INTERFIRM VALUE CREATION: CONCEPTUALIZING FOR THE SUCCESS AND SUSTAINABILITY OF STRATEGIC PARTNERSHIPS

Mohammed Belal Uddin* and Bilkis Akhter**

Abstract

To achieve and maintain sustainable interfirm values such as competitive advantage and customer satisfaction, the developments of interfirm relations are common in the business world. This paper investigates the antecedents, methods, and outcomes of interfirm value creation to ensure a successful and sustainable strategic partnership. We suggest interfirm value creation requires proper implementation of value creating methods such as information sharing, electronic collaboration, joint programs, joint cost management, etc. Also, value creating methods require a strategic relationship that is featured by interfirm trust and dependency, communication, commitment, etc. This paper provides a special focus on interfirm value creation in a vertical relationship within the supply chain, mentioning antecedents as preconditions and outcomes as consequences of interfirm value creation.

Keywords: Antecedents, Methods, Outcomes, Interfirm value creation

บทคัดย่อ

เพื่อให้บรรลุและคงค่านิยมร่วมระหว่างบริษัท (Interfirm Value) เช่นความได้เปรียบในการแข่งขัน และความพึงพอใจของลูกค้าไว้อย่างยั่งยืน จึงเป็นเรื่องปกติที่ต้องมีการพัฒนาความสัมพันธ์ร่วมระหว่างบริษัทในโลกธุรกิจ งานวิจัยนี้ตรวจสอบรากฐาน วิธีการและผลลัพธ์ของการสร้างค่านิยมร่วมระหว่างบริษัทเพื่อสร้างความมั่นใจเกี่ยวกับภาวะหุ้นส่วนเชิงกลยุทธ์ที่ยั่งยืนและประสบผลสำเร็จ การสร้างค่านิยมร่วมระหว่างบริษัทต้องอาศัยการดำเนินการที่เหมาะสมในวิธีการสร้างค่านิยม เช่น การแบ่งปันข้อมูล ความร่วมมือทางอิเล็กทรอนิกส์ โครงการร่วม การบริหารทุนร่วม วิธีการสร้างค่านิยมต้องอาศัยความสัมพันธ์เชิงกลยุทธ์ที่เน้นความไว้วางใจร่วมระหว่างบริษัทและภาวะการพึ่งพา การสื่อสาร พันธสัญญา งานวิจัยนี้เน้นการสร้างค่านิยมร่วมระหว่างบริษัทในความสัมพันธ์แนวตั้งภายในห่วงโซ่

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อุปทาน โดยมีรากฐานที่กล่าวไว้แล้วข้างต้นเป็นเงื่อนไขก่อนการสร้างค่านิยมร่วมระหว่างบริษัท และผลลัพธ์เป็นตัวแปรตามในการสร้างค่านิยมร่วมระหว่างบริษัท

INTRODUCTION

Value creation involves activities that enhance the worth of products and goods for customers. In a broader sense, value is created for customers to ensure their satisfaction, for employees to motivate themselves towards the organizational goals, and for investors to maximize their wealth. In a competitive environment, firms try to perform customer centric operations to achieve competitive advantage over their rivals. If there is an alignment between upstream and downstream firms, it can create value and maintain sustainable strategic partnerships. This interfirm value creation process is involved in a vertical relationship, i.e., a supply chain relationship. In a horizontal or peer level relationship, value creation is not so easy because of interfirm competition and status consciousness of top management. To achieve and maintain sustainable competitive advantage, development of interfirm relations are common in the business world. Firms are increasingly developing relationships with suppliers and customers to create value for both parties (Mentzer et al., 2001). The understanding of formation and change in interfirm relationships benefits the interfirm relationships (Su et al., 2008). Value creation depends on relational bonding that enables a relationship to withstand disorderly forces and enlarges partners' willingness to view their relationship as a longer-term strategic partnering (Sarkar et al., 1998). Strategic partnering enjoys a collaborative environment that is crucial for implementation of value creating techniques. A successful business relationship is vital but the proper execution of strategies is also crucial for the achievement of interfirm goals (Buvik and Andersen, 2002; Christopher and Gattorna, 2005).

