Chapter 9
Behaviour Transformation: An Examination of Relational Governance in Complex Engineering Service

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Abstract In the present study, we investigated two outcome-based maintenance, repair and overhaul (MRO) service contracts in the attempt to better understand the effect of relational governance on firms' boundary-spanners behaviours in co-producing complex engineering service. Our field interviews indicate that managers are heavily dependent on interpersonal relationships to promote mutual cooperation in service delivery. The role of legal contracts in monitoring behaviours seems insignificant. Furthermore, we noted that with the development of interpersonal relationship, cooperation moved from reciprocal to communal. That is, at the early stage of relationship, both parties cooperate conditionally according to the norm of reciprocity. When the relationship becomes more mature, both parties share a common identity and work towards their collective goals. To that end, service performance would then be greatly enhanced. Through a theory-in-use methodology, our study maps the practices of behaviour transformation in complex engineering service systems, effected through interpersonal relationship development.

9.1 Introduction

The importance of social relations in supporting economic exchanges has been recognised across a wide range of theoretical perspectives (Eccles 1981; Granovetter 1985; Macaulay 1963). Most agree that relational governance, which is dominated by relationship norms, figures prominently in explaining the success and stability of inter-organisational exchanges. Yet, in equipment-based services, e.g., complex engineering service, the provider and the customer organisations often rely on legal contracts monitoring service activities. In contrast to people

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centric services or 'pure' services, the significance of social relationships in equipment- based services is often overshadowed by a focus on the more tangible products attributes. Our study offered the first empirical investigation of relational governance in complex engineering service from an interpersonal relationship perspective. In the present study, two outcome-based maintenance, repair and overhaul (MRO) contracts of defence equipment provision have been examined. Unlike the conventional MRO contracts where the firms are paid on the basis of maintenance, repairs or spare parts used, the contracts were awarded on the basis of the availability of the equipment. The service provider relies heavily on the customer's operand (e.g., tangible equipment) and operant resources (e.g., knowledge and experiences) to deliver service outcomes. It is not possible to deliver an outcome without the customer co-producing the service with the firm. In day-to-day work, service performance is accomplished by individual employees, especially those who span the boundaries of the two organisations. Hence, there is a need to understand service co-production at individual levels.

Despite the importance of such perspective, there has been a lack of attention devoted to the study of the individual service provider and customer in complex engineering services literature. Nevertheless, our field work reveals that interpersonal relationships between them are essential to the overall service performance. Managers are often dependent on their relations with the customers to enhance inter-organisational cooperation. Furthermore, our interviews indicate that with the development of interpersonal relationships, the cooperation between the individual providers and customers can move from reciprocal to communal. That is, at the early stage of relationship, they cooperate conditionally based on the norm of reciprocity. When their relationship becomes more mature and both parties share a common identity, they will cooperate communally in the attainment of collective goals. To that end, service performance would then be greatly enhanced.

We begin with a literature review on equipment-based services, service co-production, and the interplay between relational governance and contract governance that will serve to illustrate the inadequacies of academic literature in providing insights of relational governance in equipment-based services. Following on, the method section outlines the details of the exploratory investigation of 19 in-depth interviews with individual providers and clients at all levels in both contracts. These interviews were coded and categorised through a theory-in-use methodology, supplemented by academic literature. We then close with a discussion on the implications of the findings, study limitations and directions for future research.

9.2 Literature Review

9.2.1 Service Co-production

The concept of equipment provision has been around since the start of industrial era. Indeed, as early as Adam Smith, the Wealth of Nations provided the dominant

view that countries produce excess quantity goods to be exported and generate wealth. To date, the provision of equipment has become more complex as competition heightened, firms have felt the pressure to add value, predominantly through the provision of services. Research has shown that firms add on services integration with clients' capabilities. This provision has been commonly referred to as 'the servitization of manufacturing' (Baines et al. 2009). It has resulted in combinations of offerings to generate value from both products and services in bundled packages, frequently through providing through life support for their products by manufacturers (Vandermerwe and Rada 1988; Anderson and Narus 1995). Recently, the servitization of manufacturing has been reviewed and revisited. The emergent service-dominant logic (S-D Logic) (Vargo and Lusch 2004) provided a new paradigm that is rapidly gaining an established position in marketing literature. S-D Logic is captured in a list of Foundational Premises, such as 'the customer is always being a co-creator of value' with the firm. There is a distinction between value co-creation and service co-production though both imply the involvement of the customer and the firm. With S-D Logic, value is viewed as customer value which is proposed by the firm and unfolded by the customer over time. Nevertheless, service co-production is a process where the customer and the firm involve in delivering service outcomes. In the present study, our focus is service co-production.

