



1042-2587
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The Governance Paradox: Preferences of Small Vulnerable Firms in the Homebuilding Industry

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This article explores the variables that drive small firms to choose quasi-integration as an alternative to vertical integration in situations of high asset frequency. Drawing on transaction cost theory and institutional approaches, we develop and test several hypotheses regarding quasi-integration among homebuilders and land developers in a major Canadian city. Our focus is on the preferences of small, vulnerable firms operating in an environment where quasi-integration has been institutionalized as a trusted form of governance. The findings indicate that the preference for quasi-integration is driven by asset specificity, bargaining power, and opportunistic expectations, supporting a paradoxical view that small, vulnerable firms pursue both efficiency and institutional legitimacy in making governance choices regarding large dominant suppliers.

Introduction

The means by which firms organize their relationships with key suppliers and customers is a critical area of concern for both managers and scholars as efficient governance mechanisms are a prerequisite for firm survival (Williamson, 1991). Due to asymmetric bargaining power, situations often arise where some firms are able to dominate their vulnerable suppliers or buyers (Subramani & Venkatraman, 2003). In such situations, dominant firms may choose quasi-integration, which is a form of governance that allows them a degree of managerial control over certain aspects of the activities of their suppliers or buyers, without the associated costs and rigidities of ownership (Blois, 1972). Perhaps a question of equal importance (but less analyzed) is under what circumstances will a vulnerable firm also prefer quasi-integration? This question is particularly important in the study of new ventures and small businesses because such firms frequently find themselves

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