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Conceptual Framework of Interorganizational Cost Management: a Critical Analysis

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Abstract

Interorganizational relationships are enriched by the theoretical concepts based on the theories of firm. Some of these theoretical models are also relevant for interorganizational cost management and provide theoretical foundation for interorganizational cost management. Theoretical models such as transaction cost economics, resource-based view, agency theory, actor network theory, contingency theory, industrial network approach, and structuration theory are some examples. In the market based approach, the relationship of organizations is seen as a dyadic relationship and proposes some mechanisms of governance. The single relationship is seen as part of larger organized structure in an organized-structure approach. By combing both approaches we propose another approach - interfirm cost management theory deals interorganizational relationship in a hybrid form and combine the dyadic and network relation with more flexibility and formal and informal communication. To support the interfirm cost management theory, the principal theories such as resource-based view, industrial network approach, and transaction cost economics got more focus.

Keywords: Theory, Interorganizational cost management, Network, Competitive advantages, Interorganizational relationship.

Introduction

The interorganizational relationships and interorganizational cost management both have arisen from a combination of experience and theoretical models. The interorganizational relationship focuses on how organizations relate to each other, which is the result of previous experiences. From a theoretical point of view, a good number of theories have been developed by various scholars to gain an understanding of how the interorganizational relationships exist and what else should be done by companies for better interorganizational settings. Some of these theoretical models are also relevant for interorganizational cost management and provide theoretical foundation for interorganizational cost management. Theoretical models such as transaction cost economics (TCE) (Williamson, 1979, 1985), resource-based view (Barney, 1991), agency theory (Baiman and Rajan, 2002), actor network theory (Mourtisen and Thrane, 2006), contingency theory (Kajuter and Kulmala, 2005), industrial network approach (Hakansson and Lind, 2004; Tomkins, 2001), and structuration theory (Seal et al., 2004) are some examples. Buyers' and

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suppliers' coordinated and shared efforts to reduce costs are termed as interfirm cost management (Agndal and Nilsson, 2009). In interorganizational cost management process two important elements can be identified such as, interorganizational settings, and interorganizational accounting i.e. interorganizational cost management techniques. Both elements are supported by the above mentioned theoretical models.

For problem formulation, available alternative solutions identification, and finalization of solutions, the choice of model is significant as the design of the theoretical method. Therefore, from a theoretical point of view, the procedure of empirical problem formulation is not free from bias. Hakansson and Lind (2007) categorized the different approaches into two categories to demonstrate the variety, and thereby also the importance of the models. One is the Market-based approach where the relationship is considered in isolation and as a mechanism with which to handle governance in some specific situations. Another approach is organized-structure approach, where single relationship is considered as part of a larger organized structure by focusing networking among the partners. According to Tomkins (2001) all activities and resources become more relative to each other in a network arrangement and, therefore, they have to be appraised in a manner that takes this interconnection into consideration. Transaction cost economics and agency theory are under the category of market-based approach. On the other hand, resource-based view, actor network theory, structuration theory, and industrial network approach are under the category of organized-structure approach.

The market-based approach encompasses two major pathways. One is transaction cost theory, another one is agency theory which is also known as incomplete contracting theory. Different scholars have frequently used the theoretical structures based on agency theory in their works on interorganizational accounting literature (Baiman and Rajan, 2002; Gietzmann and Larsen, 1998). Transactions within the partner firms in an interfirm relationship create incentive problems as well as information exchange issue. Greater information exchange is focused in these studies and argued that increased information exchange is expected to make it easier to identify improvement and cost reductions for the partners. Transaction cost economics is another track of market-based approach which will be discussed in more detail below.