Co-production represents a central construct in service literature (Zeithaml et al. 2006), such that the customer always plays an active role in the service offering. This conceptualisation derives from a specific characteristic of the service provision, namely, that the production phase cannot be disconnected from consumption activity (Lovelock and Wirtz 2004). Customer participation in service production has been defined as "the degree to which the customer is involved in producing and delivering the service" (Dabholkar 1990, p. 484). In this article, we adopt the view of co-production as "engaging customers as active participants in the organization's work" (Lengnick-Hall et al. 2000, p. 359). Therefore, we do not consider the situation of customer self-service (Meuter et al. 2000). When we refer to service co-production, we mean the joint production of service outcomes. Joint production is a situation in which both the customer and the firm's contact employees interact and participate in the production (Meuter and Bitner 1998).

The early work in co-production was largely firm-centric, the economic rationale provides the focus on cost benefits to the firm in terms of productivity gain, with customer labour substituting for employee labour (e.g., Fitzsimmons 1985; Lovelock and Young 1979; Mills et al. 1983; Mills and Morris 1986). The domain has then shifted to customer-centric, research in this theme has focused on when and why customers may be motivated to participate in service production as partial employees. This perspective has widely discussed topics such as technology readiness (Dabholkar 1996), provision of adequate training (Goodwin 1988) and identifying customer psychological responses (Bendapudi and Leone 2003). The concept of service co-production recently has been enhanced by S-D Logic (Vargo and Lusch 2004). That is, the personalized interaction between the firm and the customer thus becomes the locus of service co-production and resultant value

creation. The new framework implies that all the points of customer–firm inter-action are critical for creating value and value is co-created through their reci-procal and mutually beneficial relationship (Vargo et al. 2008). We argue that such relationship is grounded by interpersonal relationships between individual pro-viders and customers. For example, when a customer talked about the relationship with the service provider, most likely, he/she was referring to the firm's employee, David or Susan. Therefore, co-production management need to place simultaneous emphasis on the role of interpersonal relationships in managing a successful inter-organisational relationship, and stimulating cooperative attitudes and actions. Although some authors argued that customer participation in service process is integral to service success, affecting overall performance and quality (e.g., Kelley et al. 1990; Schneider and Bowen 1995), interpersonal interactions between the individual providers and customers have been studied only in a limited fashion, especially in equipment-based services. This lack makes it impossible to draw strong conclusions about the effect of interpersonal relationships on service outcomes.

9.2.2 The Interplay of Relational Governance and Contract Governance

In inter-organisational exchanges, formal contracts are mechanisms that attempt to reduce risk and uncertainty (Lusch and Brown 1996). However, an undue reliance on the formal contract signifies a transaction oriented approach and an adversarial relationship (Gundlach and Achrol 1993). Williamson (1975) noted that contracts are incomplete because of parties' inability to write a comprehensive agreement that covers future contingencies, and Macneil (1980) recognised that the legal contract cannot explicitly state how potential situations will be handled in the future. It follows that strict adherence to the written contract may preclude the necessary flexibility in an exchange. Exchange performance can suffer when detailed contracts are used without a well developed social relationship (Cannon et al. 2000), and "the misuse of contracts could create irreconcilable conflict and other forms of dys-functional behaviour that could ultimately harm channel member performance" (Lusch and Brown 1996, p. 19). Ghoshal and Moran (1996) argued that the use of rational, formal control has a pernicious effect on cooperation. They contend that for those parties being controlled, the use of rational control signals that they are not trusted to behave appropriately without such controls. Consistent with this logic, Bernheim and Whinston (1998) developed a formal model and showed that making contracts more explicit may encourage opportunistic behaviour surrounding actions that cannot be specified within contracts.

