THE ROLE OF THE CONTRACT IN THE NETWORK GOVERNANCE CONSTRUCTION

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Abstract

Focusing on business networks in which firms from different countries are embedded, the present paper is interested in a better understanding of how the formal and social governance mechanisms are related. In particular, the paper focuses on the construction process of network governance, recognizing the contract as the main coordination and control mechanism for stabilizing the network organizations. This paper aims to examine the process that might lead to the formulation of a contract between firms, comparing two different theories: Actor-Network Theory (ANT) and Pragmatic Constructivism (PC). ANT offers an account of how the difference in the parties' interests was a key point in problematizing the introduction of the contract as an inscription that mobilizes the actors' interests. However, ANT does not offer sufficient reasons to explain why the translation fails in a cross-national network where different national values may be relevant. Then, the use of PC points out a missed integration between national values, considering the contract a way of thinking. The case study describes the construction process of a cross-cultural network between an Italian, an Albanian and a Kosovar firm operating in the artistic lightening system business. The evidence showed a negative nexus between informal and formal mechanisms of governance.

Keywords: Actor-Network Theory, Pragmatic Constructivism, Cross-Cultural, Actors, Values

1. INTRODUCTION

Several contributions have recognized the relevance of using informal social systems and formal contractual relationship in network governance coordination (Chua & Mahama, 2007; Hakansson & Lind, 2004; Mahama & Chua, 2016; Mouritsen & Thrane, 2006; van Veen-Dirks & Verdaasdonk, 2009), highlighting that they could be substitutive or complementary (Argyres & Mayer, 200; Faems et al., 2008; Guerard et al., 2013; Poppo & Zenger, 2002). Focusing on the role of contract as a formal mechanism, contributions have underlined how the contract can lead the partners to reach greater efficiency and reduce costs by clarifying activities and by mitigating potential opportunism (Nootboom, 1996; Zaheer & Harris, 2005). Whereas, social mechanisms, as trust, could lead to an increase of commitment between partners (Bachmann & Inkpen, 2011; Child & Mollering, 2003). In general, these mechanisms may develop over time through learning processes between partners, making the relationship more durable and encouraging interactions and promotion of each other's interests (Johanson & Mattsson, 1987).

Contributions on control mechanisms have typically adopted a structural approach to explain the forms of governance rather than a process approach that can explain how the mechanisms of governance work in constituting the action that contributes to network governance construction (Mouritsen & Thrane, 2006). A process approach was followed by Minnaar et al. (2017) in examining the contract-control-trust nexus. Following a relational perspective based on actor-network theory and on the performativity thesis, Minnaar et al. (2017) examined a case of outsourcing relations whose findings were described by the authors as follows, "touching upon how the contract and the control structures were shaped, the study was focused on how these entities perform in and change the
interfirm relationship, and on how they are constitutive of this relationship” (p. 39). And later on in the paper, they specified “in our relational study, trust is a consequence rather than an ex-ante category” (p. 39). In summary, the contribution under discussion highlights how trust is a result of the performative role played by the interaction among the contract, control structures, and partners, all having the same agency. In its focus, this study did not consider “how, at the level of the interfirm relationship, the contract and control structures were objectified” (p. 39). The present study, instead, considers that the process of objectifying contract and control structures deserves a deeper understanding, especially in cross-national interfirm relationships, where a difference in national values may play an important role in the building of trust and contractual arrangements. In objectifying the contract and control structures, the trust may play a constructive role and may be the consequence of common values, shared between the parties.

Acknowledging this gap, in what follows we attempt to explore the process that might lead to the formulation of a contract, viewed as a mechanism of governance in a cross-national network organization. In doing so, we interpret the network governance construction comparing two theoretical views: Actor-Network Theory (ANT), which has been mostly used in studies following a process approach, and Pragmatic Constructivism (PC), which sees reality as the outcome of a process of integration where values of actors play a relevant role. Focusing on this issue, we try to better analyze how firms from different countries are embedded in networks, in order to better understand how the formal and social governance mechanisms are related.

To examine the process that might lead to the formulation of a contract between firms, we firstly consider it as a process of translation (Callon, 1984). Thus, through ANT we highlight the reasons for problematization and, thereby, the identities of the actors to be interested and enrolled. From this perspective, the contract is viewed as an inscription that is able to mobilize all the actors’ interests as it comes out from a successful process of translation. This interpretation well explains how the difference in the parties’ interests acted in problematizing the introduction of the contract, but it does not offer any reason why the translation could fail, as in a cross-national network, where different national values can be relevant.

Since the failed translation may be due to a missed integration between national values, we consider PC (Norreklit et al., 2017, 2007, 2010). Viewed through the lens of PC, a contract is a way of thinking that defines future possible behaviours within the parties’ conveniences and interests. The defined possibilities are not illusionary if they are based on business facts and the related problems to be solved by applying rules that have to be interpreted and understood by the parties according to the same meanings.

Comparing these two theoretical perspectives, a case study is accomplished referring to an ongoing process aimed to construct a cross-cultural network between an Italian, an Albanian and a Kosovar firm operating in the artistic lightening systems business. The paper offers two main contributions. The first relates to the inter-organizational control literature since the contract and trust are viewed as two levers of control. In this field, the study shows a negative nexus between trust and the formulation of a contract due to the difference in partners’ national values. The second contribution is of methodological nature and relates to a critique of ANT in its ability to take account of values as drivers of actions. In this respect, it is shown how PC offers a richer view going beyond an action as a fact. It does so trying to explain the failure of the construction of the contract investigating the process of integration that is behind this construction.

