological choices of the study, whereas Section 4 presents the case study of service provider in the context of the construction consultancy industry. Case analysis and preliminary findings are presented in Section 5. The conceptual frame is revisited in the light of the findings and further work that needs to be done is discussed in Section 6.

2. Literature Review

This section discusses the extant research and develops a preliminary conceptual framework based on a synthesis of industrial networks and contracting literature.

2.1 Stability and Change in Exchange Relationships

Industrial networks research is concerned with the formation, development and evolution of business relationships and networks within industrial markets. The first IMP study focused on the nature of dyadic buyer-seller relationships and developed an “interaction approach” to industrial markets (Håkansson and Snehota, 2002). Empirical evidence challenged classic economic theory and demonstrated the existence of long-term, stable relationships between industrial buyers and sellers. The interaction model conceived the buyer-seller relationship as a stream of exchanges where both were regarded as active parties that were aware of and important to each other (see Håkansson, 1982). Later IMP studies shifted their focus from dyads to networks borrowing from social exchange theory the concept of ”connectedness”; business networks were conceived as sets of connected inter-firm relationships (Araujo and Easton, 1996).

The industrial network model (Håkansson and Johansson, 1992) supplied IMP scholars with a common language and theoretical frame and helped in further operationalising the study of business relationships and networks. It consists of three sets of variables: activities, resources and actors. *Activities* are performed by actors and consume resources in order to develop or create new resources. *Resources* are controlled by actors, they are heterogenous and can be combined with other resources in unlimited ways. *Actors* develop relationships with each other. Each actor in the network has differential knowledge about other actors and their respective resources and activities. It is suggested that the substance of inter-firm relationships refers to the formation of activity links, resource ties and actor bonds between organisations. Activity links, resource ties and actor bonds (dyadic relations) represent elements of wider activity chains, resource constellations and webs of actors (respectively) that are formed within the inter-organisational network (Håkansson and Snehota, 1995).

Activity links, resources ties and actor bonds within business relationships are dynamic and tend to be adjusted or totally restructured over time. Stability and change are treated as structural characteristics of inter-firm relationships and networks (Håkansson and Snehota, 1995). Business relationships (and networks) change over time and such change is to a great extent endogenous (Håkansson and Snehota, 1995). Change is not caused by a faceless environment, but it rather results from inter-firm interactions within the relationship, with organisations essentially acting as change agents (Gadde and Håkansson, 1992). Exchange relationship change results from changes in the way activities, resources and actors are connected to each other (Axelsson and Easton, 1992). This means that change refers primarily to changes in what organisations do (scope of activities) and changes in their resource/capability bases and changes in key actors and their interactions.

Stability and change co-exist and reinforce each other in the sense that the above-mentioned changes are often gradual and continuous. Certain changes and adaptations in activities and resources (e.g. an investment in a dedicated information system) aim to stabilise and strengthen existing relationships (Gadde and Håkansson, 1992). On the other hand, stability and continuity in inter-firm relationships can also prepare the ground for radical changes (such as product innovation). A distinction is made between evolutionary and revolutionary change; the former has a stabilising effect, whereas the latter leads to exchange relationship and network restructuring. Continuous changes and adaptations result from co-ordination processes, where actors co-ordinate and adapt their activities and resources among each other. Radical changes, on the other hand, come about through mobilisation processes with resources and actors being mobilised to break existing activity links and restructure the network (cf. Lundgren, 1992).

Given the focus of the IMP research stream on implementation and continuity of relationships, it is perhaps not surprising that the role of contracting in exchange relationship formation and development has been relatively underplayed (cf. Harrison, 2004). Contracting processes are assumed to take place, contracts agreements are taken for granted and very little is said about their functions with regard to forming, developing and evolving activity links and resource ties within exchange relationships. In recognition of this gap, there have recently been attempts to examine how contractual design can impact on stability and adaptation/change of service exchanges. Contracting often helps in shaping a shared definition of the exchange (cf. Poppo and Zenger, 2002) and (temporarily) stabilising the required activities, resources, outputs and costs through the contract agreement (Selviaridis and Spring, 2007; Lindberg and Nordin, 2008). Due to contractual "incompleteness" (cf. Macaulay, 2003), such exchange stabilisation is often temporary and contracts may also be used as frameworks for ongoing inter-firm adaptation and renegotiation in terms of key activities, resource levels and costs (cf. Selviaridis, 2008; Mouzas and Ford, 2006).