Another approach is the organized-structure approach that is featured as being heterogeneous and constructed on somewhat other assumptions than the market-based approach. When a resource is heterogeneous, the value gained from its use is subject to other resources integration which makes hierarchical control effective and confirms a more organized structure. This has been further explained in resource-based view (Barney, 1991) which will be presented in detail below. The theoretical frameworks based on actor network theory have been used by some scholars in their case studies as the basis for their theoretical foundations (Mouritsen et al., 2001; Mouritsen and Thrane, 2006). The interorganizational relationship in these studies has mainly been network formations where a single relationship is viewed to be closed in a broader network of relationship and the role of accounting to mediate, shape and construct the interorganizational relationships (Hakansson and Lind, 2007). The industrial network approach will be discussed in more detail below.

The objectives of this review paper are, firstly, to review the accounting and other relevant literatures relating to theoretical models of interorganizational cost management perspective. Secondly, to identify the theories which are used in interorganizational relationship and interorganizational accounting, especially in cost management practices. Finally, to propose a new theory for interorganizational cost management practices. This paper, in the second, third, and fourth section, discuses resource-based view, industrial network approach, and transaction cost economics theories respectively. The paper ends with concluding remarks.

Resource-based view (RBV)

The resource-based view of the firm suggests that firm behavior can be interpreted as a search for competitive advantage. In the competitive market mechanism, the firm seeks to get the control over the factors of production, those that can provide them with a competitive edge over their closest competitors (Ahuja, 2000). In strategic management literature the resource-based view (RBV) of the firm plays a dominating role (Halawi et al., 2005). Barney (1991) states that the implementation of value creating strategy by a firm provides a competitive advantage when its current or potential competitors simultaneously not implement a value creating strategy. This competitive advantage will be sustained up to the recognition of a level of performance subject to not concurrently imitated by the by any existing or possible competitors. Resource diversity and resource immobility are the two main assumptions of the resource-based view of firms (Barney, 1991; Mata et al., 1995). According to Mata et al. (1995), resource diversity (resource heterogeneity) is concerned with ownership of resource or capability, if numerous rival firms own the same resource or capability of focal firm, then that resource cannot provide a competitive advantage over the rivals. Resource immobility explains the complexity of attaining a resource by competitors because the cost of attainment, development, acquisition or use of that resource is too high. Thus, the sustainable competitive advantage depends on these two assumptions by providing a framework for determining whether a process or technology provides a real advantage over the marketplace. The resource-based view of the firm suggests that an organization's human capital management, a technology management, and innovation as well as R&D practices can contribute significantly to sustaining competitive advantage and are difficult to imitate (Afuah, 2000; Mata et al., 1995). Therefore, the creation of resource diversity (intellectual human capital and skills) and resource immobility (complex means of building/attainment), fosters the sustainable competitive advantage creation and maintenance.

The theoretical framework of resource-based view has been popular in the interorganizational relationship literature (Afuah, 2000; Ahuja, 2000, 2000; Anand and Khanna, 2000; Barney, 1991; Das and Teng, 2000; Dussauge et al., 2000; Hitt et al., 2000; Mata et al., 1995; Simonin, 1997) and the published papers consist of both analytical and empirical papers. The empirical papers, representing the majority of the publications, used a wide variety of methods, survey, longitudinal study, and case studies that have all been used to study dyadic relationships. At the same time network relationships have also been focused in some studies. A common point in departure in studies using resource-based view is the observation that interorganizational relationships have increased in importance as companies have recognized their activities to an increasing degree and achieving sustainable competitive advantage in the competitive business world. Any asset,

capability, knowledge, expertise, process and routine featured as internal attributes, is defined as resource that is owned or controlled by a firm (Barney, 1991). Interorganizational cost management is the process which enables the firms routine wise or non routine wise achievement of cost advantage across the boundary of firms by sharing information, knowledge, and innovative activities. When there is a direct network between the partners it provides resource-sharing and information spillover whereas indirect network provides only the later (Ahuja, 2000). There is a positive effect of resource-based view of value creation by learning of systematic know-how. Link alliances are interfirm partnership to which partners contribute different capabilities have more opportunities to learn from their partners than engaged in scale alliances (Dussauge et al., 2000). The learning effects appear to exist especially in R&D and production level (Anand and Khanna, 2000). Firms with greater collaborative experience achieve higher levels of collaborative know-how which fosters higher levels of tangible and intangible benefits (Simonin, 1997). And a firm's CEO presumably influences the direction and rapidity of the factors of production which fosters the competitive advantage (Roth, 1995).

