

Interfirm Relationships and Value Creation: A Synthesis, Conceptual Model and Implications for Future Research

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Abstract (395 words)

Interfirm relationships are at the very core of new trends in the present business environment, trends such as market orientation, time-based competition, supply-chain management, strategic partnerships and electronic business. More and more frequently, these relationships are being examined as a major source of value creation in the fields of strategic management, marketing, operations management, logistics and information systems. The attention paid to interfirm relationships has resulted in an extensive but somewhat fragmented literature on the subject. It is therefore increasingly difficult to get a clear idea of the ins and outs of these buyer-seller relationships.

The present theoretical study addresses this shortfall by providing an integrative framework of interfirm relationships as a means of value creation. It aims at fostering a better understanding of these relationships and at clearly positioning value creation within interfirm relationships.

A synthesis of the theories used to study interfirm relationships and a cross-disciplinary literature review allow the authors to identify, and then to elucidate, three key elements of interfirm relationships: (1) the outcomes of interfirm relationships, (2) the nature of interfirm exchange and (3) the governance of interfirm exchange. These elements are combined in a conceptual model showing their interrelation. In short, a set of six factors – environmental, situational, behavioral, regulative, structural and coordinative – is identified as determining the nature and governance of exchange. Continuums ranging from the adversarial to the collaborative and from the transactional to the relational are used to characterize interfirm exchange. According to the positioning of the exchange nature and governance in these continuums, interfirm relationships result in more or less value creation and/or value

destruction. Finally, a discussion of the conceptual model outlines an array of future directions in research.

In an academic perspective, the conceptual model put forward brings some much needed clarity to the multiplicity of approaches used on the topic. It should also enable an accurate distinction between over- and under-explored avenues of research. Furthermore, this model can be integrated into future research on the emerging concepts of relationship value, relationship management, relational competence and relational capital. From a managerial standpoint, the present study fosters a better understanding of buyer-seller relationships. This is important because interfirm relationships are crucial if firms are to adapt to the various new trends shaping today's business world. This study supports the views of managers willing to use interfirm relationships as a means of value creation.

Keywords

Interfirm relationships, value creation, relationship management, network governance, theoretical framework.

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INTRODUCTION

This study takes roots in the major paradigmatic change that occurred in the 1990s with the advent of globalization and advances in both manufacturing and information technologies. The whole of Occidental society is said to have been reshaped into a “networked society.” As regards business, in particular, this paradigmatic shift has generated several new trends. Value creation has emerged as the *raison d’être* of firms, which seek to achieve it through market orientation, time-based competition, consolidation by way of mergers and acquisitions, supply chain management, electronic business, collaborative approaches and strategic partnerships. In a new business environment where “connections” are of paramount importance, it is hardly surprising to note that interfirm relationships are prominent features of all these trends.

Indeed, among practitioners and researchers over the last decade, attention on drivers of value creation has been increasingly focused at the interfirm level. This resulted in a tenfold increase of ongoing research on interfirm relationships (IRs), which are also referred to as business relationships or buyer-seller / customer-supplier / inter-organizational relationships (IORs), etc. The resulting diversity of approaches used in various research fields offers a dense and rich contribution to knowledge on interfirm relationships. However, it has also led to a fragmentation of information on the subject. In other words, the proliferation of theories and constructs does little to foster a clear vision of interfirm relationships as a means of value creation. Precisely what do we know about interfirm relationships? How do they create value and what kind of value do they generate?

To answer these questions, one must bring together various conceptualizations of IRs. This paper attempts to do so by providing an integrative view of interfirm relationships as a means of value creation. It begins with an overview of the various theories and constructs used to study IRs, thus establishing the necessity of an integrative approach. This leads to the distinction of three key elements in the existing research, which, combined, form the conceptual model put forward here to foster a better understanding of IRs. Then follows a cross-disciplinary literature review conducted in order to elucidate each of these elements and to identify the connections between them. Finally, a discussion of the findings outlines a range of future research directions, while theoretical and managerial implications are examined.

1. THEORIES UNDERLYING INTERFIRM RELATIONSHIPS

A business relationship is a process where two firms (or two other types of organizations) form “*strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit*” (Anderson and Narus, 1991). Many theories have been used to investigate and explain the scope and the variation in properties of business relationships, in other words, interfirm relationships. This synthesis draws on three important theoretical approaches: (1) transaction costs analysis (TCA), (2) social exchange theory (SET) supplemented by relational exchange theory (RET) and (3) network approaches. These have been isolated from the many other theoretical contributions to the understanding of IRs (such as agency theory, equity theory, resource dependence theory, political economy theory, reactance theory, etc.) because they have been confronted with one another and because, to a certain extent, they mutually reinforce each other. They also appear to cover the widest range of constructs associated with interfirm relationships.

Transaction costs analysis (TCA) is based on the assumption that in a context of asset specificity and uncertainty, long-term oriented interfirm relationships will minimize opportunism and therefore transaction costs (Williamson, 1979). This approach remains the theoretical framework of many recent studies and is still valued because it provides managers with guidelines enabling them to decide whether long-term oriented relationships with their buyers or suppliers are desirable or not (Wulf and Odekerken-Schröder, 2001). Contrary to neoclassical microeconomics, TCA asserts that price is not the only transaction cost and helps identify problems such as one-sided investments leading to exploitation risks. It also explains movements of internalization (vertical integration) or externalization (resort to spot-markets) in activity coordination. However, TCA is widely criticized by proponents of both social exchange theory and network approaches. These critics argue that it has serious operational weaknesses (such as the difficulty of measuring transaction costs) and that little empirical evidence supports the assessment of its guidelines (e.g. Jarillo, 1988). Furthermore, TCA fails to take into account personal and psychological factors that have an important impact on commitment and therefore on IR continuity (Joshi and Stump, 1999). It is held to be inadequate as a means of explaining long-term orientation in exchange, since it ignores (1) the effects of trust, (2) the role of people and (3) the interdependency of trade partners by focusing only on

one trader (Wulf and Odekerken-Schröder, 2001). However, Joshi and Stump (1999) concede that TCA elucidates transactional exchange or “non-relational” exchange governance and is therefore a good supplement to social exchange theory (SET).