Research has long recognised that the importance of social relations in sup-porting inter-organisational exchanges. For example, Poppo and Zenger (2002) propose that for relationally-governed exchanges, the enforcement of obligations,

promises, and expectations occurs through social processes that promote norms of flexibility, solidarity, and information exchange. Flexibility facilitates adaptation to unforeseeable events. Solidarity promotes a bilateral approach to problem solving, creating a commitment to joint action through mutual adjustment. Information sharing facilitates problem solving and adaptation because parties are willing to share private information with one another, including short- and long-term plans and goals. As the parties commit to such norms, mutuality and cooperation characterise the resultant behaviour. In addition, Poppo and Zenger (2002) also suggest relational governance may promote the refinement (and hence increased complexity) of formal contracts. As a close relationship is developed and sustained, lessons from the prior period are reflected in revisions of the contract. As a consequence, relational exchanges may gradually develop more complex formal contracts, as mutually agreed upon processes become formalised. In the present study, relational governance is defined as the strength of the relationship norms present in the service activities co-produced by the individual providers and customers.

However, researchers cannot agree on whether relational governance and contract governance function as substitutes or complements (see Poppo and Zenger 2002 for a full review). One stream of research has viewed them as substitutes. The underlying logic is if contracting parties trust each other, there is little need for contractually specifying actions. Informal social controls push these formal contractual controls to the background. In particular, Adler (2001) argued that trust can replace formal contracts by 'handshakes' in marketing exchanges. Dyer and Singh (1998) concluded that formal contracts are rather unimportant as informal self-enforcing agreements which rely on trust and reputation 'often supplant' the controls characteristic of formal contracts. Alternatively, other research contends the complementary relationship between relational governance and contract governance. In particular, in settings where hazards are severe, the combination of formal and informal safeguards will deliver greater exchange performance than either governance choice in isolation (Poppo et al. 2008). A common rationale is that the presence of clearly articulated contractual terms, remedies, and processes of dispute resolution as well as social controls can inspire confidence to cooperate with the counterparty.

In the execution of service contracts, relational governance becomes a necessary complement to the adaptive limits of contracts. It may heighten the probability that social relations will enhance trust and cooperation, and safeguard against hazards poorly protected by the contract. Typically, prevailing literature is mainly concerned with contractual and relational governance at the firm's level. Monitoring service activities at individual levels remains complex and troubling in management practices. Specifically, in outcome-based delivery, governance is complicated by the lack of specification in individual boundaries and roles. In the present study, we offer an empirical investigation on relational governance in complex engineering service from an interpersonal relationship perspective.

9.3 Context and Research Method

Our data was collected from two prime contractors working for the Ministry of Defence (MoD), UK. They provided the MRO service for defence equipment, e.g., fastjet and missiles. The contracts were awarded on the basis of the availability of the equipment. Both organisations were awarded for the MRO of whole operable life of the equipment till the out-of-service date. The availability of the equipment means that subject to certain conditions of how and where the equipment is used by the customer, the firm is obliged to deliver a set number of flying hours on the fighter jet and a fix percentage availability over a certain period of time (e.g., 95% availability) for the missile system. While the MRO service is outsourced, the MoD had a big role in the partnership which is to provide Government Furnished Materials (GFX) including supplying physical facilities, material, data, IT and manpower to facilitate the company in achieving its outcomes. Both parties were co-located at the service site and worked together for the contracts. Under this circumstance, interactions at the interpersonal level are intense. This context is best for the study of relational governance from an interpersonal relationships perspective.

The field study was carried out over a 2-year period from 2007 to 2008. Multiple qualitative methods had been employed to extract data for the purpose of understanding the dynamics arising from outcome-based service contracts. We had 19 interviews with team members from both sides, attended the contractors' orientation meetings, presentations and visited the service sites several times. Meanwhile, supplemental materials such as project briefing brochure and contracting documents (although not released to be reported in this article) were collected. The logic behind using multiple methods was to secure an in-depth understanding of the phenomenon in question. These interviews followed the phenomenological focus, that is, from the perspectives of the participants (Thompson et al. 1989). The primary aim of this type of qualitative investigation is to understand experience as closely as possible as its participants feel or perceive it. The depth-interview method offered the opportunity to gain insight into individuals' subjective experience with the contract. The course of the interview dialogue was set largely by the participants. The interviewer's questions were formulated in concert with the participants' reflections and were directed at bringing about more thorough descriptions of specific experiences. The primary objective was to allow the participants to articulate their own system of meanings (Thompson et al. 1989): the personalised meanings and meaning-based categories that constitute the individual's abstracted understanding of governance in service delivery.

