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Embeddedness Unpacked: Constitutive Elements and Facilitating Factors of Relational Exchange in Supply Chain

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Embeddedness Unpacked: Constitutive Elements and Facilitating Factors of Relational Exchange in Supply Chain[1]

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Abstract

Market should not be associated with the atomized actions that deny social ties in a hostile-worlds fashion [Zelizer 2005]. We have to categorize the market as infused with the social ties not allowing the market to elude researchers as a sociological object [Krippner 2001]. It means that economic actions of market sellers are embedded in social settings. In turn, embeddedness should not be taken for granted and treated as an unquestionable assumption. Problematizing the notion of embeddedness, we assume that it is a complex phenomenon that contains a composition of relatively independent dimensions.

Accepting these assumptions, we focus upon the relational aspect of embeddedness as opposed to its structural aspect [Granovetter 1990] and examine direct interfirm exchange in supply chain. Starting from the ideas of Macneil [1978] and Ivens [2004], we distinguish transactional and relational forms of exchange and construct an original typology of their constitutive elements. We attach these elements to phases of the interfirm contract cycle and build up an index of relational exchange that allows measuring the degree of embeddedness in supply chain relationships. A regression model is built up to reveal the factors facilitating relational exchange. Finally, we reveal major hybrid forms of market exchange in which market sellers are concurrently engaged.

Empirical data were collected by the author and research team in 2010 from the grocery sector and home electronic appliances sector making about 50 percent of sales in Russian retailing. In total, we received 512 questionnaires filled up by managers of retail chains and their suppliers in five Russia's cities, including Moscow, S.-Petersburg, Yekaterinburg, Novosibirsk, and Tyumen. On average 50 retailers and 50 suppliers were interviewed in each city area.

Introductory remarks

Social embeddedness of economic action undoubtedly has become a central concept for the new economic sociology in the 1980s. However, in recent decade this concept was increasingly criticized for being structurally defined, and especially, for reinforcing a separate existence of the economy and society and treating the market as alien to social relations [Beckert 2007; Krippner 2001]. According to this critical vision, the market

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should not be associated with the atomized actions that deny social ties in a Hostile-Worlds fashion [Zelizer 2005]. We have to categorize the market as infused with the social ties not allowing the market to elude researchers as a sociological object [Krippner 2001].

The proposed study tries to develop these critical ideas and apply them to the area of sociological research of market exchange. We assume that economic and social exchanges should not be treated as oppositions as it was done in classic theories of social exchange [Blau 1967]. Market exchange parties rarely meet each other as complete strangers, especially on the interfirm level. And most of the market transactions are embedded in social structures, institutional arrangements, and cultural perceptions. But embeddedness of the market exchange should not be treated as an unquestionable assumption. The notion of embeddedness was criticized for becoming self-referential while a clear understanding of its constitutive elements is lacking. There is a risk of getting another 'black box' in social sciences along with the "black box" of market in the mainstream economics. Sharing this concern, nevertheless we would argue that throwing this "box" away is a wasteful policy. The notion of embeddedness should rather be unpacked.

Our intention is based upon two assumptions. First, embeddedness is not a universal and predetermined characteristic of market exchange. It is affected by the market actors' strategic choices made under the conditions of uncertainty. The degree of embeddedness of the market exchange in social relations varies and forms of embeddedness are very diverse. So real-world markets present divergent combinations of arm's-length and embedded ties. It is important to explore concrete compositions of these ties, measure their strength, and examine a degree of actual embeddedness of economic actions [Uzzi 1999: 488].

Second, problematizing the notion of embeddedness, we assume that embedded exchange is multidimensional. It consists of a variety of relatively independent constitutive elements which may be developed in relations with different exchange partners or with one partner if they are attached to different elements or phases of the market exchange. And we need to explore the content of embedded ties, especially their relational aspects. It is important to treat interactions of the market actors not as structurally defined by the allocation of resources and network structures but to take market exchange in full flesh together with concrete business practices, contractual arrangements, and perceptions of relationships by the exchange partners.

Keeping these assumptions in mind, in this paper we address the following major questions: What kinds of choices are made by the market actors that are constitutive for the emergence of their embedded exchange? What factors stand behind these choices between transactional and embedded forms of market exchange? What kind of hybrid forms can be revealed in direct market exchanges? Addressing these questions, the study focuses upon direct market exchange on the interfirm level, explores the forms of this exchange, and its relational aspects as resulted from the strategic choices made by the market sellers as they move along the cycle of contractual relationships.

The structure of this paper is the following. Starting from the ideas of Ian Macneil on discrete and relational contracts [1978, 1980] and his followers in contract theory, marketing research, and economic sociology, we distinguish between transactional and relational forms of market exchange. Given we do not study network structures, we interpret embedded exchange as relational exchange in this paper. We construct an original typology of substantive dimensions constitutive for embedded/relational exchange and attach these dimensions to the phases of the one-year interfirm contract cycle as opposed to the concept of relationships life cycle. Making our next step, we build up an integrative index of relational exchange aimed at measuring the degree of embeddedness in supply chain relationships. We define hybrid forms of market exchange located in continuum between pure transactional and pure relational exchanges. Then we reveal the factors facilitating the emergence of relational/embedded exchange.

Interfirm relationships between retail companies and their suppliers in Russia are taken for empirical investigation. Although my empirical evidence is confined to the Russian retail trade, I do not treat the Russian retail trade as a peculiar case. Rather, I assume that the findings from this study are relevant to other competitive industries in other market societies, despite the fact that evidence for this argument goes far beyond the scope of this paper.

THEORY

Two types of market exchange

Nowadays sociology of markets comes in the form of relational sociology meaning the common emphasis on relations in spite of all internal differences in approaches [Fourcade 2007]. It is also presumed that we should not confront social relations to the market and confine our analytical tasks to measuring the effects of social ties on the economic performance and proving that social relations matter. Today, it would not be sufficient to point that the market is affected by social relations. The market itself contains social relations as an in-built element of organizational structure and economic transactions. Social relations not only stabilize competition and help to cope with uncertainties but also produce shared understandings of the market as a particular social terrain [Fligstein 2001].

At the same time, we should avoid an abstract view of social relations as predetermined structures that are always there. It is important to explicate that social relations are problematic themselves. They emerge in a variety of forms from discrete exchanges or previous personal affiliations and take divergent configurations depending both on the market sellers' choices and their external environment. Once they emerge, they can be developed by the market actors or terminated along the way if these conditions are not favourable.

Initially, to explore the content of social ties it is useful to confront two ideal types of the market exchange. The first type can be defined as transactional exchange based on casual contacts and arm's-length ties. The second type is categorized as relational exchange based on continuous or embedded ties. Both types represent alternative forms of governance to managing market relations. We would argue that it is not productive to define the market exchange as transactional exchange of autonomous actors whose identities do not matter and treat social exchange as an opposite form associated with relationships. The market ties should be defined more inclusively in a crossroad fashion [Zelizer 2005] as a complex composition of various types of exchange that may coexist and contradict one another.

The idea of transactional and relational contracts was introduced by Ian Macneil [1978, 1980] though the importance of non-contractual relations accompanying formal contracting was pointed out long time before [Macaulay 1963]. Macneil starts with a detailed description of *transactional contract*. He defines it as discrete contracts in which no relation exists between the parties apart from the simple exchange of goods. The participant in a discrete transaction plays the role of the individual utility maximizer interested solely in this transaction which involves only a small part of personality. The discrete transaction is short-term regarding both the agreement process and the time of the performance. In discrete transaction planning is complete, specific, and binding. It does not rely upon the future cooperation but try to fix all necessary terms and conditions at present [Macneil 1978, 1980: 10-19]. It does not need further negotiation and mutual adjustment.