In the competitive business environment, achieving sustainable competitive advantage is not possible by a firm without collaboration with its partners. To achieve competitive advantage the firms in developed market endeavor to control their resources and capabilities by inquiring for firms with distinctive capability and know-how (expertise knowledge) of domestic and foreign market. To reduce the transaction related costs and control over resources, firms need the partners with competencies of market knowledge and technological know-how (Hitt et al., 2000). Competitive advantage depends on successful cooperation, coordination, and collaboration with suppliers, customers, competitors, and alliance partners in inimitable, tacit interorganizational integrated relationships. A firm's performance might be affected by the post technological change of partner firm's performance capabilities that is obsolete by technological change or technological upgradation. (Afuah, 2000).

In an interorganizational relationship, when diverse resources are owned or controlled by counterparts, there will be a complex interfirm business relational function, than that of plain coordination relationship regarding interdependency context. The resource-based view implies that the motive for creation of collaborative value makes ground of resources pooling to form interfirm alliance. Immobility, inimitability, sustainability are some characteristics of resources which emphasize on value creation, and thereby assists in development of alliance. Das and Teng (2000) stated structural preferences in terms of four major types of alliances which are determined by the resource profiles of partner firms. The categories of alliances were such as equity joint ventures, minority equity alliances, bilateral contract-based alliances, and unilateral contract-based alliances. According to Ahuja (2000) the resources which can provide competitive advantages have three distinct characteristics. First, resources can create value for the firm, i.e. they help firms to either reduce cost of inputs which influence on total costs of production, or obtain greater prices of outputs. Second, they are often firm specific in nature and either unavailable outside the creating firm or suffer an attenuation in their value if separated from original firm. Third, resources are likely to be asset-stocks whose creation requires accumulation of inputs over time i.e. cannot be instantaneously developed.

Firms create an interorganizational relationship as means of doing business to improve managerial and operational performance, raise market share, enter into new markets, or crucial for continued existence. Long-term orientation is the main need to form interorganizational relationships beyond the goals of interorganizational relationships. When there is long-term orientation in interfirm networking, two things are relevant for decision-making purposes. First one is investments which include uncreative investment with comparatively low risk and low return, and creative investment with high risks and expected high return. Second one is value chain management which includes inbound logistic, internal activities, outbound logistic, and finally customer services. The uncreative investment results that these types of investments is being compatible with a firm's assets-in-place, in particular, its information technology capabilities, a view consistent with the resource-based view of the firm (Ferguson et al., 2005). In value chain management, to create values for firms as well as for customers, inter-firm relationships are important for sustainable competitive advantages. Hybrid relational form demands more application in a dyadic or network relationship which is more flexible than market and/ hierarchy forms of relationship.

Industrial network approach (INA)

A network contains a set of relationships. More formally, a network has a set of items (in mathematical language, nodes) and a drawing or depiction of relations between the items or nodes. The simplest network comprises two objects, 1 and 2, and one correlation that links them. In the social science field, Social network theory (SNT) is one which focuses on enhancement rather than reduction approaches. The social network theory concerns with different levels of study from small groups to whole global systems. The gradually more global nature of markets and economic activities has resulted in increasing competition and a new and more worldwide division of labor. Meanwhile, Technological complexities greatly motivate innovation as essential and differentiated to be competitive in the global market. Therefore, it is important to form networks in both aspects (Alvarez et al., 2009). Networks have more than two components in relationships and they characterize the association of components in close relationships also in existing market-based relationship. Participants' role playing, performance evaluation, profit-sharing and risk management become more complex because of high concentration of trust in network (Tomkins, 2001). Kraatz (1998) argued that strong networks might be particularly valuable in advancing adaptation because they build high-capacity information link between organizations and promote an incentive for information sharing. Network insight development mobilize the human resources, and people involved in network insight developing become able to accommodate other actors by maintaining competitive advantage for organizational innovation and growth. Network insight concepts are not only relevant with participating managers, but also grounded in the participating firms i.e. interorganizational exchange relations (Mouzas et al., 2008).