The interviews included 11 managers from the service providers and 8 members from the clients in both contracts. The goal was not to compare between size and structure of the two joint delivery teams but to provide personnel at each level. The participants represented all levels of the teams (4 project directors [senior executives], 2 general managers [mid-level executives], 9 project managers [mid-level executives] and 4 engineers/technicians [staff]). These positions were

included primarily because of significantly interpersonal interactions involved in their work. The interviewees were not selected in advance but by availability and also sequential recommendation from those who participated. Interviews were completed between 50 and 120 min. Prior to the interview, the participants were asked for their consent, which assured them and their firm of confidentiality regarding the interview texts and any other materials provided. The purpose of study was described to each participant as an exploration of outcome-based service contracts they were working on. The interview began by obtaining general background information on the participant (e.g., position, employment history and length of time on the contract). It then shifted to specific topics such as relational governance using the following probe: "How would you find the relationship between you and the customer?" or "Tell me about the relationship." The logic of this interview flow is straightforward: questions at the beginning of the interview provide the broader descriptions needed to contextualise the participant's specific experiences in the later part. Each interview was recorded and transcribed.

Data analysis proceeded, using discourse analysis to uncover the meanings and emerging themes of relational governance. The discourse analysis of this research was primarily focused on verbal discourse as opposed to written discourse. This has been termed the "talk as text" approach (Potter 1996). As talk and texts are parts of social practice, they 'construct' knowledge rather than 'describe' facts. The discourse analysis of the interview transcripts proceeded with the use of a hermeneutical procedure outlined by Thompson (1997). The hermeneutical circle is implemented by continually modifying the initial understandings of participant's personal experience with specific contracts, based on earlier passage with respect to the participant's general background. Earlier readings of the text inform later readings, and reciprocally, later readings were incorporated into the interpreting participant's broader life experience. As the analysis proceeds, the textual inter-pretations were broaden, with the resultant thematic structure reflecting the understanding of individual experience in the broadest context. Accordingly, readings on texts expressed by different participants allow the researcher to identify key patterns of relational governance across all the interviews and derive general managerial implications.

As demonstrated in the literature review, the divergence between practice and what the literature suggests is the backdrop against the reasons why a theory-in-use methodology seems warranted. In their book Theory Construction in Marketing: Some Thoughts on Thinking, Zaltmann et al. (1982, p. 113) illustrate the funda-mental concept of a theory-in-use approach:

> Practitioners… are generally more concerned with informal theory based on everyday observations (versus controlled experiments), having less than precise concepts (versus explicit empirical referents), and being related to one another intuitively (versus in rig-orous testable relationships). The informal theory built and maintained by practitioners in their everyday activities represents an important source of insight for the researcher concerned with formal theory. By mapping these informal theories and applying their own creativity, a researcher may gain insights into marketing phenomena which might not otherwise be obtained.

This methodology is therefore an exercise in reconstructed logic; mapping informal theory, linking with academic literature and developing a greater understanding of the phenomenon. Our purpose is to understand, formalise and document practitioners' experience of governance in service co-production as a contribution to academic literature.

With the assistance of qualitative software Nvivo 7, we started with open coding of the transcripts of the interviews, scrutinising the transcripts line by line in order to identify key words and phases that would give us insights into what was happening in the data. At this stage, coding was unstructured and hundreds of codes had been identified. Inevitably these need to be reduced as coding moves on to a more abstract level in the search for patterns and themes that suggest a relationship. We employed axial coding which clustered the open coded nodes in terms of their dynamic interrelationships. These categories were then re-evaluated and gradually subsumed into higher order categories which suggested the emergent themes of relational governance in equipment-based services. Meanwhile, memos were written to note ideas and reflections during data collection and analysis. The coding and memos had been constantly revisited and compared in searching for patterns of relational governance. The interviews had been conducted in an ongoing manner until no new insights arose from fresh data. The fresh data were compared with existing transcripts and were scrutinised for any new information. Whilst no new concepts emerged, the significance of those identified were reinforced and strengthened with further examples in different contexts. These concepts paved the way for categorisation.