In the social exchange theory (SET) and relational exchange theory (RET), attention is paid to relational governance mechanisms rather than to contractual governance mechanisms. Researchers have shown that relational control (norms or personal relations) is often an effective means of governance, as opposed to contracts (e.g. Dwyer *et al.*, 1987). Drawing on seminal research in sociology and social psychology, SET, when applied to business markets, explains that IRs are motivated by (1) self-interest and (2) expected outcomes. The latter can be economic/tangible rewards such as goods or money, or noneconomic/nontangible rewards such as social amenities and friendship. For Lambe and others (2001), SET’s core explanatory mechanism is that relational interdependence is developed over time through exchange interactions. Then, relational exchange relies on “relational contracts” or “norms” (Macneil, 1980). These norms translate into behaviors such as consistency, flexibility, information exchange, mutuality, solidarity, and replace or supplement more formal governance mechanisms such as contracts. Relational exchange is therefore characterized by high levels of cooperation, by joint planning, and by commitment and mutual adaptation to the needs of partners in the exchange (e.g. Gundlach, 1994; Hallen *et al.*, 1991).

Both SET and RET perspectives are widely used to explain the development process of relationships, which include their formation and growth, and to differentiate positive motivations – benefits – and negative motivations. An example of the latter would be the case of a trader maintaining a relationship because of a lack of viable alternatives. However, both theories are also criticized for (1) not being realistic, inasmuch as they assume that relational exchange is devoid of opportunism and that the partners involved are equal, (2) failing to assert clearly that relational governance can supplant formal governance, (3) not being fully able to explain the development of relationships in short-term based relational exchange and (4) ignoring the dissolution process of IRs (Lambe *et al.*, 2001; Wulf and Odekerken-Schröder, 2001). Furthermore, while SET and RET take into consideration only one side of the buyer/seller dyad, several researchers are calling for a simultaneous study of relationship models from both sides of the dyad (Joshi and Stump, 1999).

A third important theoretical stream specifically addresses the necessity of going beyond this dyad and examining IRs within networks. Network approaches draw on TCA and SET, but also on social networks research and on the interaction approach. Social network analysis includes research on social capital, embeddedness, knowledge management, social cognition and group processes (Borgatti and Foster, 2003). The interaction approach was developed in the early 1980s by the Industrial Marketing and Purchasing Group (IMP Group). This multinational research group developed a dynamic model of buyer-supplier relationships in industrial markets. This “interaction model” establishes that transactions can only be examined as episodes in often long-term oriented, embedded and complex interfirm relationships (Hakansson, 1982). The world of business has changed significantly over the past two decades, becoming knowledge-rich and very turbulent (Achrol, 1997). Globalization, the shift from manufacturing to services in mature economies, and the rapid evolution of ITs and electronic commerce have dramatically affected the way business is conducted. More and more IRs have therefore been established with customers, suppliers, research institutions and even competitors, as has been established by many empirical studies (Ritter, 1999). Forms of organization had to be adapted to environmental and organizational contingencies in developing appropriate management systems and new types of coordination and control mechanisms (Achrol, 1997). The network organization has emerged as “an aggregate structure” of connected business relationships (Hakansson and Snehota, 1995).

While there is a general agreement on the benefits of this new organizational form, its status remains somewhat unclear (Borgatti and Foster, 2003). Early research attempted to determine whether network organizations were an organizational form intermediate between markets and hierarchies or whether they were an entirely new organizational form characterized by its own logic of exchange. As regards that particular debate, Borgatti and Foster (2003) conclude that, although the latter interpretation has apparently prevailed, some questions remain unanswered. Do the forms mentioned above really exist or are they simply reifications of organizational networks? The authors deplore the linguistic chaos and confusion underlying studies of network organizations and point out that these investigations have generated “diverse, varied, inconsistent, and contradictory” findings. However, attempts to bring greater conceptual order to this field of research are ongoing (Borgatti and Foster, 2003).

2. A NEED FOR AN INTEGRATIVE FRAMEWORK

The above outline of core theoretical currents underlines the multitude of constructs associated with interfirm relationships. Although these constructs are of significant use in understanding and explaining IRs, they obviously pertain to different components of IRs and to different levels of analysis. Unfortunately, the reviewed literature offers no explicit acknowledgment of these differences.

The purpose of this study is to address this shortfall and to make the various directions in research easier to comprehend. It provides an integrative framework for the study of interfirm relationships. Aggregating and ordering many parts of a fragmented body of knowledge, this framework is put forward as a “simplified and focused vision” of interfirm relationships (in keeping with the views of Shoemaker *et al.*, 2004). It should prove helpful in identifying value creation and other elements of IRs, and in highlighting the links between these elements. In short, it is a conceptual tool that aims to improve the understanding of IRs.

As a starting point, an analytical approach was used to sort out the constructs identified in the review of theories relevant to IRs. Problems soon arose in the case of constructs involved in retroaction loops and thus present at several levels of the study of IRs. For instance, trust promotes relational exchange, but it also results from repeated transaction episodes over time. Nonetheless, three key elements emerged clearly from this analysis. These can be summarized as follows: (1) what results from IRs, (2) what shapes IRs and (3) what governs IRs. The constructs identified in the review of theories can be structured according to these elements (Table 1).