2.2. Contracting and Contract Functions

The bulk of contract theory focuses on transactions that are not immediate in character which raises uncertainty-, effort monitoring- and investment-related issues (Lyons, 1996). It is well established in the literature that contracts are in many ways incomplete and fail to foresee every possible future contingency due to the condition of bounded rationality (cf. Macaulay, 2003). Even if it was possible to plan for every possible contingency, the costs associated with writing such a contract would be prohibitive (Lyons, 1996). Contracts have been examined from a variety of perspectives and continue to attract the interest of lawyers, economists and sociologists alike. The extant literature has mainly concentrated on a dichotomy between short-term, discrete transactions and long-term, relational exchanges.

In his seminal study, McNeil (1980) has fleshed out the differences between discrete and relational contracting. His starting point of analysis is the social nature of the contract, since "never has contract occurred without society" (McNeil, 1980:1). He goes on to present a comparison between discrete contracts and modern contractual relationships. The discrete contract focuses on the immediate exchange and ignores any issues related to relationship development between exchange parties. The goal of the parties is to develop a complete specification and foresee all contingencies in a way that the future is brought into the present (the concept of "presentiation"). On the other hand, relational contracts put emphasis on the continuity of exchange relationships. Modern contractual relations recognise the importance of precise specifications and measurement systems. Planning work entails not only defining the substance of exchanges but also developing supporting structures and processes for future planning, especially in cases of long-term relations. Relationships are partly not presentiated and there is room for flexibility and re-negotiation in case of changing circumstances due to interdependencies between contracting parties and expectations for future co-operation (see McNeil, 1980). In a similar vein, Sako (1992) has drawn a distinction between arm-length's contractual relations (ACR) and obligational contractual relations (OCR), which represent the opposite ends on a wide spectrum of inter-firm transactions. The ACR model refers to discrete transactions for which a formal, explicit contract exists and attempts to fully determine the rights and responsibilities of each party. The OCR model also involves the design of a contract for the exchange of goods/services, but it is embedded in a wider web of social relations between the parties. Obligational contracting puts more emphasis on the development of trust and relationship continuity.

In line with the above discussion, there has recently been increased interest in the comparative performance of relational/trust-based and contractual governance mechanisms. Overall, there seems to be a disagreement in the literature, with contract and trust being regarded either as substitutes or complements (e.g. Lee and Cavusgil 2006; Cannon *et al.*, 2000) or even as both substitutes and complements (Woolthuis *et al.*, 2005). This research stream has been criticised for conflating contracts and business relationships. Collins (1999) discusses the business relationship, the deal and the contract agreement as distinctive frames of reference for evaluating contracting practice. In contrast to the discrete-relational contract dischotomy, he argues that all three dimensions are present but contractual behavior may attribute a dominant position to one or another at any particular time or case (Collins, 1999). For example, a supplier may toletate a payment delay and avoid requesting for a penalty to be paid (according to contractual safeguards) on the expectation of securing more business from a specific customer in the future. However, the same supplier can invoke the contract agreement at any time when it no longer values customer relationship continuity or when economic cost-benefit analysis dictates contract enforcement (cf. Collins, 1999).

However, contracts are more than just planning documents whose role is to prevent opportunistic behaviour. The extant literature suggests that they often fulfill alternative functions in the broader context of inter-organisational relationships:

1) *co-ordination* function – reducing ambiguity during the exchange period and delineating roles and responsibilities bewteen parties (e.g. Blomqvist *et al.*, 2005).
2) *communication* function – increasing understanding between parties during the contracting process (e.g. supplier understanding of buyer’s requirements) and enhancing information and knowledge sharing flows during the exchange period (e.g. Poppo and Zenger, 2002).
3) *codification* function –constructing a shared definition of the exchange (e.g. Lindberg and Nordin, 2008) and codifying accumulated inter-firm knowledge and efficient collaboration methods developed over time (e.g. Mayer and Argyres, 2004)
4) *learning* function – explicating inter-firm learning developed over time in contractual negotiations and embedding it into contracts (Argyres et al., 2007).
5) *adaptation* function – having the built-in flexiblity that allows for service exchnage adaptation and relationship re-negotiation in case of changing circumstances (e.g. Mouzas and Ford, 2006; Poppo and Zenger, 2002).