The industrial network approaches in business field are connected to the social network approach in sociology (Foss and Koch, 1996). It has been used in the framework of social network by many researchers to analyze the structural relationships in informal communication; such as family and friendship networks, organizational networks. Most of them were in informal and qualitative approaches rather than formalized approaches (Biemans, 1996). Social network theory contains

individual to group and also has established the significance of interpersonal networks for individuals' professional success. Tsai and Ghoshal (1998) provided clear performance implications for the role of interfirm networks by showing how social capital contributed to product innovations at the business unit level and organizational advantage can be achieved through resource sharing among different organizational units. Baum et al. (2000) and Powell et al. (1996) studied biotechnology networks. They provided that startup businesses often face the problem of lack of resources and interfirm exchange relationship with other firms because of being newcomer in the market, they can overcome many lacking by win-win interorganizational networks. These alliances may be particularly effective for enhancing innovation. Zheng et al. (2009) found that both innovative ability i.e. internally developed resources and external resources (network heterogeneity and network status) were positively associated with firm value, those variables differ in their relative impact when start-ups grow older. On the other hand, network status has a negative impact on valuation with firm age.

Dyer and Nobeoka (2000) provided insights into the coordinating principles that help cooperation among members in the network. In their study, they suggested that the dynamic learning capability should be extended beyond the firm's boundary which creates competitive advantages. In fact, the network form of interorganizational relationship will be mentor to a firm as a managerial structure to create and recombine knowledge, if it can create a strong identity and coordinating rules within a network. Toyota is an example of such network structure which created highly interconnected networks ties and clearly mentioned the rules for partners in knowledge-sharing activities (Dyer and Nobeoka, 2000). Network coordination refers to a chain of overall structure and the control mechanisms that influence the whole set of organizations and relationships concerned. On the other hand, the activities that organize the behavior of existing relationship are referred as relationship coordination (Elg, 2008). Networks pool interfirm resources. And when resources are pooled together in a synergy manner, it helps the participating firms to obtain knowledge, search new opportunity and market, and learn from collaborative experience (Chetty and Holm, 2000). It is important to focus, work together in an interorganizational network relationship where different partners such as, customers, suppliers, partners deal collaboratively on the value creating process rather than individual firm itself. Therefore, to work together and create value in a network environment, role and relationship of participating firms should be clear to all players in the network where interfirm competencies and customer focus is important (Windahl and Lakemond, 2006).

Interfirm vertical and horizontal relations engage a mix of cooperative and competitive approaches respectively. In a competitive environment, firms cooperate with others to access and achieve resources and reward and at the same time compete to do this means and splitting up of resources and rewards. The motive behind interfirm competition is achievement of competitive advantages to create values for target customers. Thus, they form a cooperative relationship with customers and suppliers as a beneficial means of cooperation (Wilkinson and Young, 2002). But interfirm cooperative network creates negative impact on market by creating entry barriers (Nooteboom, 1999).

The structure of an industry network plays an important role both in firm performance and in industry evolution. Network structure design is such a way that it also creates entry barrier to the

network by imposing resource requirements such as technology, knowledge, raw material market information, and performance whereas network relationships provide access to key resources. Madhavan et al. (1998) found that central and dominant firms continue to be central in the network of interfirm relationships before and after a structure reinforcing event. Following a structure losening event, central and dominant firms are likely to be less central in the network of interfirm relationships. The network experience facilitates the formation of new alliances in future which is a powerful condition for new relationship development. Firms can involve in more than one network simultaneously. Consequently firms can develop their managerial capability being the members of new network relationships. (Gulati, 1999).