Table 1. Three key elements of IR

Constructs	(1) Results from IRs	(2) Shapes IRs	(3) Governs IRs
Value, benefits, dissolution, economic and noneconomic rewards, risks, satisfaction	X		
Attractiveness, complexity, embeddedness, expected outcomes, frequency, mutuality, opportunism, personal/psychological factors, self-interest, specificity of assets, turbulence, uncertainty		X	
Transaction costs, knowledge, continuity, collaboration, commitment, cooperation, long-term orientation, reputation, solidarity, trust	X	X	
Coordination of activities, connectedness, (inter)dependence, flexibility, information exchange, joint planning, mutual adaptation, mutuality, contracts, relational norms	X	X	X

A cross-disciplinary literature review was carried out to integrate as many perspectives as possible regarding these three key elements. Porter's value chain (1985) was used to select the research fields related to the value creating activities within firms. This way, operations management, logistics, marketing, innovation management, information systems and strategic management were targeted.

The results shown below demonstrate how the three key elements that were identified can be used as an overall framework enabling the conceptualization of IRs. It is proposed that (1) what “results from” IRs be termed the “outcomes of IRs”, (2) what “shapes” IRs be named the “nature of exchange” and (3) what “governs” IRs be called the “exchange governance.” An effort was made (1) to identify the factors (and their measurement indicators) affecting each of the three identified elements, (2) to highlight the links between these factors and to establish the impact the factors have on each other, (3) to underline the effect of these factors on each of the three key elements of IRs.

3. KEY ELEMENTS OF INTERFIRM RELATIONSHIPS

3.1. THE OUTCOMES OF INTERFIRM RELATIONSHIPS

Value creation has been chosen as the bottom-line issue capturing most broadly the different benefits associated with IRs. These include competitiveness, customer value, efficiency, performance, profitability, satisfaction, success and business sustainability.

Yet, because of the very breadth of the term “value,” there is little agreement in the literature on what it actually means. In this respect, various research disciplines – strategy, product and service marketing, consumer behavior, organizational behavior, psychology, etc. – have developed concepts and measure instruments as varied as, for instance, the “augmented product,” “customer satisfaction” or the extensively used “value chain” (Payne and Holt, 2001). Simply put, value is a measure of importance for stakeholders, and value creation is a process that returns valued assets to stakeholders. In a financial perspective, value creation thus enables shareholders to obtain returns on investments; from a marketing standpoint, it enables customers’ needs to be met; in a strategic perspective, it leads to the development and maintenance of a competitive advantage.

It comes as no surprise to find that researchers working in the different disciplines surveyed here all present IRs as a means of value creation in terms of their distinct conceptualizations of value itself.

The fields of logistics and production management, for instance, place particular emphasis on efficient interfirm relationships as facilitators of innovation, product customization, supply chain management (SCM) and time-based strategies such as just-in-time (JIT) activities, quick response (QR) and efficient consumer response (ECR). The literature culled from research and development publications sees IRs as favoring innovation, new product development (NPD) and the adoption of new technology. In the field of organizational information systems, many studies focus on how Internet-based technologies can enhance interfirm relationships with regard to supporting supply chain management and business-to-business (B2B) electronic commerce. From another point of view, the long-lasting interest in industrial marketing for satisfaction in channel relationships is now supplemented by an emergent paradigm: “relationship marketing,” in which long-term-based and interactive relationships are favored in order to foster improved performance of channel partners. The field of marketing has integrated many of the previously mentioned perspectives and has developed various concepts and tools, such as customer orientation and customer relationship management (CRM). It also provides a wealth of publications on the development and enforcement of contracts and norms leading to successful interfirm relationships. Finally, in the field of strategic management, strategic networks and partnerships (alliances, joint ventures and so on), and cooperative interfirm relationships are held to be a major source of competitive advantage.

Confusion is manifest: the mentioned benefits are located at very different levels (objectives, tools, processes, etc.) with no clear distinction. Only the emerging literature about “relationship value” in business markets provides helpful insights enabling one to structure the multiplicity of benefits associated with IRs.

The value of interfirm relationships is studied along the distribution channel using the concepts of “expected value”, “desired-value” and “perceived-value” from different perspectives along the supply chain (e.g. Beverland and Lockshin, 2003; Hogan, 2001; Ravald and Gronroos, 1996; Simpson *et al.*, 2001; Walter *et al.*, 2001). For instance, Simpson and others (2001) maintain that supplier-reseller relationships based on accurate relational factors can decrease the costs of goods and services, as well as the opportunity costs, and indirect costs for the

reseller. At the same time, these relationships can increase the reseller's financial performance and his perceived value of the relationship, leading to his commitment, cooperation and satisfaction (Simpson *et al.*, 2001).

Uлага and Eggert (2005) are among the first to have put forward an empirically-grounded and validated measurement model of relationship value in business markets. The authors assert that IRs generate benefits with regard to (1) the products that are sold, (2) the services that are offered/received, (3) delivery and time-to-market (4) knowledge and know-how and (5) personal interactions within the exchange process (Uлага and Eggert, 2005). These five dimensions corroborate the findings of the cross-disciplinary literature review and are thus used to structure the variety of identified IRs benefits (Table 2).

