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FROM TRANSACTION COST TO TRANSACTIONAL VALUE ANALYSIS: IMPLICATIONS FOR THE STUDY OF INTERORGANIZATIONAL STRATEGIES*

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ABSTRACT

This article examines interorganizational strategies from a transactional value, rather than transaction cost, perspective. It argues that the transaction cost perspective has at least two major limitations when used to analyse interorganizational strategies: (1) a single-party, cost minimization emphasis that neglects the interdependence between exchange partners in the pursuit of joint value, and (2) an over-emphasis on the structural features of interorganizational exchange that neglects important process issues. We propose instead a transactional value framework for analysing interorganizational strategies that addresses (1) joint value maximization, and (2) the processes by which exchange partners create and claim value. We discusses the implications of the present approach for the study of interorganizational strategies and for the transaction cost perspective itself.

INTRODUCTION

Increasingly, researchers have sought to use a transaction cost perspective (Williamson, 1975, 1985) to understand more fully the forms, functions and effectiveness of interorganizational strategies (*e.g.* Balakrishnan and Koza, forthcoming; Hennart, 1988; Pisano and Teece, 1987).[1] These researchers have generally adopted the original logic that Williamson (1975, 1985) has de-veloped and employed in his analysis of vertical integration. At first glance, standard transaction cost logic seems well-suited to the study of interorganizational strategies, which are typically viewed as falling in the 'intermediate state' (Joskow, 1985) between markets and hierarchies.

This article, however, will show that there are at least two major reasons why the transaction cost perspective is limited in its ability to explain

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interorganizational strategies. First, we demonstrate that standard transaction cost analysis is essentially a single-party analysis of cost minimization. This fact is traced to the transaction cost perspective's neglect of the interdependence between exchange partners, as shown in an analysis of the transaction cost approach to vertical integration. Secondly, we demonstrate that transaction cost theory overemphasizes the structural analysis of interorganizational exchange relationships and neglects processual issues. This fact is traced to the transaction cost perspective's intellectual kinship to another branch of the industrial organization literature – the industry structure paradigm (Caves, 1987), as shown in an analysis of transaction cost theory's reliance on the notions of small numbers and asset specificity.

In response to these issues, we attempt to provide a richer perspective on transactional concerns and interorganizational strategies by (1) offering a transactional analysis framework that is based on joint value maximization, rather than single firm cost minimization, and (2) proposing a set of processual dimensions relevant to creating and claiming value in interorganizational exchange relationships.

It should be noted that Williamson (1985, p. 17) has acknowledged that 'the inordinate weight' he assigns to transaction cost economizing is 'a device by which to redress a condition of previous neglect and undervaluation'. Williamson (1985, p. 17) does claim, however, that the 'economic institutions of capitalism have the main purpose and effect of economizing on transaction costs'. This article is critical of an explanation of interorganizational strategies that relies solely, or even primarily, on transaction cost considerations, suggesting instead that the recent proliferation of a wide variety of formal interorganizational arrangements is more a function of anticipated value gains, rather than anticipated losses due to the cost of constraining opportunism.

While some might argue that transaction cost analysis does not neglect the issue of joint value in interorganizational strategies, but simply 'holds it constant,' we suggest that even this interpretation maybe problematic. Specifically, we show that transaction cost and transactional value may often be correlated such that the pursuit of greater joint value requires the use of governance structures that are *less* efficient from a transaction cost perspective. In addition, we contend that expected joint gains often *outweigh* transaction cost considerations in interorganizational strategies. The article shows that transaction cost approach to interorganizational strategies, in neglecting the issue of joint value, can lead to analyses in which the rational existence of interorganizational strategies may appear irrational from a transaction cost efficiency perspective. Thus, if a factor must be held constant to focus on more critical factors, it may be more appropriate to hold transaction costs (rather than transactional value) constant when analysing interorganizational strategies.[2]

Note, however, that while the transactional value approach represents an alternative framework for analysing interorganizational strategies, it in some ways complements or is consistent with the implicit intent of transaction cost theory. For example, we do not claim that transaction costs are non-existent, or irrelevant for the study of interorganizational strategies. Rather, we simply

propose a framework that views the cost of addressing transaction cost concerns (*i.e.* the risk of exploitation by one's exchange partner) as simply a subset of total costs to be aggregated and then compared with the set of total benefits/gains in an overall calculation of the value of an interorganizational strategy.