Tomkins (2001) in his analytical paper and Hakansson and Lind (2004) in their case study gave two examples of accounting and its role within the industrial network approach. Existing accounting practices are good enough to deal with most of the events in network relationship (Tomkins, 2001). Mutual trust is a powerful enabler in such case. But, the application procedures of accounting techniques are not mentioned clearly by the author. On the other hand, in a cooperative relationship to form embedded business relationships, the role of accounting has been analyzed by Hakansson and Lind (2004). The embedded relationships comprise a combination of organizational structures including hierarchies, relationship between sub-units, and even market-based relationships. Established accounting practices involving responsibility accounting, budgets reward schemes and profit measures are important in the embedded relational structure i.e. network relationships. Finally, the industrial network approach focuses accounting on learning issues, and especially on the role of accounting that can have in giving information for successive prioritizing of relationships, about direct and indirect effects of changes in individual relationships, and creating a dynamic structure.

Transaction cost economics (TCE)

The conceptualization of business relations in a certain theoretical framework is placed in relation to other key concepts. In classical micro-economic theory of the market, firm and market are such two concepts. In such a world, business relationships are something new and different. The relationships could be either negative or because of some specific situations, related to market and firm functions. This can be illustrated by transaction cost economics (TCE) approach (Hakansson and Lind, 2007). The initial starting issue of TCE is to identify differences in transactional properties. Transactional properties include uncertainty (environmental and human), asset specificity, and frequency (Williamson, 1985). The main argument of TCE is that increased uncertainty and asset specificity require more extensive governance mechanisms. Transactional frequency i.e. more subsequent transactions can mitigate the large cost of governance mechanisms. The most efficient framework of governance for an organization is determined by matching the characteristics of the transactions situation with the most economic form of governance.

To make decision in respect of outsourcing or in source of a firm's value chain, TCE provides important theoretical support considering transactional results. Heide (1994) asserts that the most efficient governance framework for an exchange interaction is determined by minimizing the sum of production costs and transaction costs. Williamson (1991) by using a model of market failure also explains the causes of transaction costs occurrences. Two factors, human factors and environmental factors, may contribute to market failure. Human factors include bounded rationality and opportunism; on the other hand, environmental factors include uncertainty resulting from technological changes and the complexity of external market (Hawkins et al., 2008; Kim et al., 2009; Laaksonen et al., 2008). Environmental uncertainty occurs by macroeconomic or natural factors and that are not the result of interfirm relationship. On the other hand, interfirm relationship related uncertainty occurs from the structural-economical features of the relationship and includes two dimensions: the governance structure of the relationship and the state of the relationship originating from the climate of socio-political behavior i.e. industrial environment (Kim, et al., 2009). For safeguarding from opportunistic behavior of partners TCE affirms vertical integration with proper incentive scheme for partners in interorganizational relationships (Williamson, 1991).

By making comparison in production costs, the effect of transaction costs on make-or-buy decisions is subsequently overshadowed. Within the division, Production costs are significantly more related with division outcomes rather than with the functional outcomes, consequently production costs are to be relevant in the decision-making process of make-or-buy decision (Walker and Weber, 1984). The minimization of total production and transactional costs along with organization of boundary spanning activities of a firm is the main issue of TCE (Barringer and Harrison, 2000). Initially Williamson (1979) stated two form of interorganizational organizing such as market and hierarchies and afterward recognized another form of relationship i.e. bilateral form of interorganizational relationship (Williamson, 1991). TCE explains that interorganizational cooperation can ensure reduced transaction costs, economic efficiency, and transactional stability by minimizing restricted bounded rationality and uncertainty. The combination of complete market transactions and hierarchy transaction, often termed as hybrid (bilateral form) form of interorganizational governance leads to efficient transaction costs or resolves human and environmental uncertainty (Kim, et al., 2009). Transaction costs related to evaluation and selection of partners in each transaction can be reduced by formation of an Interorganizational relationship over transactional relationships (Bharadwaj and Matsuno, 2006). Therefore, the basic issue in the transaction cost approach is to identify the right governance mode. There is a specific cost for interfirm governance mechanisms and this cost has a positive relationship with uncertainty and asset specificity.