Table 2. Indicators of value creation in interfirm relationships (adapted from Uлага and Eggert, 2005)

Benefits related to	Indicators of value creation
(1) product	Facilitated product customization and mass-customization; reliability and high quality product; profitable product; product line availability; improved purchased material
(2) service	Service quality, reactivity, and reliability
(3) delivery and time-to-market	Enhanced new market penetration and market expansion; efficient distribution; sufficient distribution coverage; on-time delivery; flexibility; rapidity/time to market; responsiveness; reception of purchased material on time, quantity and quality; agility in production; reduced order cycle times; rapid and accurate order processing; cost efficient inventory management; timely restocking and rotation
(4) know-how	Access to missing resources and competences; optimization of resources; learning; improved know-how; market knowledge; competitive pricing activities; innovativeness; enhanced integration of new technology; new product development favoured; better access to new product/process technologies
(5) personal interactions	Problem solving orientation; relationship satisfaction; personal recognition; enhanced decision making

The assessment of IR value is based on a tradeoff between benefits and costs. The widely used transaction cost analysis states that transaction costs include not only the price of the product/service but also those associated with searching for information, reaching a satisfactory agreement, monitoring relationships, adapting agreements to unexpected contingencies, enforcing contracts, and so on. In the literature on relationship value, the price paid to a supplier or by a customer is also included in the relationship's costs and is often viewed as a sacrifice made to ensure the continuity of the relationship. Other types of costs are

integrated into the evaluation of IRs, such as acquisition costs (i.e., costs customers incur in acquiring and storing products) and operation costs (i.e., costs inherent to the customer firm's primary business) (Cannon and Homburg, 2001).

In addition to price, Ulaga and Eggert (2005) identify process costs as a second dimension of the construct of relationship sacrifices. They distinguish external process costs (i.e., costs incurred in coordination with the supplier's organization in order to obtain the product and make it available for the company's transformation process) from internal process costs (i.e., costs resulting from the buyer's integration of the supplier's products and services in his own production processes: handling, maintenance and repair, etc.).

While value creation in interfirm relationships is usually assessed by a ratio or comparison between associated benefits and costs, outcomes of IRs have to be considered in a broader perspective. Indeed, to dismiss the negative outcomes of IRs and the "risk potential" of these relationships is to overlook important aspects of business reality. For instance, the economic and noneconomic satisfaction provided by IRs is negatively affected by coercive power and conflict (Anderson and Narus, 1990; Gaski and Nevin, 1985; Geyskens *et al.*, 1999). IRs can also lead to various degrees of vulnerability, the latter being conceptualized as the gap between perceived trust and perceived dependence in business relationships (Svensson, 2004). Other adverse effects of IRs include risks related to dependence on real-time connectivity, channel balance of power, potential liabilities linked to global operations as well as the vulnerability stemming from strategic integration, information sharing, and investment in technology (Bowersox *et al.*, 2000). With the introduction of, for instance, extranets or electronic procurement systems, special attention is now paid to security issues related to information sharing in IRs.

Furthermore, some supposedly beneficial outcomes of IRs can in fact harm the firms involved if the governance mechanisms are not appropriate. For instance, organizational learning in interfirm exchange relationships can lead to an inadvertent and unwanted transfer of skills, resulting in the potential dilution of competitive advantage (Mohr and Sengupta, 2002).

For these reasons, it should prove useful to conceptualize IRs as resulting in value creation and/or value destruction. According to the literature, these outcomes depend on two other key elements of IRs: the nature and governance of interfirm exchange.

3.2. THE NATURE OF INTERFIRM EXCHANGE

The nature of exchange occurring between buyers and sellers shapes interfirm relationships and defines their very essence. The term “nature” has been chosen as best representative of other designations found in the literature such as features, characteristics, and so on. Two types of exchange have been clearly differentiated in the literature: transactional and relational exchange (Dwyer *et al.*, 1987). Both fashion relationships in a continuum stretching from “purely transactional” to “purely collaborative” relationships (Anderson and Narus, 1991). This study builds on this nomenclature, but, for reasons discussed further on, also attempts to distinguish the nature of IRs from their modes of governance. Therefore, the continuum chosen in this study to position the nature of exchange (and by extension that of IRs) goes from the “purely adversarial” to the “purely collaborative.” Emphasis is now put on the (1) environmental, (2) situational, and (3) behavioral factors impacting the nature of interfirm exchange in this continuum.

Environmental factors, which are described here in terms derived from TCA and from network approaches, include the concepts of uncertainty and complexity. The pace of change in a business environment, the structure of an industry and its position in the life cycle, the legal and institutional framework: all these impact the level of uncertainty in demand, supply, labor force, technology, etc. This environmental uncertainty has been measured by means of indicators such as market and technological turbulence, competitive intensity, environmental diversity and volatility (e.g. Jaworski and Kohli, 1993). Also called “external” uncertainty (e.g. Heide, 2003), it has been opposed to “internal” uncertainty. The latter refers to uncertainty regarding the decision-making process within firms and the relationship itself (Eriksson and Sharma, 2003).

The notion of complexity in the environment has gained considerable attention recently with the effects of globalization and the proliferation of strategic alliances. Its study, informed by network approaches, is effected by means of indicators such as density and centrality in the network (e.g. Antia and Frazier, 2001). Interfirm cooperation is established in order to reduce the level of uncertainty and to deal with complexity.

Building on these two factors and their indicators, one can conceptualize the environment of interfirm exchange in a continuum going from the “extremely stable” to the “extremely uncertain,” and from the “extremely simple” to the “extremely complex.”

To borrow Ganesan's (1993) terminology, situational factors include the time orientation of IRs, the degree of closeness and the dependence between firms. These factors have a direct impact on IR outcomes. In fact, long-term relationships have been shown to affect both anticipated and achieved performance of interdependent channel members and to generate benefits such as higher product quality and lower prices for buyers (e.g. Ganesan, 1994; Gassenheimer *et al.*, 1989). An IR's level of "closeness" is determined by its time orientation (short-term versus long-term), its continuity (measured by the duration of the relationship), and the social, cultural, technological and geographic distance between firms (Nielson, 1998). The notion of "proximity," in particular, has been developed in studies on clustering (e.g. Porter, 1998) to examine the impacts of geographic distance. Finally, the notion of dependence is tightly associated with closeness. Indeed, it is also determined by transaction specific investments and environmental factors. It can be measured by the actual or expected contribution of a partner to the sales and profits of a firm, and by the replaceability of this partner (Frazier and Rody, 1991). Multilateral dependence or interdependence characterizes the mutuality of dependence between firms.