2.3 Synthesis

The IMP notions of stability and change in inter-organisational relationships are synthesised with contracting literature with the purpose of examining service exchange relationships from *a contractual point of view*. This remit is deemed necessary and important as contracting appears to form a vital part of exchange relationship formation and evolution (cf. Harrison, 2004; Mouzas and Ford, 2006; Kern and Willcocks, 2000). It should be noted that the two theoretical perspectives are used in a complementary fashion without any intent to play down differences in their ontological assumptions. Rather, the overarching aim is to explore the role of contracting into service exchange relationship dynamics.

Building on recent research regarding the dynamics of service exchange definition (cf. Selviaridis and Spring, 2007; Araujo and Spring. 2006; Lindberg and Nordin, 2008; Mouzas and Ford, 2006), we hypothesise that the process of negotiating and writing the contract as well as renegotiating the exchange through the contractual frame instigates cycles of stability and change/adaptation within the exchange relationship. The notions of stability and change are further operationalised here in terms of activity links and resources ties between the service provider and customer firm (see Håkansson and Snehota, 1995). Based on literature review, we develop a preliminary conceptual framework proposing that contracting and contracts could be conceived as a means of *stabilising* and *changing* activity and resource structures within service exchange relationships (see Figure 1). The preliminary analytical frame is put forward for empirical testing and is subject to further refinement/extension.

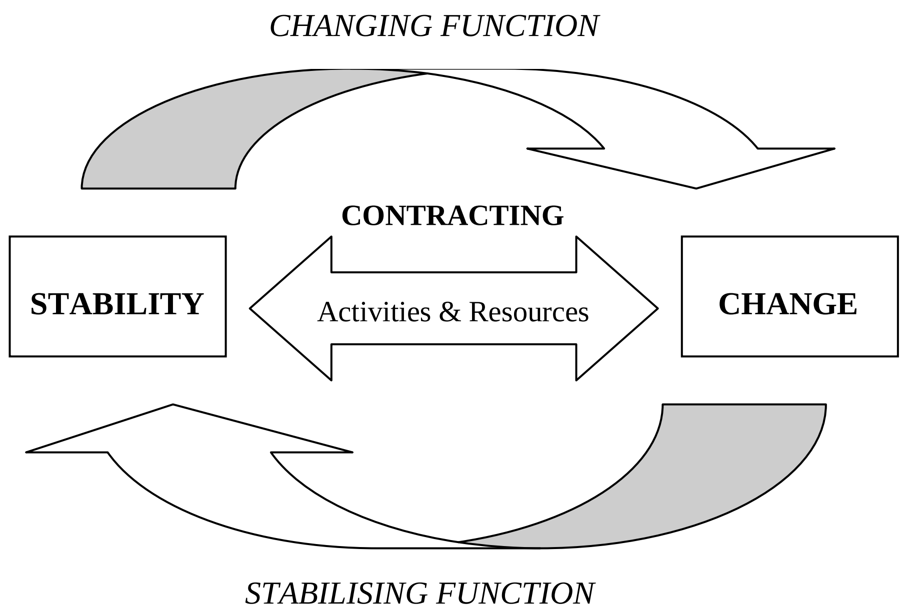

Figure 1: The Role of Contracting in Stabilising and Changing Service Exchange Relationships – A Preliminary Conceptual Framework

The process of contracting can help increase understanding of service requirements as well as shape and codify service activities and resources. The contract agreement stabilises, only temporarily though, the object of exchange. Contractual provisions and clauses can help co-ordinate adaptations and changes in service activity and resource structures with the aim of strengthening and further stabilising the exchange relationship. We use this theoretical pre-understanding to empirically explore the role of contracting in service exchange relationship formation and development. In particular, we are interested in exploring the following research questions:

1. How, and to what extent, does contracting (and its product i.e. contracts) helps in shaping and stabilising activity links and resource ties within the exchange relationship?

2. How, and to what extent, do contracts help in managing change/adaptation in terms of activity links and resources ties within the exchange relationship?