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

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

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

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

It is remarkable that distinction between transactional and relational exchanges was drawn into the core of marketing research in the middle of 1980s at the time when the new economic sociology developed its new research programme based on the concept of social embeddedness. It was not accidental given two disciplines had some common sources of inspiration in the contractual theory of Ian Macneil and critical evaluation of the transaction cost analysis of Oliver Williamson. Marketing scholars have borrowed some categories from sociology, including the notion of embeddedness from Mark Granovetter. But having some common roots, economic sociology and marketing research took different paths. And even dealing with similar subjects, they rarely trespass disciplinary boundaries in an explicit way and do many things in parallel today. Mutual exchange of ideas is still very limited though marketing scholars have been very active in studying many relational aspects of the market exchange [Kotelnikova 2012].

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

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

Elaborating on the ideas of new economic sociology, Wayne Baker distinguished between transaction orientation and relationship orientation models of intertemporal market exchange. Transaction interface is implied by the competitive market of neoclassical economics with short-lived, episodic, and random market ties. Relationship interface is close to the notion of hierarchy in terms of Oliver Williamson. Firms using a relationship oriented approach tend to build up stable relationships and do not switch from one partner to another with lower hazard of dissolution of a market tie [Baker 1990: 594-595; Baker, Faulkner, Fisher 1998: 150-151].

In series of celebrated studies, Brian Uzzi uses a principal division between arm's-length and embedded ties [Uzzi 1996, 1999]. The arm's-length ties present an exchange system associated with the idealized atomistic market while embeddedness is an exchange logic based on the ongoing social ties which differs from the logic of markets. Embedded ties are characterized by trust, fine-grained information transfer, and joint problem-solving arrangements developed in the sustainable network structures [Uzzi 1996: 676-677]. Accepting these useful insights, nevertheless we do not share the view according to which embedded ties are confronted to the market ties. In this study we would rather assume that both arm's-length and embedded ties are alternatives forms of the market exchange. We also do not identify market exchange with the negotiated exchange in opposition to reciprocal exchange [Molm 2003; Molm, Whitham, Melamed 2012]. We assume that market exchange may contain both negotiated and reciprocal elements which occur either sequentially or concurrently.

Normally, transactional exchange is taken as a starting point for the analysis of market exchanges. This logic is justified given the idea of transactional exchange corresponds to the basic insights of the neoclassical economics. Besides, it is backed by empirical evidence. Of course, embedded exchange may be developed from third-party referral networks and preexisting personal relations [Uzzi 1996: 679]. However, many of embedded ties initially originate from the arm's-length ties to be established (or not established) further on in repeated interactions. In this case, long-term and stable relations are developed (or not developed) in a step-by-step fashion from the short-term and casual contracts. To achieve this progress in relationships one needs time and dedication of resources. Still this progress is by no means automatic and self-sustaining. It is not a mere outcome of time and continuity in exchange. It is not entirely defined by the structure of the market as organizational field. New forms of exchange emerge in a course of relationships development. This process largely depends on a set of strategic choices the market actors make with regard to forms of market interactions to control the behaviour of their exchange partners. The market actors choose among a variety of modes of action in each phase of their market relation building. We would argue that to explain regularities in the market behaviour economic sociology needs to say much more about these strategic choices and factors that stand behind them.

Cycle of contract relationships

Embedded exchange interpreted as relational exchange and opposed to transactional orientation is not defined by a single parameter. It includes a number of dimensions which can be attributed to the main phases of contract relationships cycle. Idea of the life cycle for buyer-seller relationship moving toward commitment or dissolving over years was suggested in the specialized marketing literature [Dwyer, Schurr and Oh 1987: 15-20; Cannon and Perreault 1999: 456]. It is also categorized as the process approach in marketing research distinguishing between stages of initiation, development and termination of relationships [Heide 1994]. We use this idea of relationships development in a slightly different way. We do not describe the whole life-cycle running over a number of years but take the basic one-year contractual cycle. This choice is justified by the empirical fact that business contracts in the studied area of retail trade in Russia are normally signed for one year to be renewed for the next year or dissolved. The relationships may last for a long time but a revision of contracts is implemented on a yearly basis. Thus, it would be reasonable to attach the idea of relationships life-cycle to one annual contract cycle.

We decompose this yearly contract cycle into five distinct major phases that are implemented on a consequential basis with substantive overlap between these phases. It starts with a selection of exchange partner for the next year, bargaining over terms and conditions of procurement contract, and conclusion of this contract with or without specific restraints. Then, it moves along the way to mutual adjustment and contract enforcement by means of coercive or non-coercive power. Finally, exchange partners evaluate their performance and quality of relationships that stimulates them to continue or dissolve contract ties by the end of the year. We emphasize that market sellers make their choice between transactional and relational types of exchange in each phase of the contract cycle. We provide more detailed definitions of the exchange elements and measurement indicators below.

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

We assume that multiple criteria can be used to select exchange partners. Some of them concentrate on transaction parameters while the others focus upon the partners' identity and relational aspects of interaction. We will treat selection as containing relational elements when surveyed managers use the following criteria: a) successful experience of transactions with an exchange partner in the past; b) good personal ties with an exchange partner; and c) flexibility on deals of exchange partner meaning his/her ability to negotiate on the terms and conditions of exchange. On operational level, we would define the choice of exchange partners as transactional when no relational criteria are used and as relational when at least one of three relational criteria is used. All in all, if exchange partners use relational criteria for selection, they tend to build up closer relationships and establish stronger interfirm ties.

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

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

These binding agreements may be interpreted as an abuse of power by the retail companies or rationalized by the efficiency arguments [Bloom et al 2000]. We would argue that the functions of these vertical restraints and additional fees are not confined to redistribution of value added to the firms having more bargaining capacity though these firms can use this kind of coercive power indeed [Brown, Lusch, Nicholson, 1995]. But vertical restraints are also used as an important instrument of relation-building. Suppliers pay these fees using them as an investment into series of specific transactions stimulating loyalty of the retailer and also as an instrument of competition applied to push away the other suppliers of the same goods from the shelf space. For retailers, these vertical restraints present the tools of control over the future behavior of the suppliers aimed at disciplining their behavior and reducing the risks of opportunism [Provan, Skinner 1989: 203–205; Kelly 1991; Radaev 2011b].

Thus, at the second phase of contract cycle, market exchange is transactional or relational depending on the use of vertical restraining agreements in business contracts. We define the market exchange as transactional when neither marketing nor volume fees are used on a frequent basis and as relational when marketing or/and volume fees are used frequently with large or/and small exchange partners.

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

Considering the third phase of contract cycle, we would define the market exchange as transactional if no support is provided to the exchange partners and as relational if at least one form of support is provided. In this study we investigate three types of investment to specific relational assets and support to the exchange partner, including communication, alignment, and assistance: a) information sharing on sales for communicative aspects; b) joint use of information and computer technology (ICT) which is especially important for retail trade as a form of technical alignment; and c) providing assistance to the exchange partner in problem resolution and readiness to bear additional costs. We have an example of reciprocal market exchange which may avoid potential disadvantages that come from strong and closed ties with the exchange partners or from relationships based upon calculations of immediate material gain. But this type of reciprocity serves as a form of relationship-specific investment raising expectations of adequate behavior from the object of investment.

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

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

At the fifth phase of contract cycle economic performance and the quality of relationships are evaluated. As one-year procurement contract is coming to an end, the market sellers have to make decisions regarding *renewal or dissolution of business contracts*.

Higher hazards of dissolution of a market tie present an indicator of transaction orientation while continuation of ties and reluctance to terminate the relationships is an important element of relational exchange [Baker, Faulkner, Fisher 1998: 150-151]. It makes self-interested behavior of exchange partners more predictable and reinforces their social ties. Preference of continuous and long-lasting relationships rather than casual (arm's-length) contacts may result from pure economic considerations (continuation of existing relationships may reduce the costs of bargaining if compared with the switching from one partner to another) or from more socially oriented and less calculative reasons, like trust and commitment to the exchange partner.