In short, one can conceptualize the situation in which interfirm exchange occur by positioning it in a continuum stretching from the "extremely distant" to the "extremely intimate," where an intimate situation is characterized by close and interdependent interfirm relationships.

In the literature, "behavioral factors" essentially refer to cooperation, commitment and communication, as opposed to opportunism.

These factors have been closely linked to IRs outcomes. Indeed, interfirm cooperation has been positively correlated to economic and noneconomic returns of IRs (e.g. Anderson *et al.*, 1994; Morgan and Hunt, 1994), and negatively related to conflict between firms (Frazier and Rody, 1991). Many studies have demonstrated the interrelations existing among behavioral factors. For instance, cooperation is positively correlated to commitment (e.g. Dwyer *et al.*, 1987; Fontenot and Wilson, 1997) and positively affected by communication through information sharing (Anderson and Narus, 1990). Of the common denominators of these behaviors, one of the most important is trust, which has often been defined as an antecedent to cooperation, commitment and communication (e.g. Geyskens *et al.*, 1999; Gundlach *et al.*, 1995). In turn, "interpersonal variables" such as shared values and culture, communication abilities, integrity, sincerity, honesty, transparency, benevolence, confidentiality,

predictability and perceived expertise or skills have been identified as antecedents to trust building (e.g. Adler and Kwon, 2002; Moorman *et al.*, 1993).

One can conceptualize the behaviors of firms in the exchange process in a continuum reaching from the “extremely opportunistic” to the “extremely committed,” where committed behaviors are characterized by high levels of trust, cooperation and communication.

Finally, mutual influences among environmental, situational and behavioral factors have been largely emphasized. For instance, some authors assert that the continuity of IRs is affected by cooperation, trust and interdependence (Ganesan, 1994; Kothandaraman and Wilson, 2000). Indicators for commitment are the firms’ acquiescence to be in a relationship and their propensity to end it. Commitment has been positively correlated to the long-term orientation of IRs (Gundlach *et al.*, 1995; Morgan and Hunt, 1994). Dependence between firms and the long-term orientation of IRs are also considered as mediating processes through which the specificity of assets invested in IRs, the environmental uncertainty and the relational norms influence the behaviors of firms, i.e. foster commitment or opportunism on their part (Joshi and Stump, 1999).

This concludes the review of environmental, situational and behavioral impacts on the nature of exchange. The next section outlines the mechanisms and tools used to govern the exchange process.

3.3. THE GOVERNANCE OF INTERFIRM EXCHANGE

In this section, the nomenclature established by SET/RET proponents is used to position what “governs” IRs in the well-known continuum reaching from “transactional” (or discrete) to “relational” governance. Particular emphasis is given to the (1) regulative, (2) structural, and (3) coordinative factors impacting the governance of exchange (and by extension of IRs) in this continuum.

The subject of regulative factors is frequently broached in the extensive literature about governance mechanisms and control. Most important among these factors are influence and trade agreements.

The role of influence in IRs has been extensively studied by proponents of the power/influence approach (e.g. Gaski and Nevin, 1985). Power, which has been defined as the ability of an entity to control or influence the behavior of another entity (Lusch and Brown, 1982), is generally associated with symmetry or asymmetry of information. One typology of power differentiates “mediated power,” such as rewards or coercion, from “non-mediated” power, such as expertise or information exchange (Brown *et al.*, 1995). The use of power among firms (which can range from the gentlest suggestion to absolute domination) often boils down to that of influence strategies. These can be either coercive (promises, threats or legalistic pleas) or noncoercive (information exchange, requests, recommendations or discussions about business strategy) (Frazier and Rody, 1991). Salient indicators of governance regulation are centralization (the degree of concentration of decision-making authority or the degree of vertical control in the relationship) and formalization (reliance on fixed rules and standard operating procedures); both indicators define the level of bureaucracy characterizing the exchange (Boyle and Dwyer, 1995; Heide and John, 1992).

The power/influence factor has been related to IRs outcomes: for example, it has been noted that information sharing has positive effects on the performance of the exchange relationship, whereas requests, legalistic pleas and threats have detrimental effects on this outcome variable (Boyle and Dwyer, 1995). Power/influence has also been closely linked to other types of factors, particularly to situational ones (long-term orientation and dependence) and behavioral ones (cooperation and commitment). For instance, Ganesan (1993) has shown that negotiation strategies are impacted by the long-term orientation of IRs and has positioned various types of influence in a continuum ranging from the “aggressive” to the “collaborative.” Contrasting the power/influence theory with the path/goal theory, other approaches to the study of leadership impacts on cooperation have emphasized the role of participative, supportive, directive and achievement-oriented styles of influence (e.g. Mehta *et al.*, 2001).

The contractual approach typically positions exchange regulation in a continuum ranging from the “explicit” to the “normative” (Lusch and Brown, 1996). In this sense, trade agreements are seen as “explicit” when formalized by a written contract establishing legal bonds, and are viewed as “implicit” when based on social bonds and expected behaviors, such as communication; these then become the norms ruling the exchange. Five main indicators of relational norms have been proposed: flexibility, solidarity, mutuality, harmonization in conflict, and restraint in the use of power (Cannon *et al.*, 2000).