3. Method

The case study method was employed to address the research aim for two key reasons. Firstly, case-based research allows developing in-depth understanding (cf. Voss et al., 2002) of business relationships which are complex and dynamic in nature. Building on recent research, this paper aims to explore the role of contracting in exchange relationship formation and development and case studies are ideal for such exploratory enquiries (Yin, 2003). In-depth, qualitative study allowed gathering data on contracting (e.g. specification documents and contracts) as well as on the broader context of relationships (e.g. past exchanges). Secondly, and in line with the theoretically-driven intention to treat contracting as a means of stabilising and changing exchange relationships, case research allowed capturing business relationship dynamics. Data on the contracting process were gathered largely in a retrospective fashion (cf. Leonard-Barton, 1990).

A single, exploratory case study was conducted to answer the posed research questions. The case company is a service provider of project management, design co-ordination and construction management services for industrial building. This type of industry context can be considered as suitable empirical study on service contracting due to the specific nature of these types of services. As they are related to constructing and engineering, typically different types of regulations determine much of the actual work in projects. Thus in the selected industry context the role of contracting is very important. It is vital that all the needed regulations are followed and this is typically secured through contracts. On the other hand, the existence of long customer relationships, which is typical for the selected case company, enabled us to also have a look at role of contracting at the relationship level. The service provider company recently adopted a novel contracting process based on engineering, procurement, construction and commissioning of capital expenditure projects principles. This contracting tool can be described as a very detailed way of defining the tasks and activities of the individual managers involved and their responsibilities in the service projects.

Data were mainly collected through semi-structured interviews with service provider personnel as well as managers from two customer companies. Different types of documents, e.g., customer magazines, company web sites, product brochures and the contracting software presentation were also proved as important sources of evidence and helped in triangulating interview accounts (Yin, 2003). Five persons from the service provider company were interviewed at the service provider and four persons from two customer companies (see Table 1). The interviews covered, quite broadly, issues around the customer-service provider relationships, project cycles and service processes. More specific themes and discussions were based around the different aspects of contracting. The interviews were recorded and transcribed.

Table 1: Interview Data

Organization	**Status of the interviewee**	**Date / duration of the interview (hour:min)**	
Case company (service provider)	Quality Manager	21.1.09	1:27
	Department Manager	23.2.09	1:41
	District Manager	5.2.09	1:08
	Office Manager	13.2.09	1:18
	Vice President, Project Management	27.2.09	1:38
Customer Company A	Factory Service Manager	28.1.09	1:16
	Automation Specialist	5.3.09	1:19
Customer Company B	Large Industry Project's Owners' Representative and Production Manager	13.2.09	0:51

Data coding and analysis was initially informed by the preliminary conceptual framework (see Section 2.3). The data analysis was conducted using the NVivo software. All the transcribed interviews were imported into the software and in the first round of analysis the data was categorized using two main codes derived from the conceptual framework. These codes were 1) resource contracting and 2) activity contracting. After the first round of coding both of these themes were analyzed separately and in more detail, focusing on the stabilizing and changing functions of contracting and contracts.

4. A Case Study of Professional Services

The case company is a professional service firm providing engineering and project management services. The company operates worldwide and has operations in 45 countries and personnel of about 8,000 people. The company's turnover in 2006 was some 650 million Euros and its three main business areas each represent about one third of the turnover. The company's business consists of project assignments covering the entire lifecycle of their customers' investment projects. The company provides both management consulting services and technical professional services. The services of the company can vary extensively from a simple engineering service (e.g. structural engineering) to a complex EPCM (Engineering, Procurement, Construction and Management) project and even intense management consulting. In our empirical study, we especially focused on a particular unit providing wide-ranging professional services based on technical expertise in planning and implementation of industrial building.

The service provider has a long history of providing engineering services for the industrial customers. It has grown from a small engineering office to a global provider of professional services to several industries. It has many very long customer relationships dating back several decades. On the basis of its long history, it has been able to develop many processes which it can utilize in serving different customer industries. Based on its long experience in project management services, the company has recently adopted a novel contracting process based on engineering, procurement, construction and commissioning of capital expenditure projects principles. The model is a project management method which defines the areas of the project and tasks that are needed in every capital investment project. The model enables a clear definition of the responsibilities of the parties involved in a project. All the processes needed in planning and implementing complex investment projects are built-in the software. Every task that needs to be done is carefully depicted in terms of what is included and who is responsible for each process area and task. As a result of this model, the software in question produces up to 1,000 different documents automatically.

