Where do We Go from Here? The Future of B2B Governance Research

INTRODUCTION

«I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.» Abraham Maslow (1966, p. 15)

Firms are embedded in economic relationships with external exchange partners (cf., Arndt 1979; Granovetter 1985; Lilien and Grewal 2012), which vary both in terms of the object of exchange and how they are organized or governed (Powell 1990, p. 324). Governance is the "mode of organizing relations" (Williamson and Ouchi 1981, p. 352) or "the means by which to infuse *order*, thereby to mitigate *conflict*, and realize *mutual* gain" (Williamson 2010, p. 674). Both the properties of interfirm relationships and their governance are central topics in marketing research.

Governance research in marketing has contributed significantly to our understanding of B2B relationships. This body of literature examines both vertical and horizontal relationships between firms, relying on transaction cost economics as one of dominant lenses for understanding governance decisions (see Geyskens et al. 2006; John and Reve 2010; Rindfleisch and Heide 1997 for comprehensive reviews). Most of the research is conducted within the context of value chains (Porter 1985), a model by which firms sequentially transform inputs and distribute the resulting products through a distribution channel. As a result, the literature on B2B relationship governance is primarily rooted in our understanding of a particular form of value creation, and its associated organization of relationships with external exchange partners. This begs the question: is our current conceptualization of B2B relationship governance equally

applicable for firms that have a different value creation logic, and therefore engage in exchange relationships that differ in their object of exchange?

The broader economics and management literatures (e.g., North and Wallis 1994; Powell et al. 1996; Stinchcombe 1985), and specifically the more recent literature on business models (e.g., Christensen et al. 2009; Fjeldstad and Snow 2018; Gatignon et al. 2017), provide an account of a diverse set of value creation logics. To guide our discussion, we rely on a well-established typology of value creation logics, consisting of firms that transform inputs into products ("value chains"), firms that facilitate exchange among their customers ("value networks"), and firm that develop solutions for unique customer problems on a case-by-case bases ("value shops") (Stabell and Fjeldstad 1998; Thompson 1967). Importantly, the non-value chain firms, implicitly treated as the "residual" in the existing body of governance research, today dominate the economy, both in numbers, value and growth (e.g., see PricewaterhouseCoopers Global Top 100 Companies 2018: https://pwc.to/2KBAUrg).

Our main argument is that the way a firm creates value has fundamental implications for both the nature of its relationships with other firms as well as how these relationships are governed. Moreover, value networks, firms that facilitate exchange among their customers (i.e., the transaction and transportation sector) (cf. Wallis and North 1986), have as their primary purpose to reduce the "costs of running the economic system" (Arrow 1969, p. 1969), and technical innovations in these services are a main driver of innovation in governance of interfirm relationships across all other sectors of the economy (North and Wallis 1994). Finally, the development and widespread adoption of the Internet has given rise to fundamental organizational innovations related to co-production of knowledge and solutions (e.g., Tuli et al.

2007; Vargo and Lusch 2004), with important implications for governance of horizontal B2B relationships (Benkler 2002; Ostrom 2010).

RELATIONSHIP GOVERNANCE ACROSS DIFFERENT VALUE SYSTEMS[1]

Value chains

The canonical exchange relationships of the "value chain" bridge sequential stages of value creation, from raw materials to finished products in the hands of the customer (Carson et al. 1999; Porter 1985) -- "production of a final product can be split into a series of technological separate sages… each stage organized around a simple hierarchy, each of which exhaust scale economies. The question […] to be addressed is…when will the production of components by such technologically separable unites be exchanged within a firm rather than across an intermediate product market." (Williamson 1975, p. 82). This so-called "make-or-buy" decision is nicely illustrated by Williamson's (1985) simple contracting schema, where the specificity of the technology used to produce the components in each stage of the transformation process is the "big locomotive to which transaction cost economics owes much of its predictive content" (p. 56). The empirical success of transaction cost economics is in part attributed to seminal work in marketing, examining the so-called "make-and/or-buy" decision and the management of ongoing relationships between firms in the sequential stages of value creation (see Geyskens et al. 2006; John and Reve 2010; Rindfleisch and Heide 1997 for reviews).

Value shops

[1] A value system consists of all activities and firms that create and deliver value to the end customer (Carson, Devinney, Dowling, and John 1999) .