The paper is organized as follows. Section 2 presents the theoretical background on the formal and informal mechanisms used in the cross-cultural network governance, focusing on the role of the contract in the network governance construction, and describing this role from the ANT lens (Section 2.1) and from the PC lens (Section 2.2). Section 3 outlines the research methodology while Section 4 illustrates the findings emerging from the analysis of the case study, interpreting them from the ANT (Section 4.1) and PC (Section 4.2) perspectives. Finally, concluding discussion and remarks ends the paper.

2. THEORETICAL BACKGROUND

In 1997 Candace Jones, William S. Hesterly and Stephen P. Borgatti, in their paper on a general theory of network governance, published on Academy of Management Review, 12(4), recognized that many industries were using network governance coordination characterized by informal social systems and formal contractual relationship between firms. As they explained, such mechanisms were combined to coordinate products and services in uncertain and competitive environments. The contribution by Jones et al. (1997) was the starting point for further studies, even in the management accounting area, that have recognized the co-presence of social and formal mechanisms for both coordination of networked firms’ activities and control exercised at both the business and the network levels (Chua & Matsumoto, 2007; Håkansson & Lind, 2004; Mahama & Chua, 2016; Mouritsen & Thrane, 2006; van Veen-Dirks & Verdaasdonk, 2009).

In particular, van der Meer-Kooistra and Scapens (2008) dealt with the governance of lateral relations, where, after defining four features of lateral relations, namely exchange of knowledge, co-presence of cooperation and competition, combination of flexibility and standardization, continuous shift in the leadership role, adopted a theory called “minimal structure” in order to express the continuous need for balance between firmness and flexibility in such relationships. Four types of structures, economic, institutional, social and technical, were proposed and discussed. Even if the latter study focused on lateral relations, rather than network organizations, its arguments are quite consistent with Jones et al. (1997), namely that network governance is a configuration of informal-social and formal mechanisms directed to coordinate and control networked firms’ activities.

In what follows, we consider the specifics of formal and informal governance mechanisms in cross-cultural network organizations, shaped by
firms from different countries. In so doing we focus on cross-national partnerships, a setting that has received little attention so far. Then we discuss the theoretical perspectives we consider appropriate to gain an understanding of the process leading to the constitution of network governance in a cross-national setting.

2.1. Cross-cultural network governance mechanisms

Contributions on network governance issue have recognized that the performance of the inter-organizational relationship is a consequence of the effective coordination of formal and informal governance mechanisms (Argyres & Mayer, 2007; Faems et al., 2008; Guerard et al., 2013; Poppo & Zenger, 2002). Formal mechanisms are the legal contracts which formalize how to manage the relationship between partners specifying terms and clauses in order to avoid conflicts of interpretation (Luo, 2002). Some researchers have highlighted how the contract can lead the partners to reach greater efficiency and reduce costs by clarifying activities and by mitigating potential opportunism (Nooteboom, 1996; Zaheer & Harris, 2005).

Otherwise, the informal mechanisms could be trust, commitment and social capital sharing between partners (Bachmann & Inken, 2011; Child & Möllering, 2003). These mechanisms may develop over time through processes of learning and adaptation, which are essential to the strengthening of the relationship between partners, making the relationship more durable, encouraging interactions and promotion of each other's interests (Johanson & Mattsson, 1987). These mechanisms help to face future environmental changes by flexibility and increased information sharing between partners (Zaheer & Harris, 2005).

In the management accounting literature among the network governance mechanisms, a significant role has been recognized to contract and control structures as formal mechanisms, while a central role has been assigned to trust, as a social mechanism of control and uncertainty reduction. Langfield-Smith and Smith (2003) considered the contract as a complex tool that has to take into account many areas of interest which may preclude the complete ex-ante specification of detailed contracts. However, network governance also requires flexibility and adaptation between partners that may imply that control systems rely less on formal mechanisms (Gietzmann, 1996; Ittner et al., 1999). Accordingly, several researchers have focused on the role of trust in network governance (Zaheer & Venkatraman, 1995; Gietzmann, 1996; Nooteboom et al., 1997; Seal & Vincent-Jones, 1997), highlighting how certain minimum levels of trust are essential in inter-firm relationships, as trust reduces the possibility of opportunistic behavior, helping in predicting the mutual behavior through each party honoring commitments, and allowing partners to deal with unforeseen contingencies in mutually acceptable ways (Sako, 1992, p. 37).

The role of formal and informal mechanisms in network governance has been differently argued by management accounting researchers that have highlighted how they could be substitutive or complementary (van der Meer-Kooistra & Vosselman, 2000; Tomkins, 2001; Dekker, 2004; Vosselman & van der Meer-Kooistra, 2009; Minnaar et al., 2017). A recent contribution has analyzed the two typologies of governance mechanisms from rational and relational perspectives (Minnaar et al., 2017). In particular, assuming a rational perspective, contract and trust have been considered to be stable solutions to control problems, reducing risk and facilitating cooperation. This perspective, based on the economic management control literature, considers organizational members as self-interested agents (van der Kolk et al., 2015) and the formal mechanisms, such as the contract, as subordinate to human beings. In order to manage the relationships between partners, preventing partners' opportunistic behaviour, the partners negotiate which kind of formal mechanisms is appropriate to control the relationship at distance. In contrast, assuming a relational perspective, the contract, control structures, and trust are shaped and changed in a network of associations between multiple actors, both human and non-human (Minnaar et al., 2017). It means that these mechanisms can be interpreted as actors that involve and engage the other parties in creating, maintaining, and modifying the contract. The study by Minnaar et al. (2017) assumes trust as a quasi-actor while interacting with the other actors. That interpretation is suggested by the performative role of the contract and control structures. In so doing, the focus is on how the network of human and non-human actors is able to build trust. The partnership between Semorg and Fasorg, two companies examined in the case study, does not show relevant differences in the national values of the partners and so national values are not considered in the role attached to trust. Rather, a focus on a cross-cultural partnership may highlight first, that the role of trust depends on the importance that national values give to it; second, that values and trust play an important role in the construction of the contract. Such a focus may add values as a further social mechanism which, coupled with trust, should be considered in the network construction.