Many scholars have used the theoretical framework of TCE in their studies in interorganizational accounting literature (Anderson et al., 2000; Bharadwaj and Matsuno, 2006; Copper and Slagmulder, 2004; Dekker, 2003, 2004; Ittner et al., 1999; Langfield-Smith and Smith, 2003; Seal et al., 1999; Spekle, 2001; Van der Meer-Kooistra and Vosselman, 2000).The dyadic relationships have been focused by most of the studies. Most of these authors focus on buyer-supplier relationships, previously this relationship was considered in market based relationship,

but now it needed to be handled through elaborate buyer-suppliers relationship. Because now-a-days, there is an increasing trend of outsourcing of companies' noncore activities. Therefore, the hybrid relationships i.e. governance is put at the front position. Anderson et al., (2000) used TCE framework in their study of make or buy decision focusing on long-term supplier relationships, which demands bilateral governance as well as accounting treatment.

Ittner et al. (1999) focused on choice of governance structure for suppliers' relationship. The mixture of extensive supplier relationship (non-price selection criteria, frequent meeting with suppliers, and supplier participation in strategic planning processes) and selection and monitoring of suppliers provides improved performance result of the companies. So, the form of governance chosen is the identified issue by several studies and that is the central of TCE. Van der Meer-Kooistra and Vosselman (2000) provided three different control forms within their study. These are, a market-based form, a bureaucracy-based form, and a trust-based form. A trust-based control pattern is associated with high asset specificity, low repetition, long-term contract, social embeddedness, and experiences in networks. On the other hand, Spekle (2001) proposed a general control framework based on TCE. Three dimensions such as the extent of programmability; the degree of asset specificity; and the intensity of post hoc information impactedness are stated in the framework, based on the nature of organizational activities and the required contributions from organizational participants. Dekker (2004) proposed a framework which consisted of three forms of control: outcome control, behavior control, and social control. In interorganizational relationship, two control problems are identified: the management of appropriation concerns and coordination requirements. The three attributes of TCE, attest specificity, uncertainty, and frequency are related with appropriate concerns. According to Dekker (2004), pooling of resources, task performance schedule are important, and after that allocation of task should be conducted among the partners in an interorganizational relationship. Therefore, interorganizational relationships need to coordinate and cooperate the interdependent tasks across the firms' boundaries.

The hybrid form of relationship as well as governance has attracted more interest from accounting point of view. The hybrid form of governance is more than market-based or hierarchy-based form of governance. So, hybrid governance form demands accounting treatment for structure, manage, control, and expand the buyer-supplier relationships. Transaction cost approach focuses accounting control issues especially to choose most appropriate form of governance, to shape the three different forms of governance where traditional accounting is also covered in literature, and to create new accounting techniques to support bilateral form of governance (Hakansson and Lind, 2007).