The "value shop" solves unique customer problems (Stabell and Fjeldstad 1998). The customer embodies the problem to be solved and is generally an active participant in the process of creating solutions (Nickerson and Zenger 2004; Skjølsvik et al. 2007; Tuli et al. 2007). The activities involved in problem solving are intelligence, design and choice; effective problem solving requires concurrent multidisciplinary combination of knowledge (Newell and Simon 1972; Simon 1969). Since diverse knowledge sources is particularly important in solving customer problems and thus creating value, value shops often form reciprocally linked value systems of sub-contracting and collaborating firms that together harness the knowledge required to develop desired solutions (cf., Eccles 1981; Stinchcombe 1985). Thus knowledge is also a fundamental concern in the formation of the network of collaborating firms, and reputation and intellectual property rights play a crucial role in value appropriation (Powell et al. 1996). Over the last decade, we have witnessed an increased attention to customers solutions in B2B markets (e.g., Eliashberg et al. 2006; Lilien 2016; Macdonald et al. 2016; Panagopoulos et al. 2017; Tuli et al. 2007; Ulaga and Reinartz 2011; Worm et al. 2017). While this body of literature has made significant contributions to our understanding of customer solutions and their potential performance effects, we find there is still a significant shortage of research into the governance of value shop interfirm relationships in marketing.

Value networks

Value networks, e.g., communication services, transportation, banking and finance, and a wide range of Internet businesses (Afuah and Tucci 2000), enable and facilitate relations among customers (Rochet and Tirole 2003; Rohlfs 1974; Wallis and North 1986).[2] Customers co-

[2] While our focus is relations between B2B customers, value networks also enable and facilitate relations between consumers, things (cf. Internet of Things) and places (Fjeldstad and Snow, 2018).

produce their own and other customers' value (e.g., Ramaswamy and Ozcan), and thus the size and composition of the network within which the relations are embedded affect the customer value proposition (e.g., Arthur 1989; Katz and Shapiro 1985). Value networks actively govern relations between customers, serving to reduce friction or transaction costs (North 1991; North and Wallis 1994). Mechanisms for governing exchange relations include screening, monitoring, and dual reputation systems, all of which serve to enable value creation, including investments in productive idiosyncratic assets (Eriksson et al. 2017).

Most value networks are horizontally interconnected and vertically layered (Stabell and Fjeldstad 1998). Interconnection or compatibility allows customers of one firm to network with customers of other firms (e.g., common in banking and telecommunications). Layering allows one service to use another service as its infrastructure (e.g., common in Internet service ecosystems). Interconnection and layering raise important governance challenges. For instance, while interconnection increases the size of the network to be serviced, and thus the value creation potential (Katz and Shapiro 1985), it also increases interdependencies between competing value networks and reduces exclusive access to unique resources (e.g., central customers). Access to unique resources represent sources of conflict which can serve to undermine the realization of mutual gains (Barney, 1991; Pfeffer and Salancik, 1978). As a result, firms with large existing networks or strong reputation may be less inclined to engage in interconnection (Katz and Shapiro 1985). In terms of layering, firms can offer multiple levels of services through bundling and/or give other service firms access to their network (Shapiro and Varian 1999). When providing access, firms can cooperate in order to enhance the value of complementing services and in setting prices that maximize demand for the overall offering. At the same time, while providers of related network services can serve as complementors, they also "compete" for

extraction of value from their combined offerings (Farrell and Katz 2000; Farrell and Klemperer 2007; Varian 2000). The distribution of gains will partly be determined by the nature of the dependence relationships (Emerson 1962). In light of the central role played by value networks in the modern economy and the dearth of studies in marketing on both horizontally interconnected and vertically layered network systems, we see this as a particularly fruitful area for future governance research in marketing.

CROSS-VALUE SYSTEMS OPPORTUNITIES AND CHALLENGES

The institutional environment affects governance of transactions (North 1990; Williamson 2000). Value network services and the institutional structures they embody represent an important part of the institutional environment (North and Wallis 1994). Rapid and sweeping innovations currently taking place in value network services are resulting in both a reduction in the costs of transacting and in the emergence of new ways of organizing. Prominent examples include Jack Ma's initial B2B exchange service (alibaba.com), which enabled massive sourcing from Chinese suppliers, and InnoCentive "enabling creative minds to solve problems that matter" (innocentive.com/). Further, improved networking services enable large scale multi-party alliances in both innovation and operations. Examples include Blade.org (Snow et al. 2011) and RosettaNet (Malhotra et al. 2005). Such value network service innovations change the boundaries of the firm and the way transaction are governed; they involve the governance of common resources (Benkler 2002; Ostrom 2010). The rapid introduction of such collaborative structures across different markets call for B2B researchers in marketing to direct attention to both the new structures as well as to their distinct governance mechanisms.

CONCLUSION

We have sought to identify what we believe are promising areas for future B2B governance research. As we see it, there are great opportunities for governance researchers in marketing to improve our understanding of B2B relationships in problem solving and networking services, respectively. Moreover, rapid innovations taking place in networking services is changing the institutional environment across all forms of value creation. This in turn impacts how we understand the nature and governance of relationships in the broader economy. In their recent review of the past 25 years of scholarship on marketing organization, Moorman and Day (2016) make the observation that "advances in knowledge are barely keeping up with profound transformations in practice…enabled by more open, networked organizational structures" (p. 6). We agree and see a bright future for governance researchers in marketing.

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