Focusing our attention on business networks in which firms from different countries are embedded, we are interested in better understanding of how the formal and social governance mechanisms are related. In doing so, we refer to the management accounting that have paid attention to the notion of control and the complexity of meanings associated with this concept in an international context. In particular, Scheytt et al. (2003) tried to understand the way in which the practices of management accounting and control are enacted in different cultures. Culture has been “conceptualized as a complex representational system constituting identities and symbols and also as a feature, which binds individuals or groups of individuals to a certain set of values, beliefs, understandings and ways of sense-making” (Scheytt et al., 2003, p. 519). Cultural specificity could affect the ways in which control and its mechanisms can be interpreted and applied across different cultures (Groot & Lukka, 2000). Scheytt et al. (2003) identified four properties of control, defining it as relational, that means there are relations of control encompassing the controller and the controlled; processual, since it usually involves a process or a sequence of control activities; situational as it is embedded in social, moral, cultural and organizational contexts; reflexive, because it is
based on a circular relationship between the behaviours of actors involved, influenced by their expectations and experience. Importing such control mechanisms from another cultural background might result in a tension between the prevailing locally defined notion of control and the changes brought about by the technical aspects of these mechanisms.

In line with Scheytt et al. (2003) we take the distance from contributions that explained the meaning and the impact of culture with an emphasis on objective validity with the intention of categorizing (management) cultures into distinct regional sets. Rather, we pay attention more on attitudes, values, and beliefs that are associated with control and the way control is enacted in different cultural contexts.

Considering business networks whose partners come from different countries, as cross-cultural contexts where the roles assigned to social governance mechanisms may differ among the partners, we focus on the process leading to the construction of network governance. In doing so, we interpret the network governance in a cross-cultural context. In line with Minnaar et al. (2017), we recognize the contract as the main coordination and control mechanism for stabilizing interfirm relationships and network organizations.

2.2. The role of the contract in the network governance construction

Contributions on control mechanisms have typically explained forms of governance drawing on a structural approach. In the last years, researchers have underlined how the adoption of a process approach could shed lights into how the mechanisms of governance work in constituting the actions that contribute to network governance construction (Mouritsen & Thrane, 2006). Given that, we attempt to explore the process that might lead to the formulation of a contract, viewed as a mechanism of governance in a cross-national network. In doing so, we interpret the network governance construction adopting comparatively the views of ANT and PC.

Following ANT, the reality, constituted by heterogeneous collectives, of people, technology, machines and objects symmetrically interrelated to each other (Callon & Latour, 1992; Latour, 2005), is considered as the result of a translation process. In this process accounting mechanisms can be assumed as black boxes relied on techniques, materials, processes, and behaviours, which should be opened to discover how social aspects and technical elements are associated and come together as a durable whole network. Black boxes may be used to stabilize a construction either by combining several of them or by putting many elements within the same black box, making them a part of the construction (Callon, 1998, 1986; Callon & Latour, 1981). Accordingly, this theoretical perspective allows the study of how change processes happen through nonlinear fashions, whose results cannot be predicted, as they depend on how human and non-human actors allied with each other (Briers & Chua, 2001). Accounting mechanisms are interpreted as "inscriptions" able to convert ideas into visualizations (i.e. figures and numbers which become "facts", see Robson, 1992) and to manipulate them to serve their interests.

Coherently, contracts through conditions contained herein, facilitate the visualization of all actors’ interests and actively perform the decision-making processes in inter-firm relationships (Mouritsen & Thrane, 2006). On this point, Mahama and Chua (2002) asserted that a major part of the relations is constructed with calculating agencies that would allow interactions between the parties involved to have an orientation and a mode of accountability. The contract defines the market space in which partners interact with each other, and also allows the redefining of partners themselves (Mouritsen et al., 2001). Thus, it becomes an actor in the actor-network. Accordingly, to the best of our knowledge, it is interesting to further explore how this actor works, throughout translation and displacement (Cooper, 1992). How can the contract contribute to making network governance stable?

Following the main phases of the translation process (Callon, 1984), the contract can be assumed as the obligatory passage point (OPP) for interrelated firms which aim to achieve the stabilization of partnerships. In this view, the contract could be able to interpret and represent the interests of all actors, mobilizing them in order to strengthen the ties between them.

In particular, when the need for consolidation emerges in such inter-firm relationships as a response to emerging opportunities/threats, the contract could be proposed by one of the partners as the solution to seize opportunities or to solve threats, consolidating the partnership. To this end, the contract has to rightly represent the interests of all actors, who recognize it as a solution for partnership consolidation.

