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A diagnostic model of private control and collective control in buyer-supplier relationships

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ABSTRACT

This study examines the control-based governance in buyer-supplier relationships. Building on boundary spanning theory and governance literature, we propose an integrated model that consists of exchange parties' private control (aimed at individual gains) and collective control (aimed at joint gains) in boundary spanning activities, along with their structural antecedents and relationship consequences in interorganizational governance. Using data collected from manufacturer-distributor dyads, we demonstrate that a buyer-supplier relationship characterized by a high degree of distributive justice and low degrees of goal difference and power asymmetry promotes exchange parties' collective control while inhibiting private control in boundary spanning conduct. The impact of private and collective controls on dyadic relationship performance is further mediated through governance costs and returns. Specifically, private control results in conflict and transaction costs that undermine dyadic relationship performance, whereas collective control leads to solidarity and reciprocity that sustain dyadic relationship performance. Recognizing and distinguishing between private control and collective control is essential to managing boundary-spanning behavior in buyer-supplier relationships and to solidifying relationship performance in supply chain and channel management.

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1. Introduction

The abundant research on interorganizational relationships in the past few decades has clearly documented the role of collaboration in value creation as well as the importance of control in interorganizational governance (Bensaou & Venkatraman, 1995; Jap & Ganesan, 2000; Majchrzak, Jarvenpaa, & Bagherzadeh, 2015). Control, a mode of structuring and regulating the conduct of parties, is essential to achieving firm performance and managing interorganizational relationships (Das, 1989; Das & Teng, 1998; Luo, 2007; Williamson, 1979), because proper control can curtail the risk and uncertainty that are inherent in exchange (Claycomb & Frankwick, 2010; Larson, 1992). Thus, choosing proper control practices is key to interorganizational relationships management (Hoetker & Mellewigt, 2009) because "coordination and other desirable outcomes do not occur unless members recognize and choose behaviors most efficient and effective for the conduct" (Gilliland, Bello, & Gundlach, 2010, p. 441). Accordingly, much research has been

devoted to investigating control in interorganizational governance and results have been prolific (e.g., Das & Teng, 1998; Gilliland et al., 2010; Heide, Wathne, & Rokkan, 2007; Jap & Ganesan, 2000; Varoutsas & Scapens, 2015).

To date, control¹ has been studied in various ways, including the degree of importance and effectiveness (primary & secondary controls; see Jaworski, 1988), point of intervention (process & output controls; see Jaworski, 1988), ownership structure (equity & non-equity controls; see Yan & Gray, 1994), control dimension (incenting, monitoring, & enforcing, see Gilliland et al., 2010), governance mechanism (transactional/formal & relational/social, see Popp & Zenger, 2002), and parties involved (private & collective controls, see Luo, 2007). Despite their fruition of providing multiple facets of the control practices, many of prior control typologies focus on control exerted by a single party. An

¹ We distinguish *control* from *governance*. *Governance* is regarded as "a higher-level concept describing an organizational construction or, in broader term, institutional framework" whereas *control* is "the underlying and concrete operative practice" that is brought to achieve the desirable or predetermined goal (Hoetker & Mellewigt, 2009, p. 1027). Different control activities (e.g., process and output controls) may be adopted by two parties to support interorganizational governance (e.g., a contractual arrangement).

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exception is the private-collective control scheme introduced for parent firms in the context of joint ventures and strategic alliances (Luo, 2007; Luo, Shenkar, & Gurnani, 2008), where private control is used by one party to maximize individual gain at the expense of the partner and collective control is employed by both parties to pursue joint governance for the benefit of both. This control scheme explicitly separates private control exerted by individual parties and collective control by both parties so that both types of controls can be examined in horizontal interorganizational relationships.

In the context of buyer-supplier relationships (i.e., vertical interorganizational relationships), although the governance literature has evolved to identify contractual governance (based on formal, unilateral, hierarchical authority) and relational governance (based on informal, bilateral, social interactions) as major governance mechanisms² (Heide, 1994; Poppo & Zenger, 2002), prior studies fail to recognize that unilateral and collective controls may simultaneously present in a buyer-supplier relationship (BSR) under both types of governance. For example, under contractual governance, the buyer can choose to hide the market intelligence from the supplier (i.e., private control) when processing information or work together with the supplier to determine the market demand (i.e., collective control). Because a BSR is a loosely coupled system in which two parties need to collaborate in carrying out supply chain/channel functions while having separate goals and interests performing boundary spanning roles (Aldrich & Herker, 1977; Liu, Huang, Luo, & Zhao, 2012), an understanding of private and collective controls in interparty boundary spanning interfaces and their impacts on BSRs is important to effective supply chain/channel management. As such, we are interested in diagnosing private and collective controls that are inherent in BSRs.