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

Index of relational exchange

In the previous section of this paper we specified the notion of relational/embedded exchange by distinguishing five phases of basic yearly contract cycle. They include:

1. Selection of business partners which could rely on transactional or relational criteria.

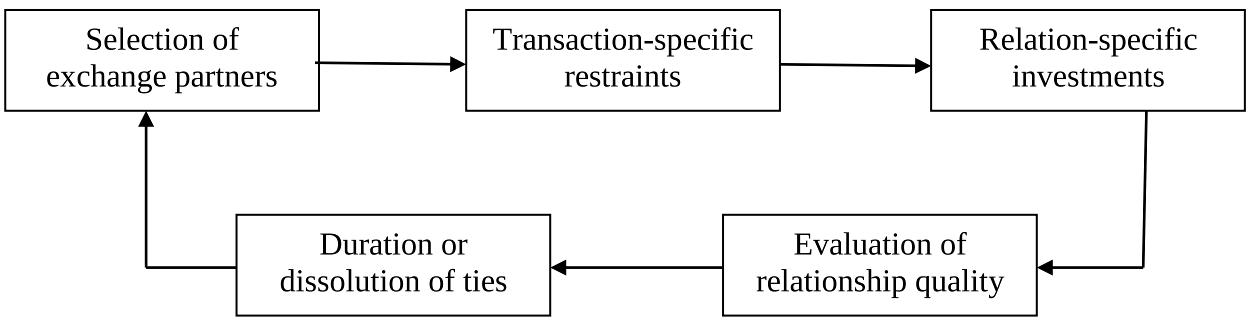
2. Conclusion of business contracts which may involve (or not involve) vertical transaction-specific restraints.

3. Contract enforcement which may be accompanied by investment to specific relational assets.

4. Evaluation of relationships including cooperative or non-cooperative orientations.

5. Termination of business contracts or their duration for the next contract cycle (see Graph 1).

Graph 1. Yearly cycle of contract relationships



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

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

At the same time, we add an additional dimension that is missing from classifications referred above. It is a selection of business partners based on relational criteria. We believe that this dimension is of crucial importance as a starting point for each contract cycle.

Our idea is not just to provide one more empirically grounded taxonomy of business relationship types but also to explore interconnections between various exchange dimensions and integrate them into a single analytical model. We assume that on each phase of the contract cycle market sellers make a choice between more transactional or more relational modes of exchange. Considering this set of choices, we code all dimensions of relational exchange as dummy variables. Description and measurement of these variables are summarized in the Table 1.

Table1. Dimensions of relational exchange, their description and measures

Dimension	Description	Measurement
Choice of exchange partners (CHOICE)	Selection of exchange partners using relational criteria, including: a) successful experience of transactions in the past; b) good personal ties; c) flexibility of partner, ability to negotiate	0 – no relational criteria are used 1 – at least one of relational criteria is used
Conclusion of business contracts (FEES)	Vertical restraining agreements used in business contracts with large or/and small exchange partners, including: a) marketing fees; b) fees for the volume of sales	0 – no fees are used on a frequent basis 1 – marketing or/and volume fees are used frequently
Contract execution (HELP)	Investment to specific relational assets and support to the exchange partner, including: a) sales information sharing; b) integration of ICT; c) assistance in problem resolution	0 – no support is provided 1 – at least one form of support is provided
Relationships evaluation (COOP)	Perception of relationships with the exchange partners as: a) conflicting; b) neutral; c) cooperative	0 – relations are perceived as neutral or conflicting; 1 – relations are perceived as

		cooperative
Duration or dissolution of contracts (DURAT)	Existence of dissolved contracts with the exchange partners within the last year	0 – some contracts dissolved; 1 – no dissolved contracts

It is important that all five dimensions of transactional or relational exchange are relatively autonomous. These dimensions could be interdependent but there are no prescribed causal links between them that are theoretically justified or empirically grounded. We do not have any substantive reasons to decide that one element could weight more than the others.

Rejecting the undersocialized and oversocialized views of economic action [Granovetter 1985], we assume that there are different degrees of embeddedness [Uzzi 1999]. Real-life market exchange with one business partner is symbiotic and multi-dimensional. It can be transactional in one dimension and relational in the other. And these combinations of exchange forms are used concurrently in relationships with the same exchange partner.

To assess an intensiveness of the relational aspects of the market exchange we build up an Index of relational exchange. It varies from 0 (absence of any element of relational exchange) to 5 (all elements of relational exchange are used). If it takes gradations between the opposite values, this means that some relational aspects are accepted while the others are rejected. In institutionalist terms, we have hybrid forms of governance here.

Hybrid forms of exchange as ways of coping with market uncertainty

Market relationships are built up through repeated strategic choices made by both exchange parties. These choices are not confined to the transactional exchange because it leaves a large room for uncertainty and instability in relationships. It brings additional costs of mutual adjustment to the new partners while longer-term relation-specific investment makes no much sense. At the same time, we should not overestimate the importance of embedded ties which may also produce negative outcomes for the market actors who could lock in dense networks of closed social relationships with strong dependence on a limited number of partners and high relation-specific investment. Weak ties may have certain advantages over strong ties not only in interpersonal relations [Granovetter 1973: 1371] but also in the interfirm relationships allowing interactions with a larger number of exchange partners without making significant investments to specialized assets.

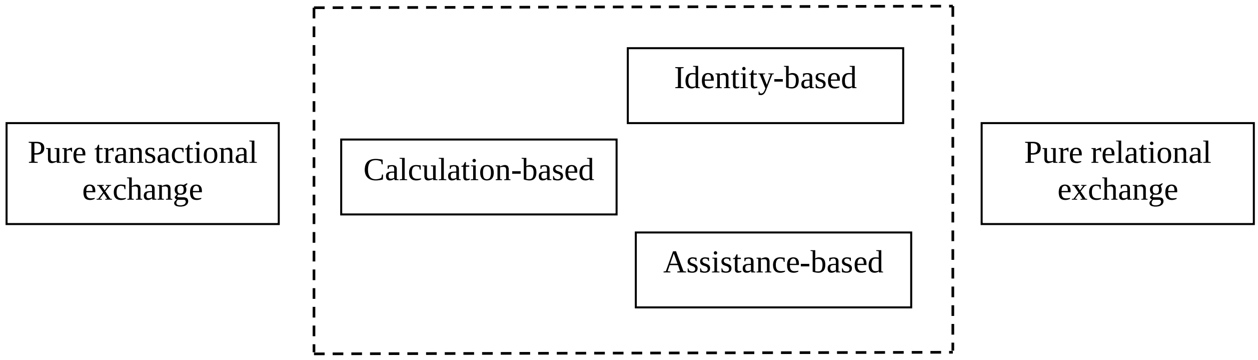
It was demonstrated in economic sociology literature that it is not a maximum level but an optimal degree of embeddedness that is important for the survival in the market and obtaining competitive advantage. “Embeddedness, however, yields positive returns only up to a threshold point. Once this threshold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

Similar conclusions were also made in marketing studies pointing out that relational/embedded ties may produce controversial outcomes. On one hand, prior interactions with the exchange partners reduce uncertainties and information asymmetry. On the other hand, they increase risks of opportunism [Li, Eden, Hitt, Ireland 2008: 318]. Findings by Cannon and Perreault indicate that the move to cooperation is not universal. Companies do not need close ties with all exchange partners. Many of them continue to rely on more transactional orientation or on combination of divergent relationships connectors [Cannon, Perreault 1999: 440]. Given their multivariate profiles, a portfolio of buyer-seller relationships with different types and degrees of relation-specific investment is developed [Cannon, Perreault 1999: 657].