Similarly, discussion of interorganizational processes, while differing from transaction cost theory's emphasis on the structural features of interorganizational exchange, is consistent with the spirit of Williamson's (1985) notion of a 'fundamental transformation' in exchange relationships. However, rather than dwelling on the problems of one-time structural changes (large numbers to small numbers condition) in interorganizational strategies, the articles stresses how opportunities for joint gains can be recognized and realized over time through enhanced information acquisition and exchange, along with the emergence of shared interests. As will be shown, such processes in interorganizational strategies can result in a transformation that leads to greater expected net benefits for both parties, rather than a transformation that leads to greater expected losses for one party due to an increased risk of costly exploitation (as would be predicted in transaction cost analysis). We suggest that in interorganizational relationships, even some of the 'friction' that transaction cost analysis views as always detrimental to efficient exchange can actually be a source of value in the relationship.

The transaction value approach, by examining the processes by which joint value is created *and* claimed, can encompass joint benefit *and* transaction cost issues in its framework. In recognizing (1) the interdependence of exchange partners seeking gain and (2) the relational context and processes of interorganizational exchange over time, the approach offers a richer depiction of interorganizational strategies than does standard transaction cost analysis. More generally, the approach seems well-suited to a view of interorganizational strategies as voluntary, multi-firm collaborative efforts requiring a framework for analysis different from the transaction cost approach (which seems better suited for the study of an individual firm's vertical integration – make or buy – decision).

The following section examines in detail the two major limiting emphases in standard transaction cost analysis mentioned above, and discusses their implications for the usefulness of a transaction cost approach to the study of interorganizational strategies.

TWO EMPHASES OF TRANSACTION COST ANALYSIS

A Single Firm, Cost Minimization Emphasis

Williamson (1975) discusses the organization of economic activity as a decision between markets or hierarchy. For example, he explains vertical integration as the efficient solution to a transaction cost minimization problem, where the costs of market exchange compare unfavourably with the costs of controlling production hierarchically through ownership. Williamson (1985) extends this logic to also encompass interfirm relationships falling between markets and hierarchies.

However, this article argues that interorganizational strategies falling between markets and hierarchies differ in an important way from vertical integration. Whereas the transaction cost perspective on the decision to integrate vertically, as originally discussed by Williamson (1975), is essentially the choice of market *or* hierarchy, the distinguishing feature of interorganizational strategies is the blending of market *and* hierarchy. Explicitly recognizing this distinction has important implications. Specifically, the usual transaction cost minimization calculus for the vertical integration decision reflects a single-firm, rather than multi-firm, orientation. The transaction cost perspective on the decision to integrate vertically reduces fundamentally to one firm's 'make or buy' decision, as Williamson acknowledges (1975, p. 82). The transaction cost calculations that lead to that decision are conducted by one firm for its own independent purpose and use.

Interorganizational strategies, however, are formed voluntarily by two (or more) organizations seeking to create and sustain a relationship that is valuable to both firms (throughout, we will assume two-firm rather than multi-firm interorganizational strategies for convenience of exposition). In such cases, exchange partners are not 'eliminated' through the creation of a single vertically-integrated hierarchical entity established through complete ownership, nor can the partners be viewed as only engaging in market-based transactions. Firms involved in a joint venture, for example, while obviously interested in satisfying their own interests, are also interested in maintaining the co-operative arrangement to satisfy these interests – which requires some consideration of the satisfaction of their partner's valued interests. This does not require an assumption of altruistic behaviour on the part of the firms involved, but only an assumption that neither partner in an interorganizational strategy wishes the relationship to be terminated prematurely due to one partner's dissatisfaction with the relationship.