The proper problematization has the aim to identify the opportunities/threats that through the contract have been seized/solved. Which are the interests that each partner can represent through the contract? This recognition allows the contract to become an actor able to involve and mobilize the interests of all partner, representing the best solution to the partnership. In doing so, different interessement devices have to be used as the success of the contract in other partnerships, its ability to strengthen trust between firms involved, or the increasing of the information sharing. Where interessement devices are successful, actors were able to determine their roles in the network. This occurrence leads that each partner firm interested in the contract could give rise to actions that communicate its objectives and the desired outcomes. Thus, negotiations take place, allowing each partner's identification of clauses able to meet its needs. Through interactions, partner firms learn the needs and abilities of the other firms and become able to act in compliance with them. After that, the mobilization happens. Partner firms will verify the results achieved and their compliance with their expectations represented through the contract, and the contract could be viewed as an inscription.
able to mobilize all the actors' interests as it comes out from a successful process of translation (Minnaar et al., 2017). Otherwise, when the contract is not able to enroll all actors in solving controversies that emerged during the translation process, the latter fails. In this case, network governance could be compromised.

In a cross-national business network, this theoretical approach succeeds only partially in describing the way how the contract could act as a coordination and control mechanism for stabilizing interfirm relationships and network. While it could well show how the difference in the partners' interests was a key point in problematizing the introduction of the contract and also in considering the interdependence of the different translations. However, it does not offer any argument about why a translation could fail in a cross-national setting, where different national values may be relevant in terms of a notion of control. Latour (2005) does not explicitly mention values, which are embedded in the things or artifacts in focus. He focuses on what humans do, their actions and performativity, then he can only reveal who and what is involved in the change process, and how this process occurs, while no answer can be provided to questions starting with why (Jakobsen, 2017). To improve the understanding of the translation process it could be useful to know what people want, their motivations and values, overlooking specific circumstances that activate the problematization. Thus, in the network governance construction, the failed translation could be due to a missed integration between partners' values which display different national cultures.

Acknowledging the relevance of values, we need to improve the understanding of how the network governance construction happens. Thus, we consider PC (Norreklit et al., 2007, 2010, 2017). In this theoretical view, values are central in the way actors construct their reality. Values guide actors' choices and motivate their actions. According to PC, any process of objectification is shaped by the interaction between actors and reality and thus overcomes the subjectivist stance of social constructivism (Lueg & Knopf, 2016).

Drawing on PC theoretical perspective, the reality construction arises from the integration of four ontological dimensions: facts, possibilities, values, and communication. In this view, the contract could be interpreted as a way of thinking, an overarching topos (plural: topoi) that integrates multiple topoi defining future possible behaviours within the parties' conveniences and interests. The defined possibilities are not illusionary if they are based on business facts and the related problems to be solved by applying rules that have to be interpreted and understood by the parties according to the same meanings.

In the network governance, construction contract should be able to represent multiple topoi linked to the different partner firms, to be communicated with each other, constructing a common narrative. To this end, a contract should arise from a process of co-authorship which includes factual possibilities and values of all partner firms (Baldvinsdottir & Heidarson, 2017). Thus, the co-authorship process fosters partner firms' involvement to pursue common objectives in such relationships through a creative, communicative process in which the different constructs were merged (Arbinor & Bjerke, 1997). Initially, each firm expresses its view of factual possibilities, influenced by its experiences and values (subjectivation). When partner firms interact with each other (externalization), the different understandings of factual possibilities are communicated and integrated through time and space, allowing the objectification of information (Norreklit et al., 2017).

In this sense, the contract, used as a communication tool, could facilitate partner firms' ability to verify the outcomes of such relationships. In doing so, the contract can offer the basis to produce and communicate information that helps to reduce the uncertainties on network outcomes and stabilize the inter-firm relationships. The adoption of PC lens can explain how trust and national values may contribute to the process of objectifying the contract and the related control structures.

3. RESEARCH METHODOLOGY

Adopting the above-described theoretical perspectives, a narrative case study is accomplished referring to a process aimed to construct a cross-cultural network between an Italian, an Albanian and a Kosovar firm operating in the artistic lightening system business. The reasons which guided us in choosing this case are the peculiarities of the governance context characterized by firms coming from different countries and the direct involvement of one of the researchers and one of the co-workers of the Italian firm. This particular condition helps in analyzing more the causes of the failure of the translation process looking on the value dimension, capturing the differences in national values. Hence, the direct involvement of some member of the team research helped in collecting information and in understanding the governance mechanisms used by parties.

Recognizing the relevance of studying not only the results of what things happened but also their making, and following a retrospective analysis aimed to make sense from some theoretical lenses, we adopt a narrative approach. This approach required to provide access to people's identity, personality and the meaning people to specific situations (Gabriel, 1998). This methodology is also related to a hermeneutic understanding (Gadamer, 1989) which emphasizes the processes of interpretation and understanding in a social context (Schuetz, 1927). The data on which the empirical evidence is based consists of a narrative that was constructed involving the Italian entrepreneur, one of his co-workers who collaborated to the research project as an assistant researcher, and one of the authors of the present paper. The reason for the collaboration of the assistant researcher was the writing of her doctoral thesis. The latter was aimed to explain the process of introducing a contract in a supply network adopting the perspective of ANT. This was why the dynamics reported could not be considered as an objective story but is a narrative influenced by the theoretical lens adopted. Moreover, being the aim of the project to form an ANT interpretation of the phenomenon of interest, the narrator had to be familiar with ANT categories. This induced the researcher to rely on the narration constructed by the assistant researcher. The latter was not extraneous to the story but had an active
part in all the dynamics. She had been recruited by the Italian entrepreneur who, only speaking Italian, had to satisfy his need for a consultant who could communicate with the main representatives of foreign partner firms. The position of the assistant researcher gave her privileged access to all documents that had to be written in English to be proposed to the partners or, when received from the partners, had to be translated into Italian. Moreover, the assistant researcher played the role of a participant observer. She took an active part in all the meetings of the actors, for the presentation of proposals and negotiations. The assistant researcher constructed her narration by gathering data through interviewing the entrepreneur about his points of view on the dynamics of the partnership. He was interviewed during twelve meetings, following an informal approach, relying on interviewee’s perceptions of events.