In a vertical relationship two independent firms develop an interfirm relationship that is defined as a partnership in the supply chain. Multiple partnerships are involved in a complete supply chain (Mentzer et al., 2000). The motivating conditions influencing the development of interfirm cooperation as well as the relationships that derive from this cooperation, produce benefits often associated with such activities and strategies (Schermerhorn, Jr. 1975). Integrated strategies are applied in a vertical relationship to achieve shared values by ensuring win-win situations. These relationships are typically long-term and require considerable strategic and operational coordination (Mentzer et al., 2001). The motive behind the formation of interorganizational relationships is to increase relational competitive advantages. But these competitive advantages require successful utilization of value creating activities. For that purpose, a relationship characterized by mutual trust and dependency, cooperation, commitment, and sharing of resources is required (Andaleeb, 1995). It is proposed that the proper implementation of interfirm value creating strategies enhances customer value and satisfaction, which in turn leads to enhanced competitive advantage and maintains a long-term orientation for that relationship.

The objective of this article is to present an integrated view of interfirm value creation by showing the antecedents, methods/techniques, and outcomes (consequences). Figure-1 presents the conceptual framework of interfirm value creation. To carry out the objective, firstly, we investigate the important factors that affect interfirm value creation. This examination reveals that external, organizational and interorganizational factors contribute to the implementation of value creating methods. Secondly, we identify the value creating methods. Thirdly, we identify the outcomes of interfirm value creation. Propositions are also offered throughout the discussion. Finally, this paper concludes with a discussion of theoretical and managerial implications, limitations of this study, and guidelines for further study.

ANTECEDENTS OF INTERFIRM VALUE CREATION

Antecedents are the motivating conditions influencing formation of interorganizational cooperation, as well as relationships that derive from benefits potentially associated with such activities (Schermerhorn, Jr. 1975). A growing literature deals with interorganizational cooperation and the antecedents of interfirm relationships, as well as interfirm value creating methods under the purview of interorganizational analysis (Hawkins et al., 2008; Kim et al., 2010; Mentzer et al., 2000; Mentzer et al., 2001; Oliver, 1990; Schermerhorn, Jr. 1975; Zaheer and Venkatraman, 1995). Antecedents consist of organizational, interorganizational, and external environmental issues.

1. Mutual Trust and Interdependency

Mutual trust between the partners is required for each relationship (Tomkins, 2001). Trust is a behavioral aspect of both parties in a relationship and arises step by step in the interaction between both parties (Su et. al., 2008). Mutual trust produces a belief between the partners that one will not do anything against the other. Formation of a partnership to create value requires trust as a vital antecedent in partnership investment. To become trustworthy to each other, tangible or intangible trust needs must be met in terms of judgment, motives, character, and the role of competence (Mentzer et al., 2000). There is always a possibility of opportunistic behavior by the other party and the limitation that all ambiguity can never be fully removed in an interfirm relationship (Laaksonen et al. 2008). Mutual trust is necessary to mitigate such opportunism in strategic partnering. Interdependence encompasses each partner's dependence, the magnitude of the firms' total interdependence, and the degree of interdependence asymmetry between the firms (Mentzer et al., 2000). In a long-term orientation, while an interorganizational relationship creates dependence, level of trust and relational norms transform dependence to interdependence and motivate value creating in the interfirm relationship (Andaleeb, 1995; Hawkins et al., 2008). A relationship cannot be created without trust, and a relationship without mutual trust and interdependence will continue, if it does, with a high level of uncertainty. Value creating techniques such as information sharing, joint cost management, electronic integration, joint programs, etc require a greater extent of mutual trust and interdependence. Thus, the greater the mutual trust and interdependence, the stronger the motivation is to apply value creation methods.