9.4 Findings

9.4.1 Contract Governance

Our findings:

- Comprehensive contracts cannot provide complete safeguards against potential risks and uncertainties.
- The lengthy procedure of contract amendment has negative impact on service performance.
- Outcome-based contracting has difficulty in specifying boundaries and roles.
- Financial incentives failed to motivate interpersonal cooperation.
- Strictly working around the contract can lead to service failure.

Contract governance has previously been examined in terms of the existence of a detailed agreement (Cannon et al. 2000), its enforcement under conditions of violation (Antia and Frazier 2001), and the stipulation of expected behaviours and roles in the exchange (Lusch and Brown 1996). As far as concerned by our interviewees, contract governance has several limitations. First, even the most

comprehensive contract cannot provide full safeguards against potential risks and uncertainties as the negotiating parties only write down clauses they agree on but remain silent on issues on which they have debate. One of the interviewees explained this practice to us:

> Well contracts tend to be tend to be silent on a lot of, on a lot of issues, you don't tend to may be because you haven't thought of them may be 'cos you didn't particularly want to broach that particular subject because you knew it would be difficult or whatever so sometimes you just don't bother to write them down and you will work your way through that once you get err once you get into the contract... Well inevitably, inevitably you never, you are never able to cover I don't think everything that you are going to have to be able to do. I mean first of all you would have a contract which was probably five times the size and you probably never actually reach a conclusion you have just got to assume that certain things kind of will happen. You are not, you never ever going to be able to tie everything down to you know a black and white in a contract it just isn't going to happen, it's not practical.

Secondly, the contract amendment procure is lengthy. In some situations, the foremost task is to solve the problem; otherwise, service performance will suffer from the bureaucratic process. Under this circumstance, the service provider and the customer would prefer to get things done rather than wait for the contract amendment. One interviewee described the lengthy procure of contract amendment:

> Now if you just follow the absolute letter of the contract then we would just stop, we wouldn't do anything right we would officially declare that we are not going to provide this manpower and we would go through a lengthy process of asking us for a quote, we would give them the quote and then get the money approved and the money finally turns up they put a contract amendment in and then we get to go out and we recruit sub contractors. That will take months and months and months.

Thirdly, outcome-based contracting has difficulty in specifying boundaries and roles. Individual service providers and customers did not sufficiently understand their roles in terms of the tasks and behaviours required in service delivery. As a result, the provider strictly adhered to the Key Performance Indicators (KPI) activities as defined in the contracts. On the other hand, the customer supervised rather than co-produced the service with the provider as they perceived that the provider was solely responsible for service outcomes.

Fourthly, contracting mechanisms such as 'gain share' and 'pain share' of financial incentives crafted to promote the firm-level cooperation failed to motivate interpersonal cooperation as individual customers (i.e., users) were more concerned with operational efficiency and effectiveness. The customer's perception that the provider was after profit rather than operational capability almost caused a difference in commitment. The service provider complained that the end user community was reluctant to get involved in service delivery. One interviewee shared his observation of the end users' ignorance:

> They (end users) don't know what's going on in that background and the user doesn't necessarily want to get involved in a lot of these contracts. Whether it be (end users),

> whether it be any (end users) you know if it came for (end users) or something like that, the user is just principally standing back going, well it's got nothing to do with me.

Finally, strictly working around the contract had caused insufficient communication and interactions at individual levels. Although there were formal communication channels such as regular meetings, interpersonal interactions were lacking. As observed by many interviewees, the provider and the customer would sit separately during the monthly meeting and not mingle with each other at all. As the customers recalled, at the beginning stage of the contract, a lack of interpersonal communication with the provider had left them in the dark. They had no idea why the provider had delivered the service differently from what had been done in-house. One customer told us the misunderstanding of the provider's practice,

> That's not to say they are doing them worse they are just doing them differently but they hadn't communicated that that's how they were going to do business. So therefore we were scratching our heads and not understanding why they were making some of the decisions that they were making but it was because they hadn't told us that their philosophy was that way or this way.