The data collection lasted nine months approximately. The observations began in May 2014, six months before the assistant researcher was aware of her thesis assignment. The interviews and the documentary analyses started when the assistant researcher initiated her thesis. Thus, the narration was co-constructed by the assistant researcher with the entrepreneur, on the one hand, and with her supervisor, on the other, who is one of the authors of the present paper and helped the assistant researcher to construct an ANT based narrative (Czarniawska-Joerges, 1998). While the story ended in January 2015, the data collection of the original project ended in July 2015 and produced the narrative reported in the following section. In January 2018, we reinterpreted the narrative according to the aims of the present paper. So, drawing on both ANT and PC perspectives, narrative data were analyzed to interpret how the process of network governance construction occurred (Scheff et al., 2003).

**4. THE BASIC NARRATIVE OF AN ATTEMPT TO CONSTRUCT CROSS-CULTURAL NETWORK GOVERNANCE**

In 2010, I-Light began to work in Albania, participating to a voluntary project for the renovation of an Albanian Cathedral, promoted by the bishops of an Italian and an Albanian diocese. While the project was in progress, the Albanian bishop contacted the owner of I-Light to propose his cooperation with an Albanian, local firm, called A-Light (pseudonym), which was a small sized firm involved as a volunteer in the project. A-Light became interested in the cooperation with I-Light for activity of electrical system installation. A-Light was interested in contacting I-Light in order to acquire Italian electrical materials, considered of high quality. In agreeing to the A-Light proposal, I-Light acted as the intermediary between its own suppliers and A-Light and helped the latter to increase its competences. A training activity was carried out between I-Light and A-Light which was experienced through the joint cooperation of the two firms in further projects of construction and renovation, thanks to which I-Light entered the Albanian market while A-Light owner and co-workers were able to develop competencies and skills in line with the European standards. During these projects, the cooperation and the training activity between the two firms involved some of the I-Light suppliers: those considered by the I-Light owner as the most relevant business partners. Further developments came out when another renovation project was acquired for a cathedral of a diocese in Kosovo. In this project, the works were carried out by a Kosovar firm called K-Light (pseudonym), which was well known in the Balkanian industry of production and installation of electrical panels. Given the preceding involvement of the latter firm, I-Light was required only to provide materials and consultancy for lighting design, and it involved its Italian suppliers too. The cooperation was fruitful and balanced between I-Light and each of the companies. Then, after a couple of years, each partner perceived the other as trustworthy not only in fulfilling commitments but also in its competences and in the willing to do more than what had been promised, as the owner of I-Light referred. Therefore, I-Light was willing to stabilize the network by formalizing some contracts, involving its suppliers and both the Albanian and Kosovar firms. At that time, the business network was of an informal kind and reflected the different stories of the relations between 1) I-Light and its suppliers, 2) I-Light and A-Light, and 3) I-Light and K-Light. The three just mentioned relations were direct relations, while the indirect relations between the two foreign firms and the I-Light’s Italian suppliers were mediated by I-Light. The latter, according to the mechanism that is designed and experienced during the projects, received each of the two Balkanian firms requests for project quotations; once accepted, I-Light ordered the materials to the suppliers which sent the materials to the two companies and invoiced directly to them. I-Light guaranteed for the
solvency of the two Balkanian buyers. Later on, K-Light contacted one of the Italian suppliers in order to engage in direct supply relationships with it. But the latter refused, declaring to be in partnership with I-Light only.

In September 2014 I-Light invited the owners of the two foreign firms and the suppliers’ managers to participate in a meeting. Through that meeting, I-Light wanted to give an impulse to the development of the relationships, negotiating conditions that would have met the needs of all participants.

During the meeting I-Light’s suppliers showed A-Light and K-Light their electrical materials, putting emphasis on quality and reliability, ensuring the “made in Italy”, the after-sales assistance, and price and discount rates in line with the Balkan market conditions. The suppliers also declared to be disposed of for transferring their know-how, proving their willingness with respect to I-Light to the two Balkanian firms as well, and thus sustaining the collaborative proposals of I-Light. The suppliers also appreciated the trustful relationship between themselves and I-Light, recognizing the latter as a good intermediary to refer to. That should have made I-Light, on one hand, the sales agent of the suppliers’ products, becoming the only channel for the Balkanian firms to access those products; on the other hand, I-Light could guarantee for the stability of transactions in terms of prices, discounts and suppliers’ support in consultancy services.

However, the attempt to construct a unitary business network through formalizing two groups of contracts was unsuccessful. The understanding of this failure needs to review the story through an appropriate theoretical lens, as we try to do in what follows.

4.1. Constructing cross-cultural network governance: the role of the contract as an inscription

The above description focuses on the informal inter-firm relations developed during the experience of the Albanian and Kosovar projects that were characterized by development of trust in the three forms conceptualized by Sako (1992), namely contractual, competence and goodwill trust. Given that, the intent of I-Light to stabilize all the relationships in a unitary business network had to be pursued through the formalization of two groups of contracts: one group between I-Light and each of the two Balkanian firms, which in fact required two distinct contracts; another group between I-Light and each of its suppliers, which, again, required as many different contracts as the number of suppliers.