2. Communication

Understanding and communication of common goals, and resolution of disagreements are done through communication between firms (Su et al., 2008). And a communication strategy in the supply chain is a means to influence the negotiation process that manufacturers and suppliers use for communication in their bargaining sessions. In marketing channel literature, the relationship between communication strategies and the behavior of firms has been greatly focused on (Artz and Brush, 2000). To reduce the rate of fall in investment as perceived by suppliers and the associated supplier frustration, the buyer can ensure an increased flow of communication and information (Lettice et al., 2010). Communication is essential for joint programs and performance measures; and increasing absorptive capacity as well as assimilating functional units that bind the organizations. Functional assimilation is needed to apply complex technology to accomplish organizational objectives (Tu et al., 2006). Information sharing requires effective communication that increases the probability that it will lead to the discovery of new ways to enhance the relational performance of the partners (Dyer, 1997). The most important groups of information to share include: operations information, planning information, customer requirement information, and financial information (Kelle and Akbulut, 2005). Effective communication is necessary for supply chain partners to develop cost management relationships (Su et al., 2008). Therefore, successful relationships are based on efficient communication, and communication is necessary for supply chain value-creating activities.

3. Cooperation

Collaboration with others that is intended to produce common benefits or attain rewards or, more generally, all activities carried out mutually, which include attitudes and the potentiality of future behavior, as well as behavioral fundamentals is defined as cooperation (Su et al., 2008). To extend dealings beyond the transactional exchange towards developing a relationship, parties show their willingness for this result through cooperation, and it is a predecessor of a continued relationship and the level of that cooperation is a performance measure of the success of the interfirm relationship. Multi-dimensional constructs have been conceptualized to describe these relationships and include parameters such as joint action, resource and information sharing, harmony, and flexibility (Mavondo and Rodrigo, 2001). Competitiveness in the global economy requires firms to develop strong partnership relationships built on cooperation and trust with their remaining suppliers (Stuart and McCutcheon, 2000), which facilitate the sharing of information and the performance of joint activities (joint process, joint production design, etc.) by the partners. Uncertainty in supply and demand and more dependency on external resources justify the appropriateness of the formation of a close long-term cooperative relationship in interfirm relationships (Su et al., 2008). Cooperation builds a system in the cooperation process, and systems made up of cooperation mutually produce richer structures and stable social and technological networks (Wilkinson and Young, 2002).

4. Commitment

Commitment is defined as the wish to maintain a relationship and the actual continuation of the relationship. In the relationship literature, the construct of commitment has been used recurrently as an assessment of the strength or success of a business relationship. Both parties in a relationship have expectations of their own and their partner's inputs into the relationship. Agreement to work collectively, promise of support for each other, and the sharing of the associated risks within their relationship are the inputs of a relationship (Lettice et al., 2010). Commitment is a continuing desire to maintain or develop a valued relationship and integrates the intention and expectation of continuity with the willingness to invest resources in the partnership (Liu et al., 2009). Commitment implies the significance of the relationship to the partners and therefore organizations surrender short-term gain to achieve long-term benefits; thereby it is a crucial success issue for long-term interfirm relationships (Mentzer et al., 2000). It is important to understand that implementing supply chain value creating activities requires the empowerment and necessary commitment of resources to attain stated goals (Mentzer et al., 2001). Therefore, increases of interdependence between the partners and enhancement of the valuable resources of relationships can be done through these mutual commitments in interfirm relationships (Laaksonen et al. 2008).

5. Organizational Compatibility

In a supply chain, each firm should have a compatible corporate culture or philosophy and management style that enables firms to work together and therefore succeed in managing the supply chain (Mentzer et al., 2001). To develop interfirm relationships, an interfirm analysis of level centers may have influence by focusing on organizational attributes and internal characteristics (Schermerhorn, Jr., 1975). Organizational compatibility refers to corresponding goals and objectives, as well as parallels in operating viewpoint and corporate customs. The effectiveness of the relationship in an interfirm alliance positively affects the networking and collaboration of partners (Mentzer et al., 2001). Value creation by using joint cost management and the sharing of information depends on the partnering firms' capabilities (Barringer and Harrison, 2000). Relational governance occurs in an interorganizational relationship as the consequence of joint performance measures. Joint action by the partners is viewed as a governance process because the joint responsibility for the activities of the dyad serves to protect each party with specific assets from their appropriation (Zaheer and Venkatraman, 1995). Compatible corporate culture is essential in long-term customer supplier relationships (Mentzer et al., 2000) and therefore, organizational compatibility is positively related to a strategic partnering orientation and value creation.