For years, it was debated whether or not norms could be a substitute for explicit contracts. Now, more and more often, both types of regulation are considered complementary. In fact, Cannon and others (2000) conceptualize the use of both cooperative norms and legal bonds as a “plural form” of governance and show its positive impact on the performance of IRs. This performance is assessed by price or value received delivery, after-sales service, technical support and product quality. It must be noted that Cannon’s terminology is, in this case, identical to Heide’s (2003), who also mentions “plural governance,” but thereby designates a totally different concept, as is explained further on in the presentation of structural factors.

Four aspects are expressed in terms of regulative factors: the concentration of power in one firm or its dilution among two or more firms, the way this power is exerted, the type of trade agreement framing the exchange and, finally, the combined or discrete use of the different types of agreements. It should prove useful to position the regulation of exchange in a continuum going from the “extremely unilateral” to the “extremely multilateral,” where a multilateral regulation of exchange is characterized by a high level of interdependence and participation in decision making, by the use of noncoercive, non-mediated power, and by a plural form of governance.

Borrowing now the terminology of network approaches, one can state that structural factors are related to the organizational form and structure given to the exchange and, by extension, to the IRs. Indeed, another approach regarding alternatives to the regulation of exchange involves organizing the exchange internally or quasi-internally. A widely-accepted term used to qualify this type of exchange coordination between markets and hierarchies is “hybrid” governance (e.g. Buvik and Andersen, 2002). In this respect, the coordination of exchange can be conceptualized in terms of a continuum stretching from “purely external” (the market) or “purely internal” (the hierarchy) to “hybrid.” However, organizational architectures that involve simultaneous making and buying may be seen as more representative of marketplace realities than this conventional make-or-buy perspective. In this vein, the concept of “plural governance” describes this combination of market contracting and vertical integration for the same transaction (Heide, 2003). Exchange governance had to evolve to ensure competitive advantages in a changing business environment. This evolution into an hybrid or plural governance has led to the establishment of strategic networks and partnerships (e.g. Jarillo, 1988; Poulin et al., 1994).

The literature reviewed here provides an array of structures attempting to describe the variety of network forms. However, in many publications, little distinction is made between what are viewed here as regulative, structural and coordinative factors, i.e., the type of trade agreements, the type of structure provided to the exchange, and the type of activities coordination. For instance, one typology of interfirm links differentiates traditional agreements (arm's-length contracts, franchising, licensing) and nontraditional agreements (joint action in R&D, manufacturing or marketing, etc.; long-term sourcing agreements; research consortiums; shared distribution services, etc.) from equity arrangements (creation or non-creation of a new entity like a joint venture, or dissolution of existing entities in the case of mergers and acquisitions) (Monczka et al., 1998). Because there is as yet no consensual explanation of how these types of structure can be compared and positioned in the "transactional/relational" continuum, it seems useful to refer to another indicator of the exchange form: the construct of structural embeddedness. Defined as the extent to which a dyad's mutual contacts are connected to one another, structural embeddedness is said to be a function of the number of participants in the exchange, of how likely future interactions are among these participants and of how likely these participants are to talk about their interactions (Jones et al., 1997).

However limited it may be in addressing the range of issues related to the organizational form of exchange, embeddedness helps conceptualize the structure of governance exchange in terms of a continuum arching from the "purely dyadic" to the "extremely networked." An extremely networked form of governance is characterized by a high level of structural embeddedness.

Coordinative factors are examined in relation to the way activities, resources and competences of firms are coordinated and planned in the exchange process. Supply chain management (SCM) offers the best grasp of these types of factors. It includes sourcing and procurement, production scheduling, order processing, inventory management, transportation, manufacturing, warehousing, customer service, and the information systems used to monitor these activities. It has been shown that SCM directly impacts the effectiveness and performance of the firm as well as the level of satisfaction of trade partners.

The concept of integration is an essential indicator of coordinative factors. Integration can be effected with regard to physical resources (such as manufacturing equipment and technology), human resources (for example, by means of extensive human interaction and cross-transfer of

staff between firms) or processes (for instance, by the use of Vendor-Managed or Co-Managed Inventory, thus enabling suppliers to assess stock-data level via Electronic Data Interchange and to take the necessary replenishment action) (Harland et al., 2004). Integration also concerns customers when they are invited to participate in configuration as well as product specification and co-design in the context of mass customization strategies.

Other indicators of coordinative factors are flexibility in manufacturing systems (defined as the ability to produce a variety of products in quantities sufficient to meet customer demand while maintaining high performance) and responsiveness (possibly measured by the order-winning criterion), as both help firms cope with uncertainty (Zhang et al., 2003).

To enable functional, geographical and inter-temporal coordination of managerial decisions, SCM relies heavily on information technologies. One can therefore consider the existence of inter-organizational systems (IOSs) and, more generally, the development of electronic business-to-business commerce as a final indicator of coordinative factors.

To the best of the authors' knowledge, no consensus has emerged yet on a scale that could adequately determine which form of IOSs or electronic commerce leads to the most advanced level of coordination and planning in governing IR exchange. Therefore, it seems appropriate to assess the importance of electronic business-to-business by simply measuring the use of: the Internet in dealing with trade partners; Vendor-Managed or Co-Managed Inventory (VMI/CMI); Electronic Data Interchange (EDI); Collaborative Planning Forecasting and Replenishment (CPFR); Enterprise Resource Planning (ERP) systems; intelligent agent softwares in manufacturing systems; and, finally, electronic marketplaces.