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

The notion of hybrid forms of exchange proposed in this paper differs from existing notion of hybrid governance defined as intermediate forms between market and hierarchy, like networks organizations [Ménard 2004] or business groups [Granovetter 1994]. We define hybrid forms as divergent combinations of transactional and relational elements of market exchange with the same partners. These mixed forms differ from one another by their dominant characteristics. In this paper we will demonstrate that major hybrid forms are based upon partners' identity and successful experience of past dealings, transaction-specific restraints and calculation of material gains for exchange partners, and relation-specific investment stimulating cooperation between exchange partners (see Graph 2). There are also some hybrid forms which dominant characteristics could not be easily revealed.

Graph 2. Hybrid forms of market exchange



Now we turn to a brief description of our data sources.

DATA AND FINDINGS

Data sources

Our data was collected from a standardized survey conducted by the author and his research team in November-December 2010 in the area of Russian retail trade[2]. Since collection of data on dependence and control from a single source may produce common biases [Provan, Skinner 1989: 209], we use the same questionnaire to survey both suppliers and retailers and persuade exchange parties to describe their relationships from two opposite sides. We assume that the more discrepancies in estimations are the more attention should be paid to a given aspect of the relationships [Bloom, Gundlach, Cannon 2000].

In total, we received 512 questionnaires filled up by managers of retail chains and their suppliers. Most of the questions were devoted to the company characteristics and interfirm ties. The survey was conducted in five large Russia's cities, in which modern store formats are well developed, including Moscow, S.-Petersburg, Yekaterinburg, Novosibirsk, and Tyumen. Thus, we have cities from the Central, Central-Western, Ural, and Siberian regions of Russia. On average 50 retailers and 50 suppliers were interviewed in each city area.

On retailers' side we addressed all multiple store companies including global and domestic chain stores given their number is limited. On suppliers' side we used a quota sample representing companies of different size and profile. One half of them operated as distributors/wholesalers while the other half was presented by producers arranging direct supplies to retail outlets.

Empirical data were collected from the grocery sector and home electronic appliances sector making about 50 percent of sales in Russian retailing. The larger part of filled questionnaires was collected from the grocery sector (70 percent), given it is the biggest retail sector which attracts most of attention from the analysts and policy makers at present. Home electronic appliances sector presenting a different type of supply chain is taken for cross-sector comparisons. It is important that grocery sector and consumer electronics sector present good examples of the buyer-driven and producer-driven commodity chains [Gereffi 1994]. Thus, we have an opportunity to compare results obtained from two different types of the market channels.

Hypotheses

Special literature both in economic sociology and relationship marketing reveals prevalence of the hybrid forms of governance and mixed ties among market actors [Baker 1990; Cannon, Perreault 1999; Uzzi 1996]. This statement was normally tested in relation

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[2] Fieldwork was carried out by the Analytical Centre of Yuri Levada. Research was funded by Programme for Fundamental Research of the National Research University – Higher School of Economics.

to different exchange partners. We explore the symbiotic relationships that are established with the same exchange partners. This approach gives way to our first hypothesis:

H1. Market sellers are more inclined to the hybrid forms of market exchange with the same partners rather than to pure transactional or pure relational exchange.

Moving to the factors that could facilitate relational/embedded exchange and variety of its shapes, we would assume that a type of exchange could depend on category of exchanged goods meaning not so much their material (physical) properties but rather symbolic characteristics of the product. Distinction between branded and non-branded goods is relevant here. Brands present an important tool for attaining relationship stability with the customers and most of the literature on brand management explores the consumer-brand context [Fournier 1998]. However, it may also affect the relationship stability between suppliers and retailers if retail companies want to obtain benefits from consumer-brand relationship. Besides, we assume that dealing with branded goods requires more careful selection of suppliers and more relation-specific investment. We use the ratio of branded goods as percentage of all goods including also private labels and non-branded goods as a specific measure. The following hypothesis is formulated:

H2. Selling of branded goods is positively related to the preferences of relational exchange because it requires more selective approach and more attention to the identity of potential business partner.

According to Max Weber, sociological investigation is concerned with typical modes of action in which courses of action are repeated by the actor [Weber, 1978: 29]. Repetition and duration of exchange is a necessary (though not sufficient) precondition of social ties formation. The idea that market actors' attempts at purposive action are embedded in ongoing systems of social relations was also pointed out by Mark Granovetter in his programmatic article [Granovetter, 1985: 487]. Thus, duration of business relationships is one more important parameter which may influence the type of relationships [Baker, Faulkner, Fisher 1998: 150; Gulati, Gargiulo 1999: 1439]. If exchange relationships continue after the single transaction period, they may develop from arm's-length ties to embedded ties. Positive impact of durable ties on the relational outcomes is also pointed out in the marketing literature [Hingley 2005: 871]. It is claimed that relationships are constituted of a series of repeated exchanges [Fournier 1998: 346].

We use the ratio of business partners having contracts with the surveyed firm more than five years (as percentage of all business partners) as a proxy for measuring the duration of business contract relationships and formulate the following hypothesis:

H3: Duration of business relationships is positively related to the preferences of relational exchange because continuation of relationships makes them more sustainable and mutually oriented.

Market deals are not carried out in automatic and frictionless fashion. Contract conclusion and execution need some time and continuous efforts, especially in the field of business-to-business relationships. Thus, market exchange should be treated as a system of negotiated exchange associated with contacts between exchange partners during the time of contract conclusion and execution [Molm 2003]. Temporal reductionism of neoclassical economics was criticized in the framework of transaction costs approach [Williamson 1985], new economic sociology [Baker, Faulkner, Fischer 1998], and marketing research [Mesquita, Brush 2008; Poppo, Zenger 2002]. Given most of the contracts are imperfect and incomplete, formal contractual mechanisms are complemented with relational governance. These mechanisms are introduced to safeguard owners of specialized assets from the losses resulting from exchanges with opportunistic partners [Mesquita, Brush 2008: 785-786].

We would argue that the length of negotiation before contract conclusion does not influence the type of exchange in any predictable way. The length of negotiation may result rather from the complexity of contract and lack of negotiation efficiency while frequency of business contacts during the time of contract execution is an important element of contract enforcement, control over opportunistic behavior, and relationships development. We measure it as an average number of contacts within one month during the time of contract execution and suggest the following hypothesis:

H4: Frequency of business contacts during the time of contract execution is positively related to the preferences of relational exchange because it contributes to the effective contract enforcement, reduces the risks of opportunistic behavior, and makes relations more sustainable.

Now we turn to the control variables including the size of the firms, sector of trade, firm's location in supply chain, and firm's regional affiliation. Firm's size is used as an indicator of structural power in the market exchange [Baker, Faulkner, Fisher 1998: 157; Uzzi 1996]. We use several variables to measure company size, including subjective evaluation of the size by company managers, the number of stores through which the firm is selling the goods, and the number of regional locations in which the firm operates.

Although larger firms can demand more from the exchange partner by virtue of their size [Baker 1990: 603] it does not necessarily lead to their transaction orientation. On the contrary, empirical evidence was obtained at the advertising market that the company size is negatively related to the hazards of dissolution of a market tie. We have all reasons to expect that smaller firms have a strong interest to keep their larger exchange partners. But large firms though being less resource dependent at the same time have less need to drop and switch the exchange partners. Large firms may have more interest in continuity and stable relationship due to their better bargaining capacity [Baker, Faulkner, Fisher 1998: 172]. Higher potential costs of switching the exchange partners for larger firms may also contribute to their willingness to continue relationships. Positive effect of the company size on stability of relationships is also confirmed in organizational studies of auditors' relationships with their clients [Levinthal, Fichman 1988]. An alternative and more complicated proposition could be that larger firms have more capacities to make a strategic choice between the types of exchange and still tend to develop relationship orientation while smaller firms have to follow the imposed rules. If it is true, then the larger firms may have very divergent orientations. However, we start with a simple proposition:

H5: Size of a firm is positively related to the preferences of relational exchange due to better capacity of larger firms to control exchange relationships and higher costs of switching exchange partners.