Consequently, service co-production was going to break. However, both parties cannot afford the contracts to fail, as the customer wanted to achieve service outcomes whereas the provider looked forward to business success because any failure would be harmful to the company's reputation. Therefore, they decided to work on relationships to rescue the service.

9.4.2 The Relationship Development

Our findings:

- Interpersonal relationships developed through informal interaction and socialisation.
- Interpersonal similarity is key to relationship development.

The individual provider and customer described their initial relationships as "an arranged marriage". The newly married couple has yet to find any common goals in life. The customer community treated the provider as an opportunist who was eager to make money from the marriage. Some even considered that working with the provider would be a nightmare. Likewise, salient cultural differences have discouraged interpersonal interactions. For example, many of the end users, in this case the soldiers, had problems in dealing with industrialists. Similarly, industry people also found it difficult in adapting to military culture:

> there is very much a focus on the task at the expense of anything else that is a bit of a different culture, and so that has for some individuals understandably who didn't join up to be military they have found it difficult to adjust to.

As stated early, in order to rescue the contracts, both organisations as well as their employees were making efforts to develop relationships. The firms were

trying to put the right people at the boundary positions. For example, they recruited ex-military staff who could understand the protocols of the army and build rapport with the soldiers. The shared experience tended to break the ice of interpersonal interactions. On the other hand, individual providers and customers realized that informal events facilitating relationship development. Social activities such as golfing, outings and barbeques were organised to promote interpersonal interactions. The ongoing interaction did not develop in a vacuum but rather, it accounts for the social relationship bonds. The providers and customers became more joined up through socialising. Many relationships seemed to be developed outside of the work environment. One interviewee told us how they got to know the counterparty through social events:

> we had a night out with them so you get to know people that way socially and they've also got I think it's a, end of July like an open day barbeque and all that which I think most of us will be going to. Again you will get to know them that way.

In addition, we found that the influence of setting on formulating relationships was rather weak. Although co-located and work together on a daily basis, individual employees only developed close relationships with those who were similar to them.

9.4.3 Relational Governance

Our findings:

- Through developing interpersonal relationships, co-producing service became possible.
- When service provider–customer relationships developed into in-group relationships, cooperation moved from reciprocal to communal.

Cooperation and mutual adaptation provided the flexibility to cope with inevitable uncertainties that arise in the contracts. The expectation of continuity generated incentives to invest in relationships. As well, the expectation of longevity minimised the need for precise performance measurement in the short run as both parties expected that short- term inequities would be corrected in the long term.

Relational governance refers to a social institution that governs and guides exchange partners on the basis of cooperative norms and collaborative activities (Heide and John 1992; Macneil 1980; Zaheer and Venkatraman 1995). The mechanisms through which relational governance attenuates contract hazards are both economic and sociological in nature. Economists emphasise the rational, calculative origins of relational governance, emphasising particularly expectations of future exchanges that prompt cooperation in the present. Sociologists emphasise socially derived norms and social ties that have emerged from prior exchange (Uzzi 1997, p. 45). Trust is therefore considered a trait that becomes embedded in a particular exchange relation. Many conceptual (e.g., Bradach and Eccles 1989;

Dyer and Singh 1998; Uzzi 1997) and empirical (e.g., Artz and Brush 2000; Dyer and Chu 2003; Poppo and Zenger 2002) works have established the benefits of trust-based forms of governance. In essence, once an exchange partner is granted trustworthy status, they are expected to behave in a trustworthy fashion in the future. Williamson (1996, p. 97) suggests that the term trust is misleading, arguing that "because commercial relations are invariably calculative, the concept of calculated risk (rather than calculated trust) should be used to describe commercial transactions." Nonetheless, there is considerable overlap in the arguments of sociologists and economists surrounding trust and cooperation. Poppo and Zenger (2002) summarise that both sociologists and economists, for instance, argue that repeated exchange encourages effective exchange, and that repeated exchange provides information about the cooperative behaviour of exchange partners that may allow for informed choices of who to trust and who not to trust. While the mechanism may differ slightly, both economists and sociologists emphasise that reputations for trustworthy behaviour are rewarded and reputations for untrustworthy behaviour punished in the broader network of potential exchange partner. Consistent with the literature, our interviewees agreed that interpersonal trust is the cornerstone of relational governance. Following the economic logic, one interviewee told us the trustworthy status is conditional upon the benefits that accrue from trustworthy status over time contrasted with the benefits that accrue from self-interested moves that break from the trustworthy status. He said:

> we have to be nice it's okay we can trust them on this it's fine we trust them and you know the first time they ever let us down then that will destroy four or five years of relationship the same as if we ever let down that would destroy the relationships.

Amongst the advantages of relational governance, cooperation and resultant work efficiency and effectiveness were specially highlighted. As we discovered in our study, interpersonal relationships were considered as the glue that made all things work. The interviewees suggested that what was stated on paper (e.g., the contracts) may never happen but relationships helped make sure things get started and finished in a positive tone. Even when the process got stuck, having the right relationship could move it on. Otherwise, it would just stop there. As a result, interpersonal relationships enhanced efficiency and effectiveness in service co-production. For example, one interviewee thought social relationships were the solution of dispute:

> Now you can either spend two years having the fight and winging or if you have got the relationships you can just, it will get sorted out so it's things that you don't put financial fund it works it just makes everybody's life a lot easier and things just get done.

Noteworthily, our interviewees made it clear that relying on relationships does not mean shortcutting everything. Things can go wrong if one attempts to shortcut an established process in the contracts. It echoes the previous research that relational governance is complementary to contract governance. Next, we use examples to illustrate how relational governance was effected through relationship norms. Throughout the interviews, the norm of reciprocity was underlined. When

one party gave favour to the other, he/she had the expectation that the counterparty would repay e.g., helping with the milestone task. Typically, the individual providers were developing personal relationships with key customers in exchange of resources, information and preferable treatment. Their cooperation was reciprocal, as illustrated by one interviewee, "they might bend the rules a bit and you might bend the rules a bit". We thus termed this relationship as the exchange relationship where relationship parties cooperate conditionally to facilitate the attainment of each other's goals.

Interestingly, we noticed the other type relationship norm which we refer to it as communal cooperation. Over time, some of the relationship development efforts gradually eliminated estrangements. The individual providers and customers discovered their interpersonal similarities and eventually moved from the 'them vs. us' split into a collective 'we'. Getting back to the marriage analogy, the marriage did not actually happen at the time they signed the contracts, but when both parties made the emotional commitment to act as one united team. After working on the contract for nearly one and half years, for example, we observed the 'we-ness' on some occasions. As a visitor, we could hardly distinguish between them when both parties were working at the service site. Our interviews also revealed, as a result of relationship development efforts, some of the individual providers and customers started to share a salient identity and they treated each other as 'one of us'. In some cases, the individual providers had been empowered to plan and solve problems for the customers with full knowledge of the goals. One interviewee shared his experience of being treated as an integral part of the team by the customer:

> just recently only a couple of months ago I went on a, on a military field trip with them into (the place) you know just another member of the team basically that's how I get treated.

He continued later,

> Oh yeah I am on the (the client's premises) now so I sit with (the client's team leader) and his team once a week and we go through they tell me things which are military, we go through military issues and they, they ask me for my industrial opinion. So they'll say err we are thinking about closing (the place) next week (name of the interviewee) for a day because we've had a really good err (the inspection) how does that affect output for us? I'll say well you'll lose a day's production you know, it'll cost us X number thousands of pounds but I am consulted the issue isn't the answer the issue is the consultation is the issue.

Social identity approach (Haslam 2004) specifies the circumstances under which individuals are likely to conceive themselves either as separate individuals or as part of a collective group. This in-group relationship is characterised by the norm of communal cooperation, that is, both parties cooperated for the attainment of collective goals. One individual provider told us he was supported by the customer's team leader when attempting to correct certain behaviours of the end users for the purpose of cost saving:

> Right you know right but that's the kind of relationship we've got. I can go in there and be very outspoken with them because I've built up that level of trust with them and you

know. Yeah but that's the kind of relationship we've got you know and (the client's team leader) sits there and he says I agree it's completely unacceptable and you know.