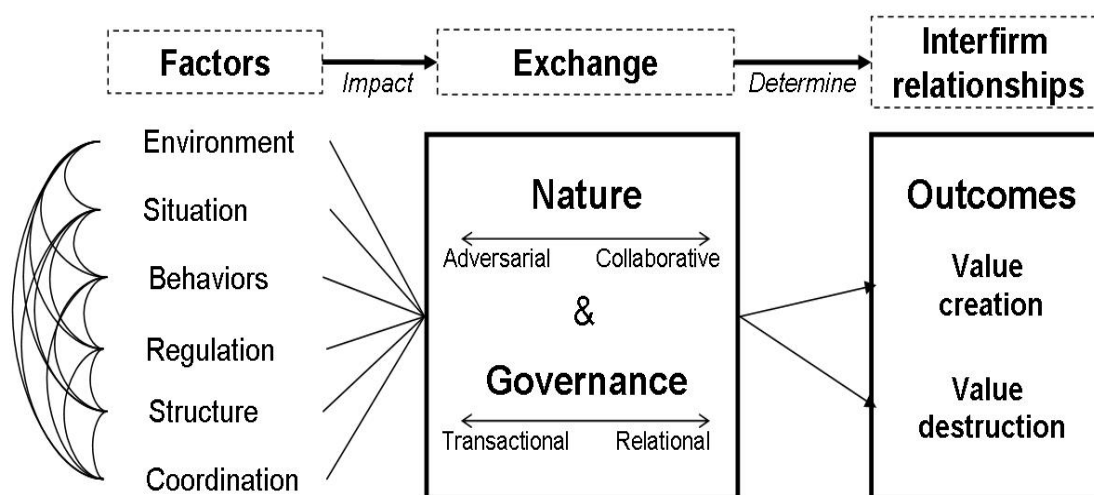
Building on these factors and their indicators, one can conceptualize the coordination and planning of exchange according to a continuum arching from the "extremely fragmented" to the "extremely integrated," where extremely integrated governance is characterized by high levels of flexibility and responsiveness, and by extensive use of IOSs and electronic commerce.

Finally, it must be underlined that exchange governance is also impacted by the environmental, situational and behavioral factors identified in the literature. For instance, the kind of coordination needed in the distribution channel and the level of integration required in the supply chain have been linked to environmental uncertainty (e.g. Buvik and John, 2000). Trust, frequent contacts, communication, and compatibility of information systems

among buyers and sellers are some of the requirements that enable SCM to enhance the performance of firms (Tan et al., 2002). Research on inter-organizational systems (IOSs) also stresses the impacts of trust, cooperation, contracts, coordination and control on electronic partnerships and networks (e.g. Gallivan and Depledge, 2003).

As a conclusion, a conceptual model of interfirm relationships is set out in Figure 1. This model conceptualizes interfirm relationship outcomes as being determined by the nature and governance of exchange, itself impacted by six predominant factors.

Figure 1. Conceptual Model of Interfirm Relationships



Continuums from adversarial to collaborative and from transactional to relational are used to describe the nature and governance of exchange. Interfirm exchange grows collaborative when characterized by an intimate situation of exchange (closeness and interdependence of firms) and committed behaviors based on trust, cooperation and communication. On the contrary, the nature of exchange becomes more adversarial when characterized by a distant exchange situation, and opportunistic behaviors. The governance of interfirm exchange grows relational when characterized by a multilateral regulation, networked structure and integrated coordination of exchange. In turn, it becomes more transactional when characterized by unilateral regulation, dyadic structure and fragmented coordination of exchange.

Depending on these characteristics of exchange, interfirm relationships result in more or less value creation and/or value destruction. The interrelations of environmental, situational, behavioral, regulative, structural and coordinative factors are also highlighted in the model.

4. DISCUSSION AND FUTURE DIRECTIONS IN RESEARCH

The objectives of this study were to foster the creation of a unified body of knowledge on interfirm relationships and to position value creation within IRs. The conceptual model developed here underpins several discussion points.

In regard to the first objective, the aggregation of different perspectives culled from six management fields revealed that interfirm relationships are an extremely complex phenomenon, one which is impacted by many correlated factors and whose outcomes are extremely varied. Although, opinions vary considerably when it comes to the impacts of environmental, situational, behavioral and regulative factors on IRs, the factors themselves are widely acknowledged, and studies on the subject can refer to a fragmented, but well-accepted body of theories. This is not the case for structural and coordinative factors. Most probably because networking and information technology are relatively new features in business, no clear view has emerged yet as to how (1) the different organizational forms and structures of exchange and (2) the various coordinative technologies and practices should be positioned in the continuums traditionally used to study interfirm exchange. There is therefore ample room for further research on this particular point. This, however, is less true with respect to the other factors identified in the present study, which have been so intensively studied in the past.

This paper suggests that the existing knowledge on IRs (except for structural and coordinative impacts, which remain somewhat unclear) constitutes a sufficient basis for carrying-out more holistic studies. It could of course be argued that, because of the intricate nature and inherent complexity of IRs, the development of such approaches will prove to be futile. Indeed, the difficulties linked to a holistic apprehension of this phenomenon can be somewhat overwhelming. However, the authors believe that efforts must be made in this sense (1) to reach a deeper understanding of IRs and their outcomes, and (2) to develop constructs enabling the prediction and control of these outcomes, as far as possible. This concern is especially important regarding research in strategic management. Indeed, theory in strategy must represent management reality with a proportional level of complexity (Chaffee, 1985). Further developments in research should rely on systemic thinking and systems theories to support a holistic approach of interfirm relationships.

Reflecting a broader perspective on IRs, the model set out in this paper may favor a better understanding of statements that have been studied, whether theoretically or empirically, in a very extensive way, but also in a somewhat disjointed one. Examples of these statements are:

- When the business environment of firms is perceived as uncertain and complex, the latter tend to develop collaborative relationships based on relational governance.
- Collaborative exchange requires an intimate situation (as defined in this paper) between firms as well as committed behaviors; it is heightened by multilateral regulation and integrated coordination in governance.
- Collaborative exchange and relational governance enhance:
 - Strategic networks and partnerships
 - Supply-chain-management activities
 - Electronic business-to-business commerce.