Comparing different consumer markets, we make two complementary assumptions. First assumption is inspired by the power/dependence theory. The market sellers dealing with a larger number of exchange partners are more transaction oriented because they have more available alternatives here. Thus, they are less resource dependent [Emerson 1962] and can switch their partners more frequently. Second assumption came from the distinction between the types of commodity chains [Gereffi 1994]. Retailers in buyer-driven consumer markets could be more transaction oriented due to higher bargaining power while in producer-driven markets they are more relationship oriented.

In our case we compare data on the grocery sector and the sector of home electronic appliances. Grocery sector is characterized by a larger number of market sellers (including both retailers and suppliers) and could be defined, by and large, as a buyer-driven consumer market. It means that food sellers are supposed to be more transaction oriented which could be especially true for retailers having a position of buyers in the supply chain.

Non-food suppliers (dealing with consumer electronics in our case) have less available alternatives, and therefore, more resource dependent. It is also true for the group of non-food retailers if compared to retailers in the grocery sector. Here we get the following hypothesis:

> *H6: Market sellers in the grocery sector of trade (especially retailers having more bargaining power) are more inclined to transactional exchange while market sellers in the home electronic appliances sector rely more on relational exchange.*

Location of market seller in supply chain also can play an important role in shaping relationships. Economic sociologists use to point to the fact that “buyers and sellers sometimes have different interests in the stability of market ties” [Baker, Faulkner, Fisher 1998: 170]. It was also explicated in the marketing literature that the basis for evaluation of a relationship differs across upstream partners (suppliers) and downstream partners (retailers) [Rajamma, Zolfagharian, Pelton 2011: 110]. It may depend on the structure of resource dependence [Pfeffer, Salancik 1978]. In general, retailers having more bargaining power tend to be more transaction oriented while suppliers with less bargaining power try to compensate it by developing the tools for relational exchange. More specifically, the strategies of each exchange partner may vary depending on the degree of resource dependence. For example, the most closely coupled relationships arise when supply is important for the retailer while more transaction orientation and competitive forces are applied when supply is less important for the retailer [Cannon, Perreault 1999: 457].

Effect of the channel role on long-term orientation is confirmed in empirical study of Shankar Ganesan (1994) according to which retailers are likely to have a long-term orientation with suppliers on whom they are more dependent while suppliers are likely to develop a long-term relationship with a retailer only if the retailer is highly dependent on them [Ganesan 1994: 14]. Ganesan suggests that the suppliers are more cautious in their efforts to manage dependence. In our view, the suppliers have lower capacities for making strategic choices between the types of market exchange. They have largely to follow the policies suggested by retailers that have higher capacities to choose. It could imply that the effect of company size may be different for retailers and suppliers. Hence, our next hypothesis is formulated as follows:

H7: Suppliers having less bargaining power are likely to develop the relational exchange if compared to retail companies that are more inclined to the transactional exchange especially when they have more bargaining power.

Finally, we have to check if regional affiliation of the firm has an effect on the types of the market exchange. Developing the proposition of our Hypothesis 4 claiming that size of a firm is positively related to the preferences of relational exchange we would assume that regions having a higher level of concentration should demonstrate a higher degree of relational/embedded exchange. Concentration level in the region could be measured by means indicating size of the firms, their market share, the number of exchange partners, and the maximum share of sales provided by one partner as proxies for the market power and resource dependence. Respectively, regions with a lower concentration of trade and larger number of market sellers would demonstrate more inclinations to the transactional exchange. Here we get our last hypothesis.

H8: Regions with a higher level of concentration of retail trade demonstrate a higher degree of relational/embedded exchange if compared to the regions with lower level of concentration.

Parameters of our basic model are described below.

Modeling factors of relational exchange

We use our Index of relational exchange ranging from 0 to 5 as a dependent variable in a linear regression model. We include the following variables as major predictors into this model:

X_1 = Share of branded goods (percentage in total number of goods including branded goods, private labels, and non-branded goods);

X_2 = Duration of business contracts measured by the share of business partners contracting with the surveyed firm over five years (as percentage of all business partners);

X_3 = Frequency of business contacts during the time of contract execution (the number of contacts between retailers' and suppliers' managers within one month);

X_4 – Company size subjectively evaluated by its managers (0 – small and medium-sized; 1 – large);

X_5 – Sector of trade (0 – home electronic appliances; 1 – grocery sector);

X_6 – Location in the supply chain (0 – retailer; 1 – supplier);

X_7 – X_{10} – Regional affiliation of the firm (dummy variables) (Moscow as the basis; X_7 – S.-Petersburg; X_8 – Yekaterinburg; X_9 – Novosibirsk; X_{10} – Tyumen).

Maximum observed correlation between independent variables is under .05. In most of the cases it is under .02 indicating that multicollinearity effects are avoided.

We run a linear regression for the total sample, then for the managers from grocery sector making the largest group in our sample, and separately for the groups of retailers and suppliers[3].

Main findings

In this section, we analyze each of the relational/embedded exchange dimensions separately and examine their interrelations. Then we use a regression model to reveal main factors affecting the degree of embeddedness measured by the Index of relational exchange.

Selection of exchange partners

Starting with the selection of exchange partners, we reveal that two thirds of managers (64%) use at least one of relational criteria in this selection while only one third of them are transaction oriented and rely upon a variety of impersonal commercial considerations. Suppliers are much more likely to rely upon relational criteria (74%) if compared to retailers (54%) (see Table 2). These two groups differ at a high level of significance (p = .000) proving that the suppliers are more conscious about the identity of their exchange partners and success of past dealings.

For both retailers and suppliers, use of relational criteria in partners' selection is affected by the firm age. Those firms that stay at the market for a longer time, and therefore, have more extensive experience of past dealings, tend to rely on this experience more often[4].

Use of relational criteria is also positively related to the structural market power of the firm reflected by its size (number of stores), the number of exchange partners, the market share, and minimal dependence on one exchange partner. It is valid both for retailers and suppliers proving that the market power is not detrimental for social ties at least in case of partners' selection.

Retailers with a higher ratio of branded goods rely more on relational criteria when selecting their partners. Identity of one's business partner matters more when the company deals with the specific brand names competing with the other brands.

In case of suppliers, it is valid for the companies with growing sales and assortment of goods despite the character of these goods. These companies prefer to ensure a sustainability of their growth by stabilizing exchange relationships and establishing stronger social ties with their exchange partners.

Specific vertical restraints

When being asked about specific vertical restraints in their contracts, 40 percent of interviewed managers report on a frequent use of marketing or/and volume fees paid by

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[3] We also run an ordinal regression with the same parameters. We conflate six gradations of our index of relational exchange into three gradations (0 – absent or weak relational ties; 1 – medium relational ties; 2 – strong relational ties) and use this abridged index version as a dependent variable. In ordinal regression we obtained similar results confirming the robustness of the linear regression results.

[4] In this section we refer to correlations with a level of significance .05 and less.

suppliers to the chain stores. The rest of managers use more standard contract conditions with no relation-specific requirements. Suppliers point to the frequent existence of the marketing and volume fees more often than retailers do (43 against 37%) (see Table 2), but difference between exchange partners is not significant in this case.

In case of retailers, introduction of vertical restraints is positively related to the firm age and its market power measured by the structural indicators, like the number of stores, the number of exchange partners, and the market share in the locality. The retailers' capacity of extracting additional value from the suppliers quite naturally depends on the company's stronger market positions. A. Rennhoff revealed a similar correlation between the market share and the amount of promotional allowances for the manufactures [Rennhoff 2008]. In our case, such correlation was revealed only for the group of retailers and not for suppliers.