This software is used as tool in marketing, contracting and project implementation. At the initial phases of prospecting for a potential project, when meeting with the potential customer they can use the software to present on the general level the variety of services they can offer in complex investment projects. During the contract negotiations they go more in-depth through the process areas and activities of a project using the software. Finally, during the project implementation phase they use the software and the documents created through it as guidelines for the actual work. Also, if during the implementation phase some needs for changing the contract emerges they can return to the software and define the scope of the project and the responsibilities of the actors again.

The actual software was not yet used to any great extent in the company's customer projects. This is due to the fact that the software has only recently been taken in use but also because the software is regarded as too heavy tool for managing small assignments and projects with existing customers. The model is regarded as best suitable for large and complex projects and when starting co-operation with new customers or customers to whom the project represent a unique and perhaps once in a life-time project. The service provider felt that the more traditional ways of contracting were more suitable when operating with old customers through personal contacts involving trust. However, the developed software reflected the way the service provider perceived the problems related to contracting in complex professional services that they provided. In other words, even though they did not use the actual software every time, the way they operated with a customer typically followed the same principles.

5. Case Analysis

5.1 Stabilising Function

The service provider operates in a project business and often the services are related to large investment projects of the customers. These kinds of projects are typically very complex and require vide range of different activities ranging from project planning, technical planning work, applying for different types of permissions from authorities, procurement, management of sub-contracting and actual construction etc. In the contract, the service is typically defined in terms of task lists which are based on national building information foundation's suggestions.

> ”If we consider the planning and implementation of a typical industrial investment project, there exists a quite many small things that if we would write these all down, it would be a huge list. And

> who would be able to evaluate such an offer? Checking if there is all that is needed?" [Department Manager].

In order to handle this complex set of activities needed and the responsibilities related to these, the company had developed the contracting software. The software includes four main functions covering project, engineering, procurement and construction. For example, project management consist of ten processes. For example, contract management is one of these and it is in turn further divided into several tasks including various different types of deliverables. The software also defines important areas such as health, safety and environmental aspects that need to be considered in industrial infrastructure projects. By using the software, the service provider attempts to ensure that all tasks needed in any type of project are performed on time and that all parties know their responsibilities. The level of responsibility that the service provider is willing to accept is stipulated in the contract as well. This is important due to the way the services provided by the case company can be intertwined to the offerings of other counterparts, e.g. technology or equipment providers.

> "If we make the plan that, OK, here we have the core production process and here we have a specific water pump or a suchlike peripheral device, we are responsible for planning it right. However, it is the equipment manufacturer that is responsible for functioning of the device, not us. We want to go these things through very carefully in the contract. Who takes the responsibility of different decicions; it is an essential issue in terms of the contract. " [Vice President, Project Management].

Concerning the contracting process, during the negotiations the responsibilities are seen as very sensitive issues. The case company does not want to start with creating an impression that they do not want to have any responsibility over anything. This can create a very negative atmosphere. The case company as a set of bullet points that they each time go through with the potential customer in order to have a joint understanding of the things that should be discussed. This list is in line with the general structure of the contracting software which follows the bullet point list. They also see that it is important to be able to make the customer understand that they need to take the responsibilities into account when pricing the services because the responsibility may become very expensive.

In terms of professional services, the personnel and their expertise are the main resources of the service provider. In our case, especially in the customer relationships with long history, the importance of the particular know-how of a certain expert was evident. Customers who had previous experience wanted the exactly the same engineers involved in new projects as well. It was typical, that specific experts were mentioned in the contracts or at least in the appendices.

> "If not in the contracts, at least in the appendices we want to have a list of names. This is because the quality relies in the people and if we know already certain experts, we usually want to engage them in to the project." [Head of maintenance services, Customer organization]

Since the role of person-specific expertise in this kind of service business, the experts were considered as essential resources also in terms of negotiating the contracts. Typically, in technical engineering services the experts were classified into a couple of classes on the basis of their education and professional experience. This classification was based on the national level by the central organization of the industry. This classification was used in pricing the services. For example, they might have a clause of a contract stating that three engineers of class A and four engineers of class B are in the specific project. During the negotiations, they could negotiate the price by changing the classification of the specific experts as the following quotation illustrates.

> "I have seen some tough negotiations where we have demanded that certain engineers with a high classification are bought using a rate of a lower classification." [Head of maintenance services, Customer organization].

