Seller beware: International transactions require much more than a contract

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Suppose China wants to buy microprocessors from the United States. The two countries sign a contract—and then the United States hopes that China, as the buyer, holds up its end of the bargain. (One could say the same for China, by the way.) One might think that a contract spelling out in detail the terms of sale and delivery would eliminate the chance that the buyer would violate those terms. A new study in the *Journal of International Marketing*, however, suggests that well-specified contracts are effective in reducing violations on the part of the buyer only if the buyer is a country that is highly globalized or whose business environment is a low-risk one.

"It's not just the contract itself that is important in regulating a business transaction. Contextual factors—how stable a country's business climate is, or how much it participates in the global economy—matters as well," write the authors of the study, David A. Griffith (Lehigh University) and Yanhui Zhao (Michigan State University).

The authors sent an online survey to over 700 managers in export manufacturing firms all over the globe. Contract specificity as well as contract violation was measured by such things as technical specifications, implementation procedures, and financial and legal considerations. Just over 150 of the surveys from nearly thirty countries were completed and usable for the study.

The authors found that the ability of contract specificity to reduce contract violation varies with levels of country business risk. Contract

monitoring can here play a role: monitoring (specifically the time spent working to monitor the compliance of the contractual features of the agreement) can reduce the negative influence of contract violation on relationship performance in international buyer-supplier relationships.

"Managers must recognize that contract specificity is beneficial only for some international buyer-supplier relationships," write Griffith and Zhao. "International marketing managers need to evaluate the buyer's country business risk and level of country globalization when designing a contract. The evaluation process should account for the economic, social, political issues in the buyer's country."

More information: David A. Griffith and Yanhui Zhao. "Contract Specificity, Contract Violation, and Relationship Performance in International Buyer-Supplier Relationships." Forthcoming in the *Journal of International Marketing*.

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