Our study contributes to the control/governance literature by extending and examining private and collective controls under interorganizational governance in BSRs. This alternative control typology adds to other control practices and provides a useful angle to examining boundary spanning conduct between the buyer and the supplier. Further, we depict a more complete picture of the control model by identifying the structural antecedents to and the performance consequences of private and collective controls in BSRs. With the integrated model including the effects of both private control and collective control on dyadic relationship performance (compared to single party performance in many previous studies), we seek to provide meaningful guidance on effective supply chain/channel management because (1) many managerial decisions (e.g., partner selection decisions) are partly driven by the underlying characteristics of the dyadic links in the exchange relationship (Majchrzak et al., 2015), and (2) the longevity of interorganizational collaborations in supply chains and distribution channels is contingent on the fact that both parties need to benefit from the partnership (Dyer, 1997).

In summary, the intent of this study is three-fold: (1) to examine private and collective controls in interparty boundary spanning conduct; (2) to explore structural conditions of a BSR that may stimulate private and collective controls; (3) to elucidate the various consequences of private and collective controls in a BSR. By examining the two distinct types of controls and establishing paths through which how private and collective controls are determined by relationship structural conditions, generate governance consequences, and impact dyadic relationship performance, we hope to add insights to a more nuanced understanding of controls in interorganizational governance.

² Heide (1994) proposes a typology of governance: market, unilateral/hierarchical (e.g., franchising contracts), and bilateral governance. Authority-based, unilateral governance and relationship-based, bilateral governance have evolved to contractual governance and relational governance respectively. Collective control should not be taken as equivalent to relational governance because one party may unilaterally seek for developing social ties while the other party may refrain from such connections (see Huang, Sternquist, Zhang, & Calantone, 2011). Private control and collective control may co-exist under either contractual governance or relational governance.

2. Theoretical framework and hypotheses development

2.1. A private-collective control scheme

Control refers to modes, mechanisms, or processes by which exchange parties structure and regulate their activities and behaviors (Das & Teng, 1998; Luo, 2007; Williamson, 1979). As illustrated by Das and Teng (1998, p. 493), “the purpose of control is to fashion activities in accordance with expectations so that the ultimate goals of the organization can be attained”. Specifically, control is recognized as the underlying operative practices which are brought to bear between the two parties or actual activities exchange parties can deploy in order to achieve desired outcomes (Hoetker & Mellewigt, 2009; Jaworski, 1988). Relationship control, risk minimization, and performance improvement are major concerns in various types of interorganizational collaboration (Gan, Sethi, & Yan, 2005; Langfield-Smith & Greenwood, 1998).

In the context of joint ventures (JV) and strategic alliances (SA), Luo (2007) and Luo et al. (2008) propose the classification of parent control of the JV or the SA into private control and collective control. According to Luo (2007), private control refers to unilateral actions taken by one party to ensure that the JV or the SA is managed to maximize its own benefit, often taking advantage of the shared resources, whereas collective control refers to bilateral actions jointly designed and taken by both parties to guide, monitor, and oversee the JV or the SA in order to ensure mutual gain for both parties from collaboration. Thus, private control and collective control differ in nature (unilateral vs. bilateral), underlying intent (self-interest vs. joint interests), and visibility (mostly covert vs. always overt) (Luo, 2007). Because private control implies self-interest at the expense of the other party, whereas collective control signifies joint actions for mutual gain, the two types of control seem to have different effects on the partnership (Luo et al., 2008). Applying the private-collective control scheme to the context of BSRs, a major vertical form of interorganizational relationships in supply chains and distribution channels, we propose that private control and collective control are highly relevant and manifested in boundary spanning activities between the buyer and the supplier. See Fig. 1 for the conceptual model.

2.2. Private and collective control in buyer-supplier relationships

According to boundary spanning theory (Aldrich & Herker, 1977), organizations depend on collaborations with others for critical resources in order to survive and grow, and boundary spanners between organizations facilitate the roles of information processing and external representation in interorganizational collaboration. As a typical interorganizational collaboration in supply chains and distribution channels, a BSR can be viewed as a loosely coupled system in which the buyer and the supplier are separate and independent yet connected and interdependent (Majchrzak et al., 2015; Orton & Weick, 1990). The buyer and the supplier independently and interdependently perform their boundary spanning roles of information processing (e.g., exchanging sales forecasts and inventory data, sharing proprietary product designs) and external representation (e.g., negotiating contracts, resolving conflicts) in a BSR. Such a loosely coupled system allows the buyer and the supplier to maintain and serve their individual needs (loose) while collaborating with each other to achieve joint goals (coupled) through boundary spanning activities (Aldrich & Herker, 1977; Stock, 2006). Meanwhile, the coexistence of looseness and coupling provides impetus for the buyer and the supplier to engage in private and collective controls, with private control aiming at individual gain at the expense of the other party (loose) and collective control striving for joint interest (coupled) (Luo, 2007). Therefore, a BSR is both loose and coupled, yielding simultaneously private and collective controls.

As an illustration of private control and collective control, we use an original equipment manufacturer (the buyer) and a contract manufacturer (the supplier) to showcase private and collective controls of demand forecast coordination in interparty boundary spanning conduct

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