This point becomes clearer when accompanied by the following example. Firm Upstream (Firm U) and Firm Downstream (Firm D) are transaction partners, and Firm D is considering whether to integrate vertically (*i.e.* acquire Firm U) to minimize the transaction costs associated with the risk of Firm U acting opportunistically during contract execution/renewal. Upon consideration of this issue, Firm D makes the appropriate transaction cost minimizing decision (to integrate vertically or not). The relevant aspect of this standard transaction cost scenario for the present discussion is that the transaction costs minimized were those of Firm D only. There was no consideration of the magnitude of transaction costs that Firm U faced. Firm U's transaction costs in dealing with Firm D are irrelevant, unless of course one chooses to discuss whether Firm U should vertically integrate by acquiring Firm D (in this case, Firm D's transaction cost in dealing with Firm U is irrelevant). In either case, the choice of vertically integrating to minimize transaction costs is a single-firm decision, whereby a focal firm considers only its own transaction costs.

However, if Firm D and Firm U choose voluntarily to engage in a co-operative interorganizational strategy (*e.g.* a joint venture), an attempt to understand this choice in terms of transaction cost minimization becomes quite difficult. Specifically, whose transaction costs will be minimized by the

decision to co-operate in a joint venture? Will it be Firm U's transaction cost in dealing with Firm D, Firm D's transaction cost in dealing with Firm U, or some combination (simple average, weighted average?) of the two? If the joint venture is viewed as reducing the combined transaction costs faced by Firm D and Firm U, then a transaction cost analysis of interorganizational strategies becomes even more ambiguous, since it suggests that a very different calculus is required to assess the efficiency of the various intermediate governance structures that fall between markets and hierarchies than is required to assess the efficiency of markets or hierarchies.

This fundamental distinction implies that the crucial transactional issue for interorganizational strategies is not merely a single organization's concern for minimizing its transaction costs, but rather both organizations' concern for also (1) knowing the partner's preferences and concerns as a basis for exchange and mutual gain, and (2) discovering ways in which similarities or shared interests can be exploited to maximize co-operative joint gains that accrue to both parties. It follows, then, that the type of analysis required is one that addresses how both parties attempt to create and claim value within a relationship over time (Lax and Sebenius, 1986). This, in turn, also suggests the need to address the processual dimensions of the interorganizational relationship in which joint value is created and claimed. These issues are discussed in subsequent sections.

A Structural Emphasis

Before proceeding, however, it is necessary to examine our earlier claim that standard transaction cost analysis over-emphasizes structural aspects (neglecting processual aspects) of interorganizational exchange, and to show the potential shortcomings of this emphasis for the analysis of interorganizational strategies.[3] Specifically, the following discussion will show that the foundation of Williamson's (1975) transaction cost treatment of industrial organization issues is quite close to other industrial organization literature: the structure–conduct–performance paradigm. While Williamson (1975, p. 6) views the differences between these two literatures as 'striking', we contend that certain similarities between the two literatures are, in fact, striking.

Establishing the connection between the two literatures requires a close examination of the original foundations of the transaction cost perspective. Williamson (1975, pp. 9–10) proposes explicitly that the transaction cost perspective is based on two human factors (bounded rationality and opportunism) and two environmental factors (uncertainty and small numbers), as they relate to exchange relations.[4] However, three of the four factors (bounded rationality, opportunism and uncertainty) are actually assumptional conditions that do not vary in Williamson's (1975) transaction cost framework (Pfeffer, 1982, has also noted this). Thus, it is the intensity of the small numbers problem that substantively defines the intensity of a transaction cost problem.

