

Governance Structures in Business Relationships: The Role of Corporate Compliance Programs Between Relationship-Level and Higher-Level Governance Mechanisms

- Competitive paper -

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Abstract

Governance mechanisms are a key element of business relationships. Numerous studies have analysed the role of relationship-level mechanisms such as formal contracts, relational norms, or specific investments. However, the activities of actors involved in a relationship are not only governed through relationship-level mechanisms. Rather, higher-level mechanisms, such as codes of conduct or law, define relevant standards too. Yet, little is known about the interplay between relationship-level governance mechanisms and higher-level governance mechanisms. We discuss this interplay and build specifically on the role of a mechanism that is gaining practical importance, that is, firms' compliance programs. The purpose of this paper is threefold. First, we discuss why and how compliance programs have relevance in B2B relationships. Second, we present a conceptual model describing the interplay between compliance programs and other governance mechanisms and illustrate this in the context of the automotive industry. Third, we present a research agenda for the study of compliance as a governance mechanism in B2B relationships.

Key words: Buyer-Seller Relationship, Compliance, Governance Mechanisms, Governance Structures

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INTRODUCTION

Governance mechanisms are safeguards that allow controlling inter-firm exchange. When discussing the reasons why the activities of buyers and sellers as actors in business-to-business relationships require governance, the literature has long focused on arguments that are located at the level of the individual relationship. Scholars refer to the necessity to minimize exposure to opportunism (Wathne & Heide 2000), protect transaction cost investments, and promote the continuance of relationships (Jap & Ganesan 2000). As a consequence, the governance mechanisms most often discussed by B2B scholars are relationship-level mechanisms, for example, formal written contracts, relational norms, or pledges (Cannon, Achrol, & Gundlach 2000; Heide & John 1992; Heide, Wathne, & Rokkan 2007; Jap & Ganesan 2000; Macaulay 1963; Macneil 1980; Williamson 1975).

The literature on B2B relationships comprises a series of contributions providing a clear picture of the nature of these relationship-level governance mechanisms, their relative importance for the performance of a relationship, and the conditions under which certain governance mechanisms should be used (Bello & Gilliland 1997; Ferguson, Paulin, & Bergeron 2005; Gassenheimer, Calantone, & Scully 1995; Kaufmann & Dant 1992; Lusch & Brown 1996; Palmatier, Dant, Grewal, & Evans 2006; Palmatier, Dant, & Grewal 2007).

In practice, however, business relationships are not only influenced and governed by actors who are directly involved in transactions, such as selling and buying firms' sales and purchasing departments. Rather, transactions and relationships are embedded in complex organizational, industry and societal environments (Håkansson, 1982). These environments regulate business relationships directly or influence them indirectly through the establishment of norms, codes of conduct, compliance rules, and the like. Such institutions, and other constructs, represent additional governance mechanisms that emerge at other levels than the specific relationship. This research refers to them as higher-level governance mechanisms.

As a consequence, the entire governance structure that is relevant for a given exchange relationship between buyer and seller is a complex construct that consists of, on the one hand, elements that actors in a relationship can influence and adapt according to their own preferences (relationship-level governance mechanisms) as well as, on the other hand, more general higher-level governance elements, such as national or international law or industry standards, that must be accepted.

While the business-to-business literature has devoted considerable attention to relationship-level relational governance, more comprehensive frameworks that discuss how other governance mechanisms complement the traditional relationship-level governance mechanisms are rare.

Against this background, the purpose of this paper is two-fold. First, we propose a comprehensive framework that encompasses a broad range of different governance mechanisms and allows locating them at different conceptual levels. Second, we introduce and discuss a particular type of governance mechanism that has received increased attention in the management literature in recent years, that is, firm-level compliance programs that serve as unilateral governance mechanisms. We discuss the specific role that compliance programs can play for buyer-supplier relationships and use the context of supplier-key account relationships in the automotive industry to illustrate the discussion.

The remainder of this paper is structured as follows: First, we review the literature on governance mechanisms. Second, we present our framework. Third, we discuss the particular case of compliance programs as unilateral governance mechanisms. In order to illustrate their role and effects, we draw on material from a single case study conducted in the automotive industry (relationship between a tier 1 supplier and an OEM). Finally, we present directions for future research, both for the general framework as well as for the more specific compliance programs as unilateral governance mechanisms.

GOVERNANCE

GOVERNANCE TYPES AND GOVERNANCE MECHANISMS

Researchers describe economic exchange processes among firms in different ways. As Heide (2003, p. 18) points out, “much of the recent research on interfirm relationships in marketing has relied on the theoretical notion of governance.” Various bodies of literature, such as transaction cost analysis (Williamson 1985, 1991), legal sociology (Macneil 1978, 1980), and marketing (Arndt 1979), classify exchanges based on their underlying governance type. One extreme, usually referred to as market governance, is often portrayed with such attributes as “complete transferability, primary focus on the substance of exchange, a sharp division of benefits and burdens and price as a regulatory mechanism” (Dwyer, Schurr, & Oh 1987, p. 12). The other extreme classifies governance mechanisms in terms of organizational or quasi-organizational regulatory mechanisms.

Long-term business relationships between industrial buyers and sellers fall somewhere in-between the two extreme ends of this continuum. They constitute a type of governance referred