Following the predictions made in the previous studies [Rennhoff 2008: 61], we could expect the promotional allowances to be more prevalent in the grocery trade rather than in the sector of home electronic appliances. However, we did not find significant differences here. At the same time, there is a positive relation of vertical restraints with the level of market competition which corresponds to the Rennhoff's findings [2008]. It also backs the insight according to which the role of marketing and volume fees is not confined to redistribution of value added to the benefit of the chain stores. These fees are also frequently used by the suppliers as a tool for pushing away their competitors that are unable to pay it.

Relationship-specific investment

Regarding the use of non-coercive power during the execution of contracts, 67 percent of managers provide a support to their exchange partners at least in one of suggested forms. And only one third of managers do not invest in specific relational assets. Retailers and suppliers are equally involved into this form of assistance.

Suppliers staying at the market for a longer time and working with a larger number of business partners tend to provide various forms of assistance more frequently. They use these relation-specific investments to impose more effective control over the relationships and stimulate retailers' loyalty.

In case of retailers, the situation is different. The companies having more market power (higher market share and larger number of partners) tend to avoid these specific investments and develop more standardized exchange relationships. It supports the argument that the impact of market power on the relational/embedded exchange can be diverse for exchange partners.

Cooperative relationships

Regarding evaluation of relationships quality, nearly a half of our respondents (49 percent) perceive their relationships with the exchange partners as cooperative demonstrating their relationship orientation in building up their interfirm ties. There is a significant difference in approaches of retailers and suppliers here. Suppliers are much more oriented toward cooperation that their counterparts (57 and 40% correspondingly) ($p = .000$) (see Table 2).

For retailers, emergence of business partnerships is positively related to the strength of their positions in the market structure. If retailers have a higher market share and lower resource dependence on exchange partners, the larger number of exchange partners and smaller ratio of large partners that could dictate the terms and conditions of contracts, they are more likely to develop cooperative relationships with their suppliers.

For suppliers, business partnerships are associated rather with the favourable relational characteristics of the market exchange. They tend to establish cooperative relationships if contract terms and conditions offered by the chain stores are more affordable, if the suppliers are able to introduce novel products, and therefore, extend the assortment of their goods, and if there is a possibility to maintain continuous contacts with the exchange partner during the time of contract execution that allows mutual adjustment in retailer-supplier relationships.

Continuity of market ties

Finally, we attract data on duration/dissolution of procurement contracts. It turns out that 61 percent of managers did not dissolve their business contracts at the end of the last year. They demonstrate their commitment to the existing partners and orientation to durable market ties. Again, most of the suppliers tend to continue all of their contract relationships (72%) while retailers are much more reserved in this respect (50%) (p = .000). Retail chains use to dissolve contracts with their suppliers more frequently.

Both exchange parties tend to be more relation oriented when they deal with the branded goods which promotion needs some time and efforts. The impact of firm age is negative here given the experience of past dealings is not always positive.

It is remarkable that both retailers' and suppliers' intentions to continue the relationships are negatively related to the ratio of new products which are put down for sale. Introduction of novel goods leads to the shifts in partnerships more often.

Table 2. Choice of relational exchange by different group of managers (%)

	Total	Retailers	Suppliers	Grocery sector	Electronics sector
Relational selection of partners	64	74*	54*	65	63
Vertical restraints in contracts	40	43	37	39	42
Assistance to partners	67	68	66	67	67
Cooperative orientation in relations	49	57*	40*	50	45
Duration of contracts	61	72*	50*	62	58

Note: *Sig = .000

Summing up, we see that all five elements of relational exchange are relatively widespread. And there are no significant differences between two surveyed trading sectors. We used phi coefficient for dummy variables to measure intercorrelations among these dimensions. As shown in Table 3, all intercorrelations are moderate (all under 0.3 and most of them under 0.1), confirming that the measures are distinct.

Among significant correlation, duration of contract relationships is positively related to the relational choice of business partner and quality of relationships while it is negatively related to the existence of vertical restraints associated with marketing and volume fees to the chain stores. The latter could mean that there might be a discrepancy between the amount of paid fees and volume of factual sales at the end of the contract period. It may lead to dissatisfaction of exchange partners considering that their previous calculation were wrong and provoke dissolution of market ties in the next year.

Cooperative behavior is positively related to the assistance provided to the business partners during the time of contract execution. At the same time, surprisingly, this assistance as investments to relational assets is associated more with the transactional choice of exchange partners. It could be explained by a necessity of additional efforts aimed at adjustment of exchange relationships when partners are selected on impersonal basis. The rest of intercorrelations are not significant.

Table 3. Correlation matrix for variables used in the Index of relational exchange (Phi coefficient)

Dimensions	NUMBER	FREQ	CHOICE	FEES	HELP	COOP
Relational selection of partners (CHOICE)	512	64,1%				
Vertical restraints (FEES)	486	39,9%	.062			
Assistance to partners (HELP)	470	67,2%	–.096*	.074		
Cooperative orientation in relations (COOP)	500	48,6%	.070	.085	.263**	
Duration of contracts (DURAT)	468	60,9%	.136**	–.155**	–.063	.150**

Notes: * Significant at 95 percent; ** Significant at 99 percent

Number – number of respondents giving definite answers

Freq – percentage of respondents giving positive answers

Integrative index of relational exchange

Relative independence of five relational exchange dimensions indicates an importance of mixed forms of governance. In accordance with our hypothetical proposition H1, market actors are more inclined to the hybrid forms of exchange rather than to pure transactional or relational exchange. It is proved by distribution of frequencies in our Index of relational exchange. On one side, only 2 per cent of managers demonstrate a complete absence of relationship orientation and 13 per cent show a low level of relational embeddedness using only one relational dimension. On the other side, only 8 per cent of managers are so much attached to the relational exchange that they choose all five dimensions. A majority of our respondents (78 per cent) exploit from two to four elements of relational exchange and reject others. Thus, hybrid forms of market exchange prevail over its pure extreme forms (see Table 4).

Table 4. Index of relational exchange by different group of managers (%)

Number of forms of relational exchange	Total	Retailers	Suppliers	Grocery sector	Electronics sector
0 (pure transactional exchange)	2	3	1	2	1
1	13	18	7	13	12
2	26	33	18	26	26
3	28	26	30	28	28
4	23	17	32	23	26
5 (pure relational exchange)	8	3	12	8	7
Total	100	100	100	100	100

The index level is positively related to the location in supply chain demonstrating that suppliers are inclined to apply more forms of relational exchange than retailers ($p = .000$). Difference between grocery sector and sector of home electronic appliances is not significant. In the next section of the paper we will look at the factors that may affect the index of relational exchange in more detail.

Factors affecting relational exchange

To reveal main factors affecting the level of integrative index of relational exchange measuring the degree of embeddedness, we run our regression model for the whole sample and then separately for grocery sector and for the groups of retailers and suppliers.

Starting with the *whole sample* of retailers and suppliers, we reveal that firm age is not very important though its relation with the Index of relational exchange is positive for retailers at the level of significance .05. Durability of market ties with the exchange partners has more important connections with the formation of relational/embedded exchange.

We expected larger companies to be more involved to relational exchange given they have more effective control over contract relationships and the costs of switching from one partner to another for them should be higher. But this linkage is not robust and revealed only by some indicators and not confirmed by others. For example, there is a positive effect of the number of stores in case of retailers and no effect of the subjectively evaluated company size while in case of suppliers the results are vice versa. The number of regions in which companies operate provides no effect at all.