Williamson's emphasis on the problem of small numbers in transactions between buyers and sellers is very similar to the industry structure literature's discussion of bilateral monopoly and the buyer/seller problems that can arise from it (*cf.* Scherer, 1980, chapter 10). In fact, Williamson (1975, p. 28) uses

Arrow's (1969) classic example of a bilateral monopoly to begin his discussion of small numbers and transaction costs. Just as industrial organization economists use the number of firms in an industry as a major element in defining market structure, Williamson uses the number of buyers or sellers to define the structure of an exchange relationship. Thus it is not surprising that Williamson (1975, p. 104), when discussing vertical integration, argues that it is 'favored in situations where small numbers bargaining would otherwise obtain'. This view, it should be noted, is also highly consistent with the perspective taken in the industry structure literature, as typified by Scherer (1980, p. 300): 'parties to a bilateral monopoly frequently seek to foster a more stable relationship through the vertical integration of successive production stages'. In other words, the parallels between the two literatures seem quite strong.

Some might argue, however, that Williamson's (1975) earlier emphasis on the issue of small numbers has been replaced in Williamson (1985) by an emphasis on asset specificity, which refers to the investments an exchange partner makes that are highly specialized and can be redeployed only by sacrificing productive value.[5] Two responses can be made to this argument. First, asset specificity is central only to the extent that it creates what Williamson (1985, p. 12) refers to as the 'Fundamental Transformation – whereby a large-numbers condition ... is transformed into a small-numbers condition during contract execution...'. In other words, the structural dimension of small numbers is therefore still of critical importance to Williamson's (1985) transaction cost analysis. Secondly, the notion of asset specificity is itself another structural dimension with its own parallel in the industry structure literature; namely, in the notion of exit barriers (*cf.* Caves, 1987). Whereas industry exit barriers refer to investments that cannot be redeployed as productively in other industries, Williamson's (1985) use of asset specificity can be interpreted as referring to exit barriers in a exchange relationship (*i.e.* investments that cannot be redeployed as productively in other exchange relationships).

In fact, beyond the specific parallels between the transaction cost perspective and the industry structure paradigm, we argue that the overall logic of market structure–conduct–performance paradigm itself is mirrored in the transaction cost perspective – at the level of the transaction, of course. More specifically, just as the industry structure paradigm generally views market structure as influencing market conduct and performance, so does Williamson (1975–1985) view the transactional structure as influencing the conduct and the performance of the exchange relationship.

The underlying problem (and research opportunity) with this structuralist approach to transactional issues is that Williamson's notion of a 'fundamental transformation' is in fact a *process* that is never fully specified in standard transaction cost analysis. Transaction cost analysis views dyadic exchange relationships solely in terms of their having certain structural properties before contract execution and other structural properties after contract execution. This article suggests that any fundamental transformation in interorganizational exchange relationships over time needs to be understood primarily

in terms of developmental processes, rather than a simple comparison of *ex ante* and *ex post* structural properties.[6]

In summary, the two preceding sections have shown that (1) standard transaction cost analysis (when applied to interorganizational strategies) involves only one of the two parties engaged in an interdependent exchange relationship, and (2) Williamson's (1975–1985) view of exchange relationships is primarily a structural one that neglects developmental processes. The following sections offer a transactional analysis framework that specifies two points of departure from transaction cost analysis: (1) the notion of joint value maximization in interorganizational strategies and (2) the role of interorganizational processes in creating and claiming this value.

A TRANSACTIONAL VALUE ANALYSIS FOR INTERORGANIZATIONAL STRATEGIES

A Joint Value Maximization Emphasis

From a transaction value perspective, a firm's inclination to act opportunistically in a small numbers situation (the standard scenario for a transaction cost problem) is often dominated by the firm's estimate of the negative impact that the opportunistic behaviour will have on the *value* of expected future exchanges with its partner. In other words, minimizing the transaction costs associated with pre-empting opportunistic behaviour may be less relevant than maximizing net present value in the exchange relationship. In addition, the emphasis on value maximization requires a recognition of the interdependence of the exchange partners.

More specifically, value estimations of interorganizational strategies require that a focal firm consider the value sought by that firm's exchange partner. By taking the partner's perspective, the focal firm can better estimate the value and duration of the interorganizational strategy, given that value and duration are determined interdependently by both firms. As a result, value estimations and realizations are based upon the interests of both exchange partners, as opposed to those of individual firm interests only.