Finally, further research on the drivers of value creation in IRs should (1) use qualitative approaches to ensure that all significant drivers and elements are taken into account, and (2) rely on factor-analysis techniques to build a more valid construction of the identified factors and to determine their respective weight.

With regard to the second objective pursued here (i.e., a more precise positioning of value creation within IRs), it might first be argued that value creation is not the best indicator for the study of IR outcomes. Indeed, conceptualizing a new phenomenon by means of an emerging construct might not ensure optimal reliability and credibility as regards the findings of a given study. Many well-established indicators (such as economic performance, satisfaction, competitive advantage, etc.) are available to researchers, and can be used with relative ease due to the existence of effective measurement scales. However, the wide scope of the concept of value creation is in itself a strong argument for its use as the “dependent variable” in the study of IRs. Because IRs should be considered holistically, that is, beyond the various boundaries of discrete managerial disciplines, such a conceptual breadth seems essential. Value creation should be considered a premium indicator for measuring the interest and impact of IRs. Developing scales to measure value creation in all its aspects is a priority.

The conceptual model proposed here points to the existence of a “counterpart” to high potential for value creation within IRs: the risk of value destruction. The drivers and mechanisms of value destruction are not yet well understood. However, disappointing outcomes of IRs (lower value created than expected, or value destruction) may be explained by this model. To use it fruitfully, one has to imagine a cursor being positioned on each of the two continuums representing the nature and the governance of exchange (see Figure 1). These cursors should be moved (1) to the left when the exchange is thought to be more adversarial and transactional or (2) to the right when the exchange is considered more collaborative and the governance more relational. A misalignment between the positions of the two cursors may be responsible for disappointing outcomes of IRs. For instance, relationships between suppliers and customers that were meant to be collaborative (such as strategic alliances, research and development partnerships, etc.) can fail or result in dissatisfaction because they rely on a more transactional form of governance than is required.

On the whole, it can be hypothesized that the greater the alignment between the nature and the governance of exchange in this model, the more value will be created (and the less value will be destroyed). More attention should be paid to this proposition in future research because it constitutes one of the keys to the development of effective relationship management. In this sense, it seems essential to verify the existence, direction and strength of the assumed correlation between the nature of the exchange and its governance.

A look at the conceptual model provided here leads to another fundamental question: which type of exchange has to be promoted to create more value and/or to avoid value destruction? From the viewpoint of relationship marketing, it is clear that the more the exchange is collaborative and the governance relational, the more value is created. However, practitioners in industrial areas dealing with commodity products may find it difficult to integrate this assumption into their business reality. Research on mass customization offers new perspectives on how and why commodity producers are also concerned by this issue when it comes to enhancing value creation. Broad avenues of research must be explored in order to advance the existing work on portfolio-relationship management and to examine the links between the type of product or service offered and the type of exchange required between trade actors.

Finally, further examination of the inputs invested in IRs should constitute a major research avenue. In assessing the value created within IRs, the literature on business-relationship value extends transaction costs to sacrifices and process costs. However, other types of inputs, such as psychological costs for managers (for instance, time and energy spent in developing, maintaining and eventually dissolving IRs), investments in information systems or in social capital should be taken into account for a more accurate measurement of value creation within interfirm relationships. This may lead to a clearer differentiation between transaction costs and relationship costs.

5. THEORETICAL AND MANAGERIAL IMPLICATIONS

In an academic perspective, the present endeavor is needed to bring some order to the multiplicity of approaches to IRs and value creation, and to accurately distinguish between over- and under-explored avenues in research. The conceptual model and the argumentation put forward here respond to a call in recent literature for research on the identification of relationship value drivers. This study has focused on the factors impacting the nature and governance of exchange, and has identified several measurement indicators. Furthermore, it calls for future research on emerging concepts such as relationship management, relational competence and relational capital. Finally, it offers conceptual foundations that support the extension of the supply-chain concept to the study of value-added networks, interfirm logistics networks, supply networks, value systems, value-creating networks, and so on.

From a managerial viewpoint, a comprehensive overview of interfirm relationships in business markets seems particularly useful. More and more often, relationships between buyers and sellers are shown to be an important source of value creation. This study helps to understand why and how value is created. While it outlines the different types of benefits that can derive from IRs, it also focuses the attention of managers on the “dark side” of interfirm relationships.

For it is managers who must face any one of the following challenges: getting closer to their clients by means of market-orientation efforts, adapting to time-based competition requirements, surviving industrial consolidation and its parade of mergers and acquisitions, creating strategic alliances and partnerships, innovating, managing the supply chain, and developing electronic business. All of these new trends have one core element in common:

interfirm relationships. Managers may be acting in their own interest by realizing that this is the key they are looking for to adapt their organization to a rapidly changing business environment and to remain competitive in it.

CONCLUSION

This study offers a synthesis of the approaches used in six research fields to position interfirm relationships as a means of value creation in business, and proposes a conceptual model as an integrative framework. It identifies three key elements for the study of interfirm relationships: (1) the outcomes of IRs, (2) the nature of interfirm exchange and (3) its governance mechanisms and tools. It also provides a way to aggregate the numerous factors impacting these key elements. Finally, the findings are discussed and future research directions are outlined on the basis of gaps identified in the existing body of knowledge on interfirm relationships.

Studying interfirm relationship as a means of value creation is a matter of fundamental importance. It has the potential to help firms develop the ability to manage value-creating relationships with other trade actors. This ability, in other terms this relational competence, may well be the major source of competitive advantage on markets in the next decades.

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