Two processes of translation need to be described for each of the two groups of contracts. Each process highlights the reasons for problematization and, thereby, the identities of the actors, human and not, to be interested and enrolled. Interpreting the phenomena as translation processes, what emerges is a set of arguments that contribute to explaining the success or the failure of the two translations. The interdependence between the two translation processes entailed that the failure of one would have the failure of the other. This interdependence reflected the interdependence between the relations that I-Light had developed with each of the Balkanian firms and the relations developed by I-Light and its suppliers: the quality of one was conditioned by the other. This was the consequence of the intermediary role played by I-Light in the indirect supply relations between I-Light’s suppliers and the Balkanian customers. On the one hand, I-Light received requests for project quotations from the two Balkanian firms and, when accepted, ordered materials to its suppliers. This made I-Light responsible for the two customers for the timeliness of the deliveries. On the other hand, I-Light guaranteed to its suppliers the solvency of the two foreign customers and took the risk to compromise its supply relations. Thus, the attempt to stabilize the relations with the foreign customers entailed that the same attempt had to be done with the Italian suppliers. In particular, I-Light aimed to consolidate its business in Albania and Kosovo, given the real opportunities for business growth. That required tools that supported the creation of stable and durable relationships. A unitary business network needed to be stabilized by means of inscriptions that could assure transparency, visualizing all the actors’ interests, and could act as an incentivizing condition for the stay in the network. A contract would have been such an inscription. It was supposed to define the market space in which partners interacted with each other, and also to allow the redefining of partners themselves (Mouritsen et al., 2001). Moreover, as an inscription, a contract would act as a calculating agency that would allow interactions between the parties involved to have an orientation and a mode of accountability.

The problematization took place in the existence of two problems I-Light had to solve. First, I-Light needed to increase the frequency of transactions with A-Light and K-Light, which required better coordination of the operations, identifying the favourable conditions that could help to meet the foreign firms’ needs and to make the transactions stable over time. A second problem for I-Light was to get stable trading conditions with suppliers so as to guarantee the foreign firms the most suitable conditions. That could lead I-Light to become the only reference point in Albania and Kosovo for the distribution of suppliers’ products.

The identification of the actors’ interests was the most critical point. Looking at the translation process that involved I-Light and the two foreign firms, the relationship with each of them was characterized by different interests. In continuing its business, A-Light recognized the important role of I-Light. In fact, the Italian firm was able to support the Albanian firm providing the basic skills for the installation of electrical systems. That led A-Light to reach a competitive advantage over its Albanian competitors, even if it still needed to improve its skills in the electrical and lighting design. K-Light instead, being a firm with a long experience in the production and installation of electrical systems, and having a good market position, was interested in acquiring skills in lighting design. In this sense, I-Light could support K-Light in studying the interaction of light with the surroundings, creating the visual comfort and the perception of the environment required by their customers.

The suppliers were also interested in stipulating a contract with I-Light which in the past years continuously involved them in Albanian and Kosovar projects. This involvement led the Italian company and its suppliers to reach good profits,
making the proposal of Albanian and Kosovar contracts a source of interest.

When the meeting held in September 2014 was over, the suppliers involved in the attempt to construct a business network confirmed their terms of the agreement, sending I-Light a formal email which explicitly referred to the contract that should be signed once the terms were explicitly accepted by both I-Light and the two Balkanian firms. However, some obstacles to the introduction of the contract arose. Looking at the translation process that involved I-Light and the two Balkanian firms, some important point came up during the meeting which involved I-Light suppliers.

In particular, A-Light showed an interest in the meeting with the suppliers but it had not yet implemented any initiative aimed at the conclusion of the contract. The Albanian firm kept contacting I-Light when it needed consultancy for a project but it did not feel the need to formalize the relationship. During the meeting, I-Light tried to explain the opportunity to stipulate a contract that would have defined conditions that protected the parties’ interests. The A-Light's owner's answer was not to reject the proposal, but in a diplomatic way, he said that the cooperation with I-Light was already functional, so it did not believe that the contract should have improved it. The owner of I-Light realized that the contract was probably perceived as an inspection tool. The interessement devices were unable to overcome the obstacle consisting of the habit of engaging in verbal agreements and not recognizing to a formal contract any added value for the transaction. Thus, the proposal of a formal contract was perceived by A-Light to be unnecessary and was refused. A different obstacle restrained K-Light from accepting the proposal of a formal contract with I-Light: the K-Light managers did not believe that the collaboration with I-Light could represent an opportunity for developing their business. In particular, K-Light participated in a building exhibition in Germany and, recognizing one of the I-Light suppliers, directly contacted the supplier’s manager in order to start a direct relationship with his company. But the supplier’s manager only reminded its partnership with I-Light, not being ready to start a direct relationship with a foreign partner, and informed I-Light of this. This event was important for two reasons: first, it confirmed the relationship between the supplier and I-Light based on trust and mutual respect; second, it highlighted K-Light’s lack of interest in considering I-Light as an intermediary. That was proved after the meeting in September where the owner of K-Light, even if interested in participating, when came back to Kosovo did not make any action to promote the network construction. As a company with a solid business and able to guarantee its solvency, K-Light could not see why not directly buy electrical material from the Italian suppliers without the mediating role of I-Light.