At the same time, there is a positive correlation between our Index and the ratio of branded goods in the assortment measured by the total number of Store Keeping Units. Dealing with branded goods requires more transaction-specific efforts and additional focus on the identity of partners. According to our data, this parameter is more important for relational exchange than the size of companies. Thus, it is consistent with our Hypothesis 2 while the Hypothesis 5 gets only a partial support.

When we turn to the group of *retailers*, we get an important observation revealing that our Index of relational exchange is positively related to a number of variables indicating the level of their market power, including the number of stores, and the market share in sales of a given commodity. The Index also has positive associations with the number of partners and negative links with the share of large partners who are capable to impose their terms and conditions. It means that retail companies enjoying more market power and less resource dependence tend to choose relational exchange more often. This observation is confirmed by a negative correlation with the maximal share of one supplier in procurement of goods measuring the extent of retailers' resource dependence.

These results look somehow unexpected. At least they contradict our Hypothesis 7 claiming that chain stores are more inclined to the transactional exchange, especially when they have more bargaining power. We would conclude that the first part of this proposition is true meaning the suppliers having less market power are more inclined to relational forms of market ties than all retailers in general. But there is an important distinction within the group of retailers. Those possessing more structural and bargaining power are more likely to choose some relational forms of exchange. And this result runs counter our initial expectations.

It is remarkable that when we take the group of *suppliers*, we see that all measures of the market power do not affect the choice between transactional and relational exchange in this group. This phenomenon also needs an additional explanation. We would suppose that situation is not symmetrical for retailers and suppliers in a substantive sense. In general, retail chains are less inclined to relational governance if compared to the suppliers (in accordance with our Hypothesis 7). However, retailers have more capacities to make a strategic choice between the types of exchange dependent on their market positions while suppliers often have to follow the imposed rules. On average, suppliers are more inclined to relational/embedded exchange. But frequently, it is not their strategic choice and willingness to control relationships with more powerful exchange partner but rather an imposed order which is almost non-differentiated by the type of suppliers. They have to comply either with transaction orientation or with relationships orientation depending on the choice made by the chain store companies.

Now let us turn to the results of the linear regression model starting with the regression coefficients for the whole sample. Model fit is significant at the level of .000. The predictor variables collectively explain 33.8 percent (adjusted R2) of the total variance of correlations (see Table 5). The greatest observed Variance Inflation Factor (VIF) is under 2.0, indicating that multicollinearity was not unduly influencing the estimates.

Turning to predictors, *share of branded goods* is positively related to the degree of relational embeddedness which is true for the total sample and grocery sector ($p = .01$). It supports our *Hypothesis 2*. However, coefficients are not significant for retailers and suppliers taken separately.

The impact of the *market ties duration* is significant at the level of .000 for the total sample and grocery sector as it was predicted by our *Hypothesis 3*. This causation is not so strong for retailers ($p = .055$) and non-significant for suppliers.

Frequency of *ex post contacts* between retailers and suppliers during the contract execution shows a stronger positive relationship with the importance of relational/embedded exchange which is consistent with our *Hypothesis 4*. It is remarkable that relations are significant not only for the total sample and grocery sector but also to each group of managers.

As for the *company size*, it does not demonstrate positive effects in all variations of our regression model. We use a subjective evaluation of the company size here but we also tried all measures of size which were at our disposal (number of stores, number of territorial localities). Thus, the *Hypothesis 5* is not confirmed by the data.

Regarding *sectoral divisions*, relational exchange is more important in the sector of consumer electronic appliances than in grocery sector as it was predicted in the *Hypothesis 6*. But correlation is not significant and we would not insist that this hypothesis is supported by empirical evidence.

In accordance with our previous expectations concerning *location in supply chain* (*Hypothesis 7*), suppliers are more likely to develop relational orientation trying to control the behavior of retail stores having more bargaining capacity. It is valid both for the total sample and for the grocery sector.

With regard to *regional affiliation*, we reveal that the inclinations to relational/embedded exchange are more developed in the cities of Moscow and Novosibirsk while they are less developed in Sankt-Petersburg and especially in Yekaterinburg. But these results are valid only for the group of retailers (and for the total sample) while for suppliers territorial differences are not significant. It is explained by the fact that Moscow and Novosibirsk retailers in our sample have higher average size measured by the number of stores, higher market share in the locality while in Yekaterinburg these indicators are at their minimal level among all regions. In Yekaterinburg resource dependence of the suppliers measured by the share of large exchange partners and maximum share of one exchange partner is significantly lower than average while in Moscow the level of suppliers' resource dependence is significantly higher. All in all, it means that our *Hypothesis 8* is supported in case of retailers and rejected in case of their suppliers.

Comparing four variations of our regression model (see Table 5), we obtain very similar results for the grocery sector making three thirds of our total sample. Adjusted R2 is also very similar (.339). We have similar associations in case of retailers (adjusted R2 is .400). Though for some of independent variables significance goes down with $p > .05$. Model fit is significant at the level of .000 in both cases. The greatest observed VIF is under 2.1.

As for the model for suppliers, adjusted R2 has dropped down to .085 explaining less than 10 percent of variance. Though model fit is significant at the level of .011. All coefficients are not significant with the exception for frequency of retailer-supplier contacts during the execution of contracts. Thus, in relation to groups of managers (especially to suppliers) the obtained results are not robust.

Table. 5. Coefficients from linear regression model (December 2010)

	Total sample (323)				Grocery sector (253)				Retailers (177)				Suppliers (146)			
Independent variables	**b**	**Std. Err**	β	**Sig**	**b**	**Std. Err**	Β	**Sig**	**B**	**Std. Err**	β	**Sig**	**B**	**Std. Err**	β	**Sig**
Share of branded goods	.005	.002	.126	.012	.006	.002	.149	.010	.005	.003	.121	.076	.003	.003	.105	.221
Duration of contracts	.007	.002	.196	.000	.008	.002	.211	.000	.005	.003	.136	.055	.005	.003	.149	.104
Frequency of contacts	.049	.014	.186	.000	.054	.015	.211	.000	.046	.021	.167	.029	.053	.019	.250	.005
Company size	-.079	.120	-.031	.511	-.037	.138	-.014	.789	-.160	.162	-.067	.325	-.005	.197	-.002	.981
Grocery sector	-.271	.146	-.090	.064					-.318	.177	-.118	.075	-.403	.251	-.134	.111
Suppler/retailer	.890	.117	.355	.000	.875	.134	.347	.000								
Regional affiliation																
S.-Petersburg	-.622	.193	-.198	.001	-.605	.229	-.185	.009	-.878	.235	-.274	.000	.007	.319	.003	.982
Yekaterinburg	-.855	.184	.184	.000	-.756	.213	-.263	.000	-1.51	.217	-.574	.000	.321	.334	.118	.338
Novosibirsk	-.137	.205	-.043	.505	-.176	.242	-.053	.468	-.300	.267	-.095	.263	.410	.327	.149	.212
Tyumen	-.274	.194	-.086	.159	-.186	.220	-.061	.398	-.544	.246	-.174	.029	.299	.324	.110	.358
Constant	2.208	.295		.000	1.741	.288		.000	2.800	.431		.000	2.722	.430		.000
R2adj	.338				.329				.400				.085			

Note: b – nonstandardized coefficients; β - standardized coefficients.

Hybrid forms of market exchange

We have already pointed out that only 2 percent of managers demonstrate a complete absence of relationship orientation and only 8 percent of managers are entirely attached to the relational exchange choosing all five relational dimensions. It means that 90 percent of managers prefer mixed, or hybrid, forms of market exchange located in continuum between two ideal forms.

Given that our integrative index of relational exchange has six grades varying from 0 to 5, there are thirty two possible combinations of transactional and relational elements. Analyzing correlations between dimensions of relational exchange and most frequent combinations of exchange elements we reveal core characteristics of major hybrid forms of market exchange located in the continuum between extremes of pure transactional and pure relational exchange.