This is not to say that there is no tension between efforts to establish cooperation for joint value and efforts to claim that value for the individual partners (Lax and Sebenius, 1986). We view exchange partners in interorganizational strategies as primarily concerned with how to estimate expected value over the expected duration of the interorganizational strategy, how to create that value with the partner firm, and finally, how to claim that value. Partners may differ in their calculation of the strategy's net present value, based on differences in subjective estimates of value (*i.e.* certain outcomes may be more highly valued by one party), as well as differences in the estimates of the relationship's expected duration.[7] But in general, both parties use the interorganizational strategy to establish an ongoing relationship that can create value that could otherwise not be created by either firm independently.

The transaction cost approach to interorganizational strategies, in neglecting this issue of joint value, can lead to analyses in which the rational

existence of interorganizational strategies may appear irrational from a transaction cost efficiency perspective (Stinchcombe, 1985, also discusses the existence of governance structures that seem contrary to transaction cost predictions). Consider the following hypothetical example that illustrates how the consideration of value in interorganizational strategies may dominate transaction cost concerns.

Two firms with complementary skills are considering some form of co-operative arrangement for the purpose of bringing a new product to market. Both firms, along with numerous competitors, have been working on this new product, and the expected benefits accruing to the first seller are considered substantial by all. In addition, both parties recognize that if the relationship is mutually satisfactory, additional products could be developed and sold jointly. As the two firms consider alternative interorganizational governance arrangements, one form involves substantial committed investment, but will dramatically shorten the time needed to bring the product to market. Another form has the opposite attributes. Which governance form would be chosen under a rational decision process? In this case, the creation of value in interorganizational strategies would appear to be a highly relevant factor in the choice of interorganizational form. Similarly, organizations seeking to learn from each other (a commonly-cited motive for strategic alliances) are also likely to use an alliance structure that maximizes the potential for learning, even though this is likely to entail higher levels of resource commitment and interdependence.

In other words, when the pursuit of transactional value necessitates higher transaction costs, and expected joint gains outweigh transaction cost considerations (both criteria, it is argued here, are commonly met for arrangements such as joint ventures), interorganizational strategies having greater joint value will typically require the use of *less* efficient (from a transaction cost perspective) governance structures. Additional evidence of the relevance of this comparison can be inferred from Harrigan's (1986) categorization of uses for joint ventures. 'Competitive uses' are intended to pre-empt competitors and influence industry structure. 'Strategic uses' refer to the creation of new market toeholds, technology transfer, and the creation and exploitation of production synergies. Interorganizational strategies created for their competitive and strategic value may have significant transaction costs associated with their use (*i.e.* the resources at risk, as well as the 'friction' generated by interfirm coordination efforts may be highly inefficient from a transaction cost perspective), but they may have substantial value to the partners involved.

But how is value actually created in interdependent exchange relationships? One can distinguish between gains that emerge from differences in interests, which can be traded off to create mutual benefit, and gains that emerge from similarities in interests, where each party prefers the identical position on an issue, but where communication blockages or limited perspectives have hidden the commonality of interests (Lax and Sebenius, 1986). Learning about the differences and similarities in interests held by a partner often is an unfolding process over time in an interorganizational relationship, which suggests the need for taking a processual approach, as discussed below.

A Processual Emphasis

Having introduced the notion of joint value in analysing interorganizational strategies, we can now turn to the process of value creation and how that value is distributed between exchange partners over time. As stated previously, while we agree that there may be a 'fundamental transformation' (Williamson, 1985, p. 61) in interorganizational exchange, this transformation and its consequences are not fully captured in the transaction cost literature's exclusive emphasis on the structural issue of *ex post* small numbers (*i.e.* the emergence of an asset specificity problem). Instead, this section highlights the processual/behavioural aspects of interorganizational exchange. This does not simply involve an elaboration of issues held constant or assumed away in transaction cost theory, but an effort to develop Williamson's (1985) notion of a fundamental transformation in interorganizational exchange relationships.