6. Environmental Pressure

Environmental pressures arise from three areas, namely uncertainty, global competition, and time and quality based competition (Mentzer et al., 2000). Behavioral uncertainty arises from the difficulty in predicting the actions of the counterpart in the interorganizational relationship, because opportunistic behavior and bounded rationality preclude the writing of a completely contingent contract (Zaheer and Venkatraman, 1995). Since individual firms cannot control the issue of uncertainty and technological changes (Mentzer et al., 2000) by encouraging collective strategies to reinforce collaborative coordination and by recognizing resource dependency, firms engage in a joint and collaborative endeavor to reduce technological change and uncertainty (Kim et al., 2010). Increases in return on assets or reductions in unit costs, waste, downtime, or cost per unit or client are some of the incentives for establishing interfirm relationships for the purpose of improving competence (Oliver, 1990). Therefore, by sharing resources, costs, and information, firms get influence to reduce environmental pressure through the formation of relationships with other firms (Schermerhorn, Jr., 1975).

METHODS OF VALUE CREATION

Methods are the techniques or the ways used to create value in an interfirm relationship. Interorganizational value creation entails efforts to achieve competitive advantage with a long-term orientation by ensuring economies of scale, sharing risk and costs, and reducing costs. Interfirm value creation methods include some managerial and operational processes or methods. These are often used as the instruments of value creation in the interfirm relational context. In supply chain management, some of these are used as tools for interorganizational cost management and relational governance purposes (Agndal and Nilsson, 2009). In the integrated strategic management literature, commonly used value creating methods are:

1. Information Sharing

The benefits of supply chain management can be achieved through the cooperation and sharing of information between partners. Information sharing requires an effective communication process between the partners. The role of information sharing has been explored in operations management literature including new product and process development as well as customer satisfaction (Primo and Amundson 2002). Learning through information sharing is important for the partners in interfirm relationships because it facilitates gaining new skills and identifying new opportunities (Coad and Cullen, 2006). By studying Japanese firms, Cooper and Slagmulder (2004) found that information sharing enables firms to get collaborative benefits. They argued that in the joint product development process the role of guest engineers is very crucial and facilitates information sharing that is an example of an interfirm cost management practice. Credible information exchange in an interfirm relationship strengthens the relationship with a long-term orientation and new opportunities (Ryu et al., 2007). Information sharing in interfirm relationships should contain some cost and production related information (Tomkins, 2001). Sharing of information facilitates buyers and suppliers in identifying ways of effective coordination and reducing relevant costs so as to ensure competitive advantage (Kulmala et al., 2002). A gap may occur between supplier side quality of information and customer side expectations (Kulmala et al., 2002). So, informal relations in networking are required to reduce the complexity in sharing of information (Choi and Hong, 2002).

2. Electronic Collaboration

The ideology of the network enterprise is one of cooperation, direct interaction based on trust, and fast communication (Mouritsen and Thrane, 2006). So, electronic networks such as extranets, virtual corporations, electronic data interchange (EDI), electronic resource planning (ERP), and business-to-business (B2B) electronic commerce have significantly influenced business operations and the exchange of business information between trading partners (Lin, 2006). Some organizational and interorganizational factors affect the planning effectiveness while decision makers' perceived satisfaction influences the output effectiveness of e-collaboration (Lin, 2006). Benefits derived from interfirm information systems such as cost reduction, quick response to market change, increased customer satisfaction, and enhanced competitiveness, increasing market share and volume of sales, all positively affect the decision makers' satisfaction level (Cavaye and Cragg, 1995; Holland, 1995). Electronic collaboration may function in two ways, namely internally and externally i.e., within the organization and with the outside partners. E-collaboration improves a manufacturer's ability to maintain, advance, and broaden its relationships with suppliers and customers, which leads to improved performance and a long-term relationship (Rosenzweig, 2009). So managers should simultaneously consider both the individual and joint efforts of interorganizational and interpersonal network characteristics when developing firm strategies (Ma et al., 2009).