The first hybrid form making 27 per cent of the sample is built around distinct identity of the exchange partner and experience of past dealings. It is based upon use of relational criteria for selecting exchange partners and renewal of business contracts with the existing partners. In our opinion, there are no obvious causal links between these two dimensions. On one side, business contracts are renewed due to elective affinity of partners and appraisal of their identity. On the other side, exchange partners are selected on a basis of successful past experience. Suppliers are more inclined to use this form than retailers are ($p <.05$). It is also more widespread in grocery sector than in the sector of home electronic appliances (though all differences between two trading sectors are not significant) (see Table 6).

The second hybrid form of the market exchange counting for 16 per cent of surveyed managers has vertical restraining agreements between exchange partners at the core. It presumes transaction-specific investment and control over behavior of partners through specific formal institutional arrangements and financial obligations including marketing and volume fees. These fees are used as the instruments stimulating loyalty of retailers and preventing opportunistic behavior of suppliers. This form is more popular among retailers getting additional revenues from marketing and volume fees ($p <.05$). We could expect that it should be less spread in grocery sector given these fees are restricted by the Federal trade law with regard to food products while non-food products are not affected by legislative arrangements. The data does not reject this proposition but difference between two sectors is not significant.

The third hybrid form of market exchange making 27 per cent of respondents is also based upon combination of two dimensions: a) mutual assistance of exchange partners; and b) evaluation of their relationships as cooperative. On one side, it presumes that cooperation with the exchange partners become easier when they make their relation-specific investment for better mutual adaptation. On the other side, investments into relational assets and assistance provided to the exchange partners raise a probability that relationships would be perceived as cooperative. Retailers tend to use this form more often if compared to their suppliers ($p <.05$). It is also slightly more widespread in grocery sector than in the sector of home electronic appliances (see Table 6).

Finally, we have a hybrid form in which any obvious core characteristic is absent. It presents an intersection of first and third hybrid forms based upon partners' identity and relation-specific investment. This hybrid form is principally mixed. It makes the rest of 20 percent of the sample.

Table 6. Hybrid forms of market exchange by different group of managers (%)

Number of forms of relational exchange	Total	Retailers	Suppliers	Grocery sector	Electronics sector
Pure transactional exchange	2	3	1	2	1
Identity-based hybrid	27	25*	30*	29	20
Calculation-based hybrid	16	20*	12*	15	22
Assistance-based hybrid	27	31*	22*	25	31
Mixed hybrid	20	18	23	21	19
Pure relational exchange	8	3	12	8	7
Total	100	100	100	100	100

Note: *Sig < .05

All delineated hybrid forms reflect a variety of market exchanges and present three different forms of coping with uncertainty produced by the market. One way of coping is through the identity of exchange partner and durability of ties (identity-based hybrid). The second way is to introduce transaction-specific arrangements that help to prevent opportunistic behavior of exchange partners (calculation-based hybrid). The third way is stabilize relationships through relation-specific investment and mutual cooperation (assistance-based hybrid).

DISCUSSION AND CONCLUSION

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

In this study, we concentrate on relational embeddedness as a contextualization of economic exchange in patterns of ongoing interfirm relations [Zukin, DiMaggio 1990]. Attracting ideas from the contract theory and marketing research we treat embedded exchange as relational exchange.

It is also assumed that embedded/relational exchange is multidimensional. It consists of a variety of relatively independent elements which may be developed concurrently not just in relations with different exchange partners but also in relations with one partner if they are attached to different aspects of market exchange.

Given the retailer-supplier contracts in the studied area of retail trade are normally signed for one year to be continued for the next year or dissolved, we take the basic one-year contractual cycle and decompose this contract cycle into five distinct major phases implemented on a consequential or concurrent basis. It starts with a selection of business partners which could rely upon transactional or relational criteria and conclusion of business contracts which may involve (or not involve) vertical transaction-specific restraints. Then, it moves along the way to contract enforcement which may involve (or not involve) vertical transaction-specific restraints and investment to specific relational assets. Finally, exchange parties evaluate the quality of relationships and consider whether to continue or terminate their contract ties for the next year.

Therefore, market relationships are built by through repeated strategic choices made by both exchange parties between transactional and relational modes of exchange in each phase of the contract cycle. All these dimensions are relatively independent and have no prescribed causal links. Relative independence of relational exchange dimensions indicates an importance of mixed forms of governance. To assess a degree of embeddedness we build up an Index of relational exchange including five major dimensions which may be used by the exchange partners.

At empirical level, we see that relational exchange in all its major dimensions is widely spread. But the forms of relational exchange do not necessarily prevail. And most of the market actors are more inclined to the hybrid interfaces rather than to pure transactional or relational exchange [Baker 1990; Cannon and Perreault 1999; Uzzi 1996]. Different elements of transactional and relational exchange are interspersed with one another. It is not combination of transactional exchange with some partners and relational exchange with the other partners but combination of divergent dimensions of market exchange in relationships with the same partners.

Revealed hybrid forms of exchange present different ways of coping with market uncertainty and controlling the behavior of exchange partners. The first way is to select partners carefully and establish durable relationships relying on their identity and successful experience of past dealings (identity-based hybrid). The second way is to focus on terms and conditions of business contracts and negotiate over transaction-specific restraints based on calculation of immediate and future material gains for both exchange parties (calculation-based hybrid). The third way is to make investment to relational assets during the contract execution on a reciprocal basis and stimulate cooperation between exchange partners (assistance-based hybrid). Finally, the fourth way is to combine identity-based and investment-based approaches to exchange relationships.

Regarding the factors that facilitate embedded/relational exchange, firm age is not very important while durability of market ties with the exchange partners has more important effects on the formation of relational/embedded ties in accordance with the previous findings in economic sociology [Baker, Faulkner, Fisher 1998; Gulati, Gargiulo 1999].

We agree that larger firms may have more interest in continuity and stable relationship due to both their better bargaining capacity and higher costs of switching between the partners [Baker, Faulkner, Fisher 1998; Levinthal, Fichman 1988]. However, we do not obtain a sufficient empirical evidence to support this statement. At the same time, the effect of dealing with the branded goods on the embedded/relational exchange is more pronounced than the size of companies. Brands present an important tool for attaining relationship stability [Fournier 1998]. They require more transaction-specific efforts and additional focus on the identity of partners.

Frequent ex post contacts between retailers and suppliers during the contract execution are needed to reduce opportunism and safeguard investment to specialized assets [Mesquita, Brush 2008]. Empirically, we reveal a strong positive relationship with the importance of relational/embedded exchange here.

Location in supply chain is also important. Situation is not symmetrical for retailers and suppliers. They may have different interests in the stability of market ties as it was explicated both in sociological and marketing research [Baker, Faulkner, Fisher 1998; Rajamma, Zolfagharian, Pelton 2011].

In general, the suppliers having less market power are more inclined to relational forms of market ties than the retailers. But the effect depends not only on the level but also on the structure of resource dependence [Pfeffer, Salancik 1978]. Retail companies possessing more structural and bargaining power are more likely to choose relational exchange. These retailers have more capacities to make a strategic choice between the types of exchange while suppliers often have to follow the imposed rules. They have to comply either with transaction orientation or with relationships orientation depending on the choice made by the chain store companies. These findings contradict some previous studies claiming that the relationship orientation arises when supply is important for the retailer while more transaction orientation is applied when supply is less important for the retailer [Cannon, Perreault 1999; Ganesan 1994].

We expected to find more intensive relational exchange in producer-driven commodity chain [Gereffi 1994] represented by the sector of home electronic appliances in our case. But significant differences between this sector and grocery trade was revealed neither for the total sample nor for the groups of retailers and suppliers.

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

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

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

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