Interorganizational exchange processes can be described in three distinct temporal and logical stages. The first is an 'initializing' stage, in which each firm formulates its own strategic plans, subjectively evaluates its exchange alternatives, and begins its involvement in interorganizational exchange. While the transaction cost perspective's interest in this early period is limited to assessing *ex ante* contracting costs (Williamson, 1985, p. 20), interorganizational activity in this stage, when viewed from a transaction value approach, is much more complex.

Specifically, in the initializing stage, firms engage in the process of projecting exchange into the future (Macneil, 1983) and constructing net present valuations of alternative exchange relationships on a continuum ranging from markets, through interorganizational strategies, to hierarchies. At this stage, individual firms estimate the expected value that they see as accompanying an interorganizational strategy. Perceptions of value from the exchange partner's point of view and the parameters of exchange also emerge in the initializing stage of an interorganizational strategy. As these preferences and perceptions become more clear, individual firms begin to identify more precisely the complementarities and other differences that can form the basis for mutually beneficial exchange.

This stage also includes the first rounds of exchange. These often take the form of preliminary communication and negotiation concerning mutual and individual firm interests, and/or feasibility studies and general information exchange. Firms' behaviours in this stage can set a precedent for future exchange and provide information through which a focal firm can learn about the expected behaviour of its partner (Duncan and Weiss, 1979; Fiol and Lyles, 1985). During this phase initial relational exchange norms (Macneil, 1983) are being forged and commitments tested in small but important ways to determine credibility. These initial exchanges also enable a more accurate calculation of value in interdependent exchange, as the various components of the exchange relationship become better known and understood.

The second stage, called the 'processing' stage, encompasses the forecast period over which value-creating exchanges in the interorganizational strategy are expected to occur. This stage focuses on behaviours associated with

processing the formal and informal mutual obligations that create value, as well as the distribution of those gains over multiple rounds. Exchange in this processing stage can be viewed in two ways. One could envision interorganizational exchange as a serial process, *i.e.* a series of discrete transactions through a single channel of exchange extending over the course of the forecast period. A richer view of exchange, however, is as a parallel process, in which the exchange occurs simultaneously over several channels of interdependent exchange over the course of the forecast period. This results in value being sent and received simultaneously by both parties over multiple pathways. In a co-operative venture, for example, this would imply that interfirm communications are not restricted to a few designated representatives from each firm, but are occurring between individuals at multiple organizational levels and multiple functional areas. The parallel perspective reflects more accurately the manifold exchange activities in interorganizational strategies, and such a view is also closer to a relational view of exchange (Macneil, 1986; Oberschall and Leifer, 1986; Stinchcombe, 1986).

Learning that began in the initializing stage continues in this processing stage. The level of actual value becomes increasingly clearer over time and over the range of interorganizational exchange. The new interdependent activities of the two parties give rise to 'associations, cognitive systems, and memories', which then become an important repository of organizational learning (Fiol and Lyles, 1985, p. 804).

Value is not only created, but also claimed and distributed throughout this processing stage. Surrounding the issue of claiming and distributing value is the important question of interorganizational conflict, defined here as the perceived divergence of interests (Pruitt and Rubin, 1986). To the extent that conflict is an obstacle to value maximization, firms will seek to address the source of conflict. However, there is the obvious likelihood of conflict around divergent interests, particularly over multiple rounds of exchange. Our transactional value approach considers the conflictual aspects in interorganizational strategies in the following way.

Specifically, over the course of parallel exchange in the processing period, explicit or implicit norms for managing the divergence of interest will arise. To the extent that these norms, defined as 'shared and reasoned expectations that may arise from agreement or past acts' (Kaufmann, 1987), emphasize the importance of joint value maximization, this should lead to searches for jointly satisfactory outcomes to conflictual situations. On the other hand, if these evolving norms do not develop in this way, the pursuit of individual firm interests would lead to an escalation of conflict that ultimately could be destructive to the interorganizational strategy. The accepted use of conflict resolution systems (Ury *et al.*, 1988) can limit the potential damage of interorganizational conflict.