Conclusion

Interorganizational relationships are enriched by the theoretical concepts based on the theory of firm. By the two approaches it can be explained how they perceive and approach the focal unit of analysis. In the market based approach, the relationship of organizations is seen as a dyadic relationship and proposes some mechanisms of governance. Another one is organized-structure approach that considers the single relationship as a part of larger organized structure (Hakansson

and Lind, 2007). By combing both approaches we propose another approach naming "interfirm cost management theory" which deals with an interorganizational relationship in a hybrid form and combine the dyadic and network relation with more flexibility and formal and informal communications. Interfirm cost management theory focuses on a relationship which is more than market and hierarchy based relationship, and that also consists of network relationship and confirms a control mechanism by bilateral formal and informal relationship. To achieve sustainable competitive advantages, it focuses cost management across the boundaries of firms in a collaborative relationship. Interfirm cost management theory is supported by the principal theories such as resource-based view (Barney, 1991), industrial network approach (Hakansson and Lind, 2004; Tomkins, 2001), and transaction cost economics (Williamson, 1979, 1985). There is no single theory for interorganizational relationships as well as interfirm cost management practices. Rather it is a good deal to be related between the key theories and the functions of interorganizational cost management practices. Therefore, we propose interfirm cost management theory by combing the above three theories just as a mixture of three tastes in a new bottle. The resource based view (RBV) proposes that in the value chain management, value creation would be based on the most valuable contribution which can be made by the firms with their strategic assets. The assets which are obviously valuable, not imitable, and eligible to achieve competitive advantages are termed as strategic assets. The industrial network approach suggests that the contribution will not be the product of a single firm but be a joint product that will be developed by the alliance or value network by facilitating access of value creating assets and assets accumulation. The result will be that any relational gains achievement will need to be shared between the partners of the alliance or network. On the other hand, transaction cost economics suggests that interorganizational relationships require more extensive governance mechanisms because of the presence of asset specificity and uncertainty in relational exchange process. Exchange interaction i.e. more subsequent transactions can mitigate the large cost of governance mechanisms in a shared environment.

In an interorganizational relationship to achieve sustainable completive advantages, it requires to provide such resources which have competitive edge either on price or on quality and not easily imitable by the competitors through interorganizational collaboration. The assessment of efficiency of operations of the firms can be done through value chain analysis. Competitive advantage is the logical sequence of efficiency in performances. So, in value chain management, if there is efficiency in operations, it will provide competitive advantages through lower cost incurrence and therefore higher profit potential. By interfirm collaboration, firms can resolve the problem of accumulation of assets across time. Through interfirm network, firms can obtain access to assets that create value and outsource noncore items. Thus, if firms lack competitive resources, they can use interfirm collaboration to overcome this deficiency (Ahuja, 2000). And network experience fosters the long-term orientation of value creation among the participating firms. In an interfirm relational network when there is the threat of opportunism and asset specificity, mutual cooperation can overcome the limitations of restricted rationality, secure economic efficiency with reduced transaction costs, realize transaction stability from opportunistic threats; trust-based control and incentive mechanisms confirm the proper governance procedure.

Therefore, organization's resources and capabilities are vital in the creation and maintenance of competitive advantage and it will pay concentration to the arrangement of its value chain

activities. Efficient operations system is embedded with quality system which is backed by marketing and dealership networks. This is downstream network with customers. The value chain activities link with suppliers. Value chain activities configure suppliers in such a way that they provide focal firm's core competence or distinctive capability in a collaborative manner. This is supported by upstream network. Both of them i.e. upstream and downstream networks are backed by industrial network approach. To achieve sustainable competitive advantage when firms are in a network, trust and interdependency arise because of resource sharing. In the language of transaction cost theory, the presence of trust in interfirm relations fosters the recurrent transaction. Consequently repeated transactions reduce the transaction costs of selection evaluation and transactional cost of partners. Finally, by collaborating with their partners, firms try to achieve cost advantage and sustainable competitive advantage over their competitors which is the main theme of interfirm cost management theory.

This study is not out of limitations. Several issues such as theoretical foundation, relational context, antecedents of interfirm cost management, methods of interfirm cost management, and outcomes of interorganizational cost management can be addressed in conceptual framework development. But this paper was concerned with theoretical foundation and focused on existing theories related with interorganizational cost management. The uncovered issues of interorganizational cost management can be addressed in further studies theoretically and/or empirically.

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