Concerning the definition of the resources in contracts, the definition of incentives, that is bonuses and profit-sharing or cost/saving agreements in order to increase resource efficiency in the project was also essential. One of the main issues when starting planning a new deal is to decide whether it is to be a fixed price of an hourly rate –based project. Basically, of course the problem of determining a fixed price is related to problems of defining the activities beforehand. On the other hand, from the customer's perspective, the hourly-based pricing creates the uncertainty related to the work efficiency and professional skills of the engineers involved in the project. Through using incentives that generate a concrete mutual goal the efficient use of resources in the project can be strengthened.

> "If we built the incentives right, it is evident that it is also in our interest to make thinks efficiently and fast. It directs everything more clearly towards what the customer wants. So that our only goal is not to make more money. Creating right kinds of incentives is important from the initial phase of contracting." [Head of maintenance services, Customer organization A]

5.2 Changing Function

Contracting is seen to play a twin role during the project implementation phase. On the one hand it was considered, that if everything goes well, the contract is actually an unnecessary piece of document which they never have to look again after it is signed. This was typically related to small projects and projects with existing customers. However, especially in terms of more complex projects, the contract was considered at best to be as more as a tool for managing the projects which are continuously used and supplemented during the project.

> "There in the contract we have the jointly agreed rules of the game and if we need to make changes to them we will make a proper appendix. It might be that during a project there are twenty appendices that are added to the contract. And it is not necessarily a negative thing it is more like an indication of the way both counterparts make adaptations and is flexible. Of course, there are instances when the contract is used to make claims for damages." [Vice President, Project Management].

Especially in complex investment projects, there are several factors which can create needs to make changes to the contracts. For example, in contexts where technologies develop at high speed, during a long investment project simply the emergence of better technological solutions may create needs to make modifications to the exchange through the contractual clauses. Also, sometimes the improvements come up during the project based on the expertise of the service provider. The projects typically involve a great number of different actors, e.g. sub-contractors and technology providers. These actors may prove to be incapable or have other types of needs to change their role in the project. This can also create needs for change in the contracts, e.g. increase the work load of the service provider. In some cases the customers start with having a lot of responsibility over the project by themselves. As the project goes on, they may find it too demanding to take such a big role and renegotiate the contract so that the service provider ends up having a bigger role in the project. Finally, sometimes also the customer may want to take more responsibility over the project management or changes in personnel may create need to make modifications to the contracts.

6. Discussion and Conclusions

The purpose of the study is to explore the role of contracting in the formation and development of service exchange relationships. More specifically we set out to explore the role of contracting and its outcome, i.e. contracts, in shaping and stabilising the exchange object so as to make services tradable. Also, we are interested in finding out how, and to what extent, contracts help in managing and adapting the exchange relationship. In the conceptual part of the study we synthesise IMP and contracting literature to develop our analytical framework. In the empirical part of the study a single, exploratory case study has been conducted to answer the posed research questions.

Preliminary research findings provide some support for the main argument that contracting is a means of stabilising and changing/adapting service exchanges in terms of associated activity and resource structures. Empirical evidence highlights two aspects of the stabilising function of contracting: a) developing common understanding of service requirements at the early stages of exchange relationship formation and b) explicating and stabilising the exchange definition through the contract. In our exploratory case the specific contracting software acted as a tool for making the service activities and resources more visible to the client and service provider. In this way parties were able to construct a common understanding of service exchange requirements. By carefully going through and defining all the needed activities and determining the key resources (experts) for a given project, the contracting parties were able to share and stabilise an acceptable definition of the exchange and thus make the service tradable. Data also suggest the contracting fulfils a changing function insofar as it allows for activity and resource adaptations. Contracting provided for actual and potential adaptations to the exchange (e.g. changes in responsibility allocation during project implementation, change in resources utilisation in terms of expert personnel and potential changes in technology). This was achieved both through contractual clauses and the contracting software capabilities.

Further work is of course needed to develop this work-in-progress paper; both in terms of refining the conceptual framework and conducting further case research. In particular, we plan to collect more detailed data on service activities and resource links and examine, in a longitudinal fashion, how these are adapted. More case studies in a variety of service contexts should be conducted, including cases where contracts are used to terminate exchange relationships and 'break' activity and resource links. Future research would also focus on other potential aspects of stabilising and changing functions of contracting e.g. codification of inter-firm learning accumulated over past exchange episodes through the contract agreement. It is hoped that such forthcoming developments will enhance our understanding of contracting roles in forming and managing service exchange relationships.

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