The development of trust is a key issue in the processing stage of interorganizational exchange. Trust stems from a growing confidence in a firm's expectations of the future (Luhmann, 1979). As trust increases, partners in an interorganizational strategy can act as if the future were more certain. In other words, partners can behave as if the expected value of interdependent activity were stable over the course of an uncertain future (Luhmann, 1979).

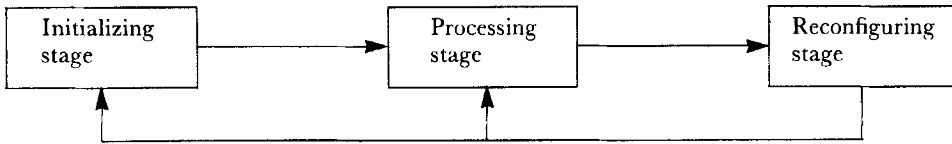
This increases the likelihood of co-operative exchange over multiple rounds, an extension of the exchange horizon, and a subsequent reduction in incentives for unco-operative behaviours (Axelrod, 1984). Schelling (1960, p. 134) also notes that 'trust is often achieved simply by the continuity of the relation between parties and the recognition by each that what he might gain by cheating in a given instance is outweighed by the value of the tradition of trust that makes possible a long sequence of future agreement'.

Trust and the use of conflict systems are subsets of other relational norms underlying the process of parallel exchange over time. These norms include shared expectations of reciprocity, role integrity, and the preservation of the relationship (Macneil, 1983, 1986). We view these norms, developing and evolving in the processing stage, as setting the tone for the continued execution of contracts. This is in contrast to the transaction cost perspective, which views the continued execution of contracts as primarily sensitive to one firm's potential exploitation of *ex post* structural features (*i.e.* small numbers) of the market context between buyer and seller.

This distinction relates to the earlier discussion of transaction cost analysis: the transaction cost approach emphasizes the costs of minimizing an exploitation risk that is magnified by the market structure surrounding the exchange relationship; a transactional value approach, on the other hand, views this risk as only one of many elements to consider as firms try to maximize the co-operative opportunity that is magnified by the relationship's developmental processes.[8]

A third stage in the developmental process of an interorganizational strategy is called the 'reconfiguring' stage. This stage, which represents a potential redefinition of the interorganizational strategy, is usually triggered by reaching the end of the expected duration of the relationship, or by changes in the partners' perceived level of the relationship's value relative to the absence of the relationship. Reconfiguring may imply that exchange partners will reassess the relationship and choose to exit the relationship and rely instead on either market transactions, independent action within the individual firm's hierarchy, or even another interorganizational strategy with a new partner. However, it may also mean that partners will choose to link their interdependence more tightly by widening the scope of parallel interorganizational exchange processes, *e.g.* moving from a co-marketing agreement to a joint venture. In any event, opportunities for value maximization, rather than simply transaction cost minimization, will often drive the decision of whether to continue and/or reconfigure the exchange relationship as an interorganizational strategy.

With respect to perceived changes in the value of the interorganizational strategy, such changes may emerge from a new and changing environment or an historical comparison of actual to expected value creation. While this performance gap (Shortell and Zajac, 1988) can lead to a re-evaluation (positive or negative) of the interorganizational relationship itself, it may simply lead to a reassessment of the developmental processes. In other words, the reconfiguring stage may not involve a change in the type of interorganizational strategy *per se*, but only a change in the process of interaction within the existing interorganizational strategy. These change options suggest that the



Summary of key issues:

Initializing stage	Processing stage	Reconfiguring stage
Weighing exchange alternatives	Accelerating learning	Reaching end of expected duration
Projecting exchange into future	Managing conflict	Assessing performance gap
Clarifying exchange parameters	Creating relational norms	Redefining type of strategy
Engaging in preliminary exchange communications and negotiations	Developing trust	Redefining nature of exchange process
Conducting initial exchange rounds		

Figure 1. A stages model of interorganizational processes

reconfiguring stage will typically loop back to either the initializing stage (where value forecasts are re-specified, and strategic motivations are clarified for a new forecast period) or the processing stage (where the parallel forms of exchange are revised and updated, based on the continued experiences of the partners). The three stages of interorganizational exchange processes, and their relation to one another, are shown in figure 1.