9.5 Discussion, Implications and Limitations

Our findings indicate that relational governance plays a very significant role in the delivery of outcome-based service contracts, especially in promoting service co-production at individual levels; whilst contract governance seemed unimportant. Although comprehensive contract mechanisms have been designed to safeguard service delivery, managers in fact rely heavily on relational governance to improve service performance. They tend to count on reciprocal or communal cooperation to weather through the various uncertainties in service delivery. In relationship development, we note that interpersonal similarities can foster close relationships. Likewise, informal interactions and socialising eliminated differences and misunderstanding. Accordingly, two types of individual provider–customer relationships were discovered. In exchange relationships, relationship parties cooperate based on the norm of reciprocity. As relationships develop into in-group relationships, both parties cooperate unconditionally and work towards collective group goals. A major contribution of this study is the advancement of an interpersonal relationship perspective of relational governance on service contracts through a theory-in-use methodology. It is our belief that this contribution provides pedagogical benefits and substantial relevance to the practice of service co-production and management thinking.

In this article, we have used our field study to structure inquiry into how relational governance works on service co-production at individual levels. Through our findings, we present an integrative view of contract governance and relational governance in service contracts. We not only bring together interpersonal relationships and relational governance but also relate cooperative behaviours to types of relationship norms. Furthermore, drawing on our field observations, we address the gap between theory and field research by introducing the idea that different types of relational norms, reciprocity and communality, can affect interpersonal cooperation in service co-production which has not been studied adequately in literature.

The striking factor in our study is that relational governance as a strategic resource to improve service performance. This seems particularly advantageous for outcome-based service contracts where environmental and behavioural uncertainties are a major obstacle in delivering outcomes, and where interactions between equipment, people and information increase the complexity. Our article is descriptive rather than normative in nature, and does not focus on performance implications of service delivery. Thus, generic and explicit recommendations on how organisations should manage contractual and relational governance cannot be drawn directly from our research. However, assuming that qualitative case studies provide better insights, we at least can make tentative statements of how our observations will guide managerial decisions:

- Outcome-based delivery in lack of specification in boundaries and roles, results in a greater dependency on relational governance.
- Delivering outcomes, rather than contracted performance measurements, is the primary focus of service co-production, with contracted performance measurements a secondary result arising from the primary focus.
- Interpersonal relationships oil the wheels of service co-production. Without proper relationships, the individual providers and customers won't co-produce anything and the service provided is not sustainable.

In addition, this relationship is a dyad, we urge the provider and the customer organisations to align their personnel arrangement at all levels with the counter side and relationship bonding activities are highly recommended.

The predominant emphasis of this study is to obtain in-depth understanding of the phenomenon of contractual and relational governance in equipment-based services. Although the investigation of two outcome-based contracts would still be relevant to the theory-in-use methodology (Zaltmann et al. 1982), multiple cases should be chosen as a way of discovering more patterns of relational governance. The study scope has limited our ability to generalise our findings.

It is interesting to note that what originally started as a study on relational governance of service contracts seems to have obtained quite unexpected results. Along the course of our study, we discovered two different types of interpersonal relationships between the service provider and the client: exchange and in-group. Specifically from the point of view of managing interpersonal cooperation, in-group relationships motivate collective actions which may hugely increase service output. At the best of our knowledge, this type of relationships has not attracted enough attention in academic research as much marketing literature is focused on the exchange type of relationships. Our study suggests a divergence between academic literature and practice in so far as the focus and approach towards individual provider–customer relationships are concerned. In light of this, there is a need for greater research attention towards the communal type of relationships.

9.6 Chapter Summary Questions

The chapter has raised the issue that relational governance is more important than contract governance in co-producing complex engineering service at individual levels, and hence it drives a few concluding questions:

- First, how can the firms train their boundary spanners to use relationship-building strategies?
- Second, can relationships be duplicated to other service contexts? i.e., another service contract?
- Third, what do the firms need to do to encourage the formation of a common identity in the service provider–customer joint work team?
- And finally, is there an issue if the key contact person leaves the team?

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