Referring to the translation process that involved I-Light and its suppliers, the enrolment phase took place without difficulty and had no obstacle. The reason why the contract was not yet introduced was external to this translation process, being related to the other translations that involved I-Light and the two Balkanian firms. The active involvement of A-Light and K-Light gave the advantage to lower the contract costs that all firms were supposed to face. An important aspect was that no supplier wanted to by-pass I-Light and concludes independent agreements with the two Balkanian firms. This was because: first, no supplier was familiar with the Balkan markets and, given I-Light's long term experience in that context, the suppliers wanted to engage I-Light as an intermediary; second, I-Light was a good customer as it was able to guarantee them good supplies in the Italian market. Therefore, to enter the Balkan markets without I-Light’s agreement meant for I-Light's suppliers to risk undermining their Italian supplies.

All partner relations appear as distinct collectives composed by heterogeneous agencies that did not tend to be mobilized by a unitary voice, by means of a unitary system of inscriptions. The level of trust already developed in the relation between I-Light and A-Light allied with the cultural habits consolidated in the Albanian national context and shaped the meaning of the contract perceived by A-Light as a calculating agency not useful for their interactions and inclined to inspections. The negative role played by the level of trust developed with respect to the I-Light's proposal of a formal contract is explained by considering the collective (Latour, 2005) between the developed trust and the national Albanian habits of doing business respecting informal agreements. Following this national values, no "collective" is conceived between the level of trust, necessary to rely only on informal agreements, and the use of a formal contract. More emphasis on the role of national values is needed and requires further investigation.

On the other hand, K-Light, the Kosovar customer of I-Light, given its bargaining power, higher than the Albanian firm, was more interested in engaging in a direct relationship with one of the I-Light suppliers, which it contacted for this. That fact pointed out that I-Light was not acknowledged as the spokesman of the business network, even if its role of enrolling actor had to promote a functioning informal business network. A unitary voice was not identified as being the actors’ interests not convergent. Different were, in fact, the interests of the Kosovar customer and the I-Light’s Italian supplier’s. While the former was interested in engaging directly with the Italian suppliers so as to enter the Italian supply electrical market, the latter was not interested in starting a direct relationship with a foreign partner. Thus, again, no unitary inscription was able to mobilize all of them.

4.2. Constructing cross-cultural network governance: the role of the contract as a way of thinking

The phenomena described in the case evidence are only partially accounted for through the categories of ANT. The latter well showed how the difference in the parties’ interests was a key point in problematizing the introduction of the contract in each of the two kinds of relationship and also in considering the interdependence of the two translations. However, ANT does not offer any reason why the different Italian and Albanian ways of doing business contributed to the failure of the contract and then of the whole network governance.

The characteristics of the contract, as a control mechanism, leads to a definition of the trade conditions, protecting the parties involved and
improving the flexibility and adaptation for the management of unforeseen contingencies. What was relevant in the case study was the interaction between the contract and the instrument of social control, represented by the selection of partners and trust. The past interactions between I-Light, the two Balkanian firms, and the Italian suppliers generated learning processes through which the parties were aware of the partner’s strategy, objectives and expectations. The three templates of trust conceptualized by Sako (1992) were in place that should allow the parties to better define the contractual terms, recognizing to the contract a situational control function as it is embedded in different cultural and organizational contexts (Scheytt et al., 2003). The different ways of doing business between Italian and Albanian firms were related to the different national values and to their missed integration with the factual possibilities to develop and introduce a formal contract between the two partners. This is an argument out of ANT categories. The category of value as a motive of action is comprised of the process of fabrication or construction has to be followed in the making in order to find reasons for actions in the actors’ identities that are defined through problematization.

In understanding the case evidence, the theory that can compete with ANTs detailed description has to highlight the role of different values in the two processes leading to signing up a contract. This theory has to explain how the different values of the actors, as motives and drivers of their actions, can cohere both with each other and with the factual possibilities to formalize the contract. Then we use PC since it better analyzes how different national cultures, as values, could affect the network governance construction process. If there are different or opposite values between the partners, then there is no convergence to formalize a contract.

Following PC, a contract is viewed as a way of thinking common to the parties. It is an overarching topos that emerges from a common narrative and allows the integration of the different topoi of the actors. Considering the case evidence, the validity of a contract was conditioned to the integration of four ontological dimensions: the business facts, in terms of the partnership story and the problems to be solved; the future possibilities to solve those problems through the introduction of a contract as a means that were consistent with the values of all the actors, since all of them had to find their own motivation to sign up a contract and respect it; the sharing of the meaning and the role assigned to the contract by means of communication. The integration of the four ontological dimensions involved a process articulated into three main phases: 1) subjectivation, where each actor defined its own point of view; 2) externalization, where the points of view of all the actors should have been expressed and challenged through communication; 3) the objectification of the meaning attached and shared in the previous communication. Of this process of integration, the subjectivation emerges from the case evidence, highlighting the different points of view of the partner firms with respect to the formal contract. In particular, I-Light interpreted the contract as a means that could increase the coordination of the transactions with the two Balkanian firms and get stable trading conditions with suppliers, making I-Light the only referent point in Albania and Kosovo for the distribution of suppliers’ products. Considering the relationship between I-Light and the two Balkanian firms, A-Light viewed the contract as an inspection tool unneeded for the transaction with I-Light. This perception was related to their cultural habits to conduct commercial agreement in verbal terms. A-Light’s national habits of doing business were based on informal agreement and trust and were not consistent with the motivations behind the formulation of a formal contract. K-Light instead had different needs than A-Light which were reflected in a different partner’s strategy. What was difficult to overcome was the K-Light’s perception of I-Light as a competitor rather than a partner. That should have required a more effort by I-Light and its suppliers in convincing K-Light about the benefits of its participation in the business network and of the consolidation of the relationships through the contract as a coordinating tool.