An important feature that emerges from the discussion of the process approach offered here is an emphasis on the *adaptability* of exchange in interorganizational strategies. In other words, while standard transaction cost analysis views interorganizational exchange relations as largely predictable (as a function of static *ex post* structural features of the exchange relationship), a focus on interorganizational exchange processes suggests that exchanges in interorganizational strategies are influenced by dynamic developmental processes, with the processes themselves often subject to change.

CONCLUSIONS

This article has sought not only to highlight the differences and similarities between a transactional value approach and a transaction cost approach, but also to show why the transaction cost approach has emphasized certain issues over other relevant issues. Kogut (1988) has summarized the literature on joint ventures and finds three explanations for why joint ventures exist: strategic, learning, and transaction cost explanations. The article can be viewed as integrating the three by showing their relatedness and potential

tradeoffs among them; in particular, by showing that strategic and learning gains often increase transaction value while simultaneously increasing transaction costs, and that the value gains often outweigh the transaction cost efficiency losses.

Also, in providing an analysis of the relational context and processes of interorganizational exchange over time, the approach offers a richer depiction of interorganizational strategies than does standard transaction cost analysis. This reflects our belief, noted earlier, that interorganizational strategies are voluntary, multi-firm collaborative efforts that require a framework for analysis different from the transaction cost approach (which seems better suited for the study of an individual firm's vertical integration – make or buy – decision).

The transactional value framework for interorganizational strategies is admittedly somewhat abstract (as is the transaction cost framework), and requires additional development. Promising extensions might involve using a transactional value approach to explain the real-world existence of the wide variety of types of interorganizational strategies, perhaps as a function of the level of expected value, for example, do joint ventures tend to provide a greater opportunity for value creation when compared with licensing, and if so, to what structural governance features or processes are the differences attributable? Furthermore, the transactional value approach suggests that governance forms should not only be classified according to structural form, but also developmental processes (Shortell and Zajac, 1988; Zajac *et al.*, 1991). More generally, it is hoped that the transactional value perspective offered here provides a conceptual challenge to the use of standard transaction cost analysis in studying interorganizational strategies. Such a challenge could enrich both the transaction cost perspective and our understanding of interorganizational strategies.

NOTES

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[1] Interorganizational strategies are defined here as formal co-operative arrangements between two or more firms, *e.g.* joint ventures, co-marketing agreements, and other forms of strategic alliances.

[2] Assessing relative importance is ultimately an empirical question, of course. Comparative empirical research should therefore be particularly welcomed.

[3] We recognize that Williamson (1975) also discusses *intra*organizational issues from a transaction cost perspective, *e.g.* organizational structure decisions, and employment relations. We, however, focus on Williamson's well-known discussion of *inter*organizational issues, *e.g.* vertical integration.

[4] Williamson (1975, p. 31) also later discusses 'information impactedness', but refers to it as 'a derivative condition that arises mainly because of uncertainty and opportunism, though bounded rationality is involved as well'. Thus, it is not a fundamental assumption of transaction cost analysis and is not discussed separately here.

[5] Williamson (1985, p. 56) views asset specificity as the 'big locomotive to which transaction cost economics owes much of its predictive content'.

[6] This is not to say that structure is not a relevant factor, but that the interplay between structure and process is the defining feature of any fundamental transformation in interorganizational relationships.

[7] As will be shown, these differences, rather than acting as blockages to joint value maximization, may in fact form the basis for negotiated agreements that enhance value for both parties.

[8] While Williamson (1985) has begun to consider bilateral exchange relationships more directly, his approach is a 'hostage model' that takes a game-theoretic perspective on minimizing transaction costs, which differs considerably from our emphasis on the process of joint value maximization.

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