3. Joint Cost Management

The contribution of Shank and Govindarajan (1993) in strategic cost management is considered as the origin of joint cost management or interfirm cost management. Strategic cost management supports improvements in decision-making and analysis, helps set priorities, improves an organization's competitive advantage and results in a better allocation of resources (Ellram and Stanley, 2008). In an interfirm relationship, to create values for both parties cost management techniques, such as target costing, internal cost management (activity-based costing), open book methods, and value chain analysis, are used. In an interorganizational relationship, target costing plays an important role in the cost control aspect that ensures competitive advantages (Cooper and Slagmulder, 2004). Based on market requirements, target costing starts from the product planning stage so as to generate profit to the firm by satisfying customer requirements (Ibusuki and Kaminski, 2007). The origin of internal cost management (ICM) is also considered as a strategic cost management technique and ICM is considered as a supportive tool for target costing. Without perfect internal cost management, a target costing system cannot be implemented. Open book accounting and cooperation both are interrelated. Without cooperation, the open book cannot be implemented and again when an open book is implemented it leads towards cooperation between the partners. In the supply chain relationship, value chain analysis (VCA) is performed jointly by buyers and suppliers. For this purpose, the cooperating firms need to share cost and performance information to achieve a mature relationship

(Dekker, 2003).

4. Joint Programs

Activities such as supplier selection, joint product design, joint process development, price revision, product and process redesign are included in joint programs (Agndal and Nilsson, 2009; Cooper and Slagmulder, 2004; Ellram and Stanley, 2008; Mouritsen et al., 2001). In a strategic relationship, participating firms pursue strategic targets through ongoing, long-term joint programs, where skills and expertise are especially crucial. In this process, firms adapt business processes from each other over time and they perform their respective roles in the relationship (Hakansson and Lind, 2007). Consequently, interdependency between firms arises and that fosters long-term continuation of the relationship. By joint process and product development participating firms control the related cost which ensures competitive advantage. Because of changes in design or changes in technology, manufacturing processes may also have to be changed. It that case, firms perform product and process redesign to maintain customer satisfaction and loyalty (Agndal and Nilsson, 2009).

5. Joint Performance Measures

In a strategic interfirm relationship, firms apply additional joint planning and controlling methods that require establishing joint performance measures (Mentzer et al., 2000). In the traditional contractual agreement, individual firms assess their own operating expenses, revenues, and profits in terms of their expectations. On the other hand, a total strategic relationship system is evaluated using a joint performance measurement. To create incentives for partners and safeguard against the risk of opportunistic behavior by the other, relational governance is needed in the interfirm relationship (Williamson, 1979, 1985). Relational governance implies interfirm exchange which includes considerable relationship-specific assets, shared with a high level of interorganizational trust (Zaheer and Venkatraman, 1995). Relational governance occurs in an interorganizational relationship. Governance performs a key role in influencing operational costs as well as the desire of relationship partners to engage in value construction schemes by creating relational rents (Dyer and Singh, 1998).

So, we propose:

H1: Mutual trust and interdependence can facilitate the better practice of interfirm value creation methods.

H2: Effective communication can facilitate the better practice of interfirm value creation methods.

H3: Cooperation can facilitate the better practice of interfirm value creation methods.

H4: Mutual commitment can facilitate the better practice of interfirm value creation methods.

H5: Organizational compatibility can facilitate the better practice of interfirm value creation methods.

H6: Environmental pressure can affect the better practice of interfirm value creation methods.

OUTCOMES OF INTERFIRM VALUE CREATION

Interfirm relationships have some aggregate performances or outcomes. It is assumed that the implementation of value creating techniques ensures customer values and satisfaction, which in turn leads to competitive advantage for all involved partners in the relationship (Mentzer et al., 2001). Competitive advantage from strategic partnering cannot be sustained automatically but must be valuable to customers, hard for the competition to find out about, durable and not vulnerable. Mutual trust based interfirm relationships, result in both trust in customer's goodwill and trust in supplier's competence, as well as a decrease in the transaction cost and increased relational effectiveness (Laaksonen et al., 2008). The outcomes of value creation can be categorized as:

1. Competitive Advantage

To survive and flourish in a competitive business world, each firm develops relationships with its counterparts by formal and informal communication. Communication approaches with collaboration increase sharing of resources and produce interdependency. This dependence results in cooperative relations and the gaining of competitive positions (Wilkinson and Young, 2002). In a strategic partnerships, by exercising joint programs, firms can increase the possibility of a continuing competitive advantage, and can efficiently manage environmental uncertainty and insecurity (Ireland et al., 2002). Dyer and Singh (1998) categorized the competitive advantages as follows: investments in relation-specific assets; substantial knowledge exchange; and the combining of complementary, but scare resources or capabilities. Such advantages can be achieved in the mutual design and production of exclusive new products, services, or knowledge; and with lower operational costs than those of rival alliances, owing to the effective progress of the relational governance system. Joint cost management emphasizes critical technological innovations as well as cost reduction by four primary mechanisms: lower production costs; improved conformance quality; material/location substitution; and lower transaction costs to ensure competitiveness (Stuart and McCutcheon, 2000). Thus, a buying firm's trust in a supplier should minimize the sum of the acquisition and possession costs, thereby providing the buying firm with a perceived transaction cost advantage (Bharadwaj and Matsuno, 2006). In a supply chain relationship, cost control and differentiated service assist to create a competitive advantage. Electronic embeddedness and integrated programs improve efficiency through cost control and improve effectiveness through customer service (Mentzer et al., 2001). Competitive advantage directs each partner to focus on the creation of value added services through efficiency and effectiveness in operations, and superior relationship performance (Mentzer et al., 2000).

2. Customer Satisfaction and Loyalty

Interfirm relationships are developed to ensure customer satisfaction and loyalty and to achieve competitive advantage. Improvement of customer service by raising availability and reduced order cycle time is a key objective of supply chain management. One way of achieving customer satisfaction is price reduction that can be done through joint programs (design, process, redesign, revision, etc.) and integrated cost management (Agndal and Nilsson, 2009). Again, customer service intentions are to produce an exclusive, individualized supply of customer service value through a customer-enriching supply arrangement that emphasizes making inventive solutions and coordinating the flow of products, services, and information (Mentzer et al., 2001). The supplier firm's performance and customer firm's transaction cost advantage are positively associated with each other. The transaction cost advantage that the customer firm derives by working with a supplier has a positive relationship to its satisfaction and future intentions with regard to the supplier (Bharadwaj and Matsuno, 2006). Mentzer et al. (2000) stated that the highest level of competitive achievement leads not only to customer satisfaction and loyalty, but also to relationship efficacy. Brands with high customer loyalty exhibit a positive campaign through word-of-mouth advertising by customers and less competitive switching in their greater target segments, which can lead to higher prices and increased profitability. For increasing customer focus, a customer-centric orientation needs to be created which is possible through interfirm value creating activities. This includes focusing on the best solution for the customer, in contrast to the best product for the customer, by maximizing integrated collaborative approaches (Windhal and Lakemond, 2006).

3. Long-term Orientation and Growth

In a strategic interfirm relationships, joint programs are undertaken initially by the participating firms, while partners pursue strategic goals through ongoing long-term joint programs that lead to building a long-term relationship (Mentzer et al., 2000). Credible and reliable behavior by partners increases the long-term orientation of an existing relationship. Information sharing and openness ensure mutual trust; mutual trust subjects the relationship to growth and to new opportunity (Ryu et al., 2007). Value creating methods are used in interfirm relationships to improve relationship development activities, and add value for both buyer and supplier (Ellram and Stanley, 2008). The social exchange theory suggests that when partners behave opportunistically, relationship related performance will suffer. But interfirm relations based on electronic networking of firms will yield fewer opportunistic options (Hawkins et al., 2008) and due to the presence of trust, dependency and joint performance, measures lead to a "pre long-term" orientation for the relationship (Dyer, 1997). Interfirm collaborative approaches, not only focus on a long-term orientation, but also open a new door of opportunity (Hawkins et al., 2008). In a strategic partnering, interfirm coordination between different divisions recurs and customization of an electronic set is done through electronic integration. Consequently, communication of functionalities for new products in terms of customer, service and monitoring is done and new frontiers for improved business practice, as well as new opportunities, are searched (Mouritsen et al, 2001). Cooperative activities between partners make them closer to each other. A win-win situation in a relationship and repetitive interaction makes knowledge transfer easy for integrated operations because of the presence of a sharing environment (Barringer and Harrison, 2000).

Thus, we predict:

H7: Using value creating methods can maximize competitive advantage in an interfirm relationship.

H8: Using value creating methods can maximize customer satisfaction and loyalty in an interfirm relationship.

H9: Using value creating methods can ensure a long-term orientation and the growth of business in an interfirm relationship.

CONCLUSIONS

This paper proposes that the implementation of value creating methods leads to achieving sustainable competitive advantage and other value for partners over those of rivals. Interfirm value creation also includes customer satisfaction and loyalty, the long-term orientation of the relationship, the growth of the existing relationship, and new opportunity. To create value in interfirm relationships requires much effort and a collaborative environment from both sides. A collaborative environment requires mutual trust and interfirm dependency, both formal and informal communication, strong commitment towards the goals, interorganizational capability, and environmental pressure, i.e. global competition and uncertainty. When these components are present in an environment, value creating methods such as, information sharing, joint programs, electronic integration, interfirm cost management, joint performance measures, etc. can be implemented. Both transactional (contractual) and relational relationships are required for effective strategy implementation in an interfirm relationship. Successful implementation of value creating methods ensures value added outcomes. The factors affecting, the methods used, and the outcomes expected from interfirm value creation in a supply chain relationship have been shown in Figure-1. The measurement of the viability of each component in Figure-1, the nature of these components, and any other potential elements has been left for future study.

This paper contributes to the field of interfirm relationship development and the creation of value for all participating firms in a strategic partnership. We identified the important factors that may influence creating an environment that is suitable for implementation of value creating activities. We suggest

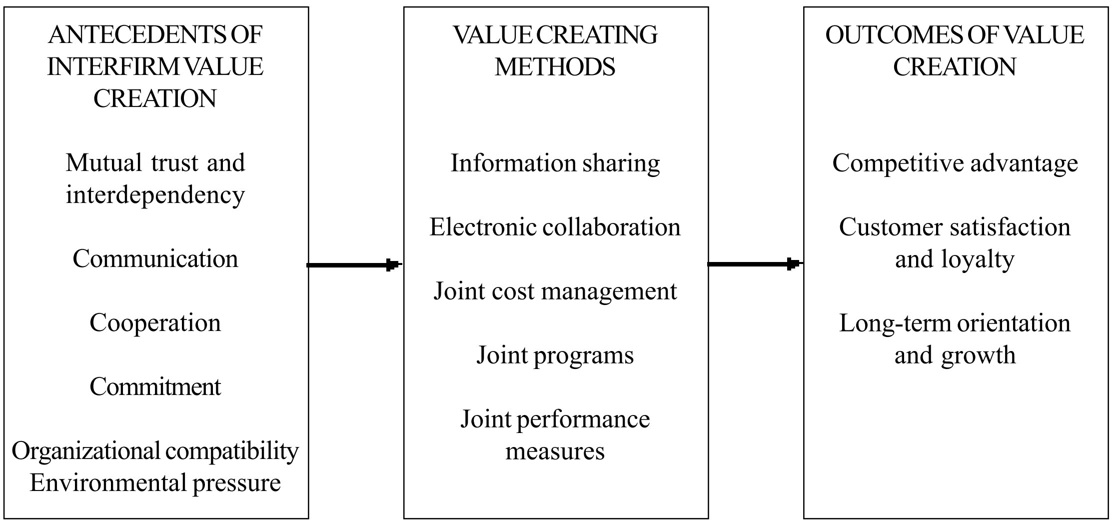

Figure-1: Interfirm Value Creation in a Vertical Relationship

that researchers should consider such a relationship which is created by interfirm collaboration. In the presence of the motivating factors, interfirm relationships can create value for participating firms by applying value creating techniques. Managers should acknowledge that an interfirm value creating partnership is a strategic partnership. This relationship requires high mutual trust and dependency, coordination, and commitment. Interfirm value creation is not possible without a shared strategic orientation and successful implementation of value creating methods. Managers may evaluate their current relationships and formulate strategies for redesign or develop ways to reinforce the partnership.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The empirical testing of interfirm value creation is left to further research. Development of measurement constructs and testing of primary data regarding antecedents, methods, and outcomes of interfirm value creation would be very useful. This study presents an overall idea of interfirm value creation in customer-centric operations. This study did not mention the relational context of interfirm value creation. This study also did not mention the theoretical foundations for interfirm value creation. Future analysis should address these gaps.

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