The different points of view were externalized during the meeting organized in September 2014, where I-Light and the Italian suppliers explained the contract’s advantages for all the parties involved in terms of stronger relationships and better commercial conditions of Italian products for the Balkanian firms. During the meeting, A-Light diplomatically argued that the verbal agreements were more suitable with their national way of conducting business, showing refusal behaviour to the stipulation of a formal contract. K-Light instead showed interest to participate in the meeting but when K-Light’s manager came back to Kosovo, he did not make any action for promoting the stipulation of the contract with I-Light, that was due to his lack of interest in considering the Italian firm as an intermediary. The design and introduction of a formal contract were coherent with only the I-Light national values, while the incoherence with the values of the other Balkanian partners could have risked compromising the reciprocal trust developed earlier.

5. CONCLUDING DISCUSSION AND REMARKS

The study has examined the process that might lead to the formulation of a contract as a formal mechanism of network governance when the firms embedded come from different national cultures. The case evidence has shown that the presence of trust does not necessarily play a central role and that it can be an obstacle as is the case for other informal mechanisms like national culture and values. Thus, a negative nexus is highlighted between informal and formal mechanisms of governance. This nexus has been complicated by the interdependence between the two main kinds of relations comprised in the informal business network.

The theoretical interpretation and discussion of the case evidence have highlighted the partial explanation of the phenomenon offered by ANT lens and so the opportunity to have recourse to PC. ANT, with its categories of translation and network, explains the interdependence between the two processes directed to formulate the two kinds of contracts. This points out that the failure of the
constitution of formal network governance may be
due to the failure of only one relation. This emerges
in the relation between I-Light and K-Light, whose
interests were different, being the former interested in
stabilizing the whole business network through
the introduction of formal contract governance, the
latter being interested in entering the Italian supply
market of electrical materials. Because of this
divergence in interests, I-Light was not
acknowledged by K-Light as a spokesman for their
relations and, given the interdependence between
the two translations, it failed as enrolling actor for
the whole business network.

The failure due to the relation between I-Light
and A-Light was not sufficiently explained from the
ANT lens, which does not comprise the category of
value. The difference in the Italian and Albanian
habits of conducting business is an argument out of
the ANT scope. The latter is not focused on the
potential determinants of action internal to the
actors, nor is it focused on future possibilities
because both categories are not empirically
observable. Differently, based on an interpretive
approach, PC develops an interpretation of the
actor’s intentions in relation to its social context.
This allows defining the actor’s values that drive its
choices from future possibilities of actions that are
coherent with the facts observed from the past.
Interpreted through a PC lens, a contract is not just
an inscription that can mobilize actors’ interests.
Rather, it is viewed as a way of thinking that has to
be commonly accepted by all the actors involved. It
has to be the exit of a process of integration that
makes the common narrative agreed upon by all the
actors. The difference in the national values between
the Italian and Albanian partners was relevant to
interrupt the integration process since its initial
phase. This point is an exemplification of the
inability of ANT to address questions starting with
why. ANT, indeed, limits its focus on questions
starting with what, who and how following a so-
called “flat approach” that offers a detailed
description of dynamics involving collectives. PC
differs as it is intended to enrich our understanding
of the motives leading actors to make actions that
succeed. PC follows a pragmatic approach that
explains how and why an action succeeds.

From the two theoretical views of the narrative
reported earlier, we notice that ANT and PC lenses
are concurrent, but not combinable. Their
ontological and epistemological assumptions differ
in what is real and what is knowable. From ANT lens,
the reality is a process of actions that have made a
difference. So, reality must be observable and its
study must be empirical, PC, instead, maintains the
difference between reality and the world, being the
latter constituted also by beliefs and dreams. Such
dimensions, which are not factual and thus not
empirically observable, can, according to PC, be the
driving forces of action, as the value dimension.
From PC lens, the reality is then the exit of a process
of integration between values, facts, possibilities,
and communicative. When the integration is valid,
an action succeeds, and a new reality with its new
topoi occurs.

The paper offers a twofold contribution. First,
it contributes to the accounting literature focused on
the interfirm relationships that investigates the role
of the control mechanisms, underlying the negative
nexus between the formal and informal controls.
The case evidence showed how, in the presence of
different national contexts, trust developed between
partners could represent an obstacle to formal
mechanisms such as the contract. Second, the paper
has analyzed the case study trying to reach a deeper
understanding of the phenomenon using two
concurrent theories: ANT and PC. This comparative
analysis has pointed out the different abilities of the
two theoretical lenses to explain the failure of the
network governance project, outlining the difference
in the assumptions that characterize the two
theories.

The paper belongs to a research agenda on how
theories can contribute for an understanding and a
guide of practice, pointing out that the selection of
an appropriate theory needs to take account of the
specificities of the setting where the phenomena
occur. Different theories highlight different aspects
of a phenomenon but the extent to which they can
be combinable to offer a more complete picture
depends on the difference in their scientific
assumptions. The two theories discussed in the
paper were not combinable and, for this reason,
have been used concurrently. Other studies may aim
to refer to different theories, based on similar
scientific assumptions, in order to take advantage
of their combination.

The paper suffers from some limitations. First,
we study only one case, reinterpreting the narrative
related to just two years. A longitudinal case study
could lead to better investigate the causes of the
failure of the contract, trying to understand a little
more the role of governance mechanisms and the
different possibilities that can arise when the
relationships between firms change or become more
stable. Second, the analysis of a cross-cultural
network operating in a different business or
involving other countries could be interesting in
order to understand how the application of the two
theories could offer a more complete picture about
the use of informal and formal mechanisms in
constructing new social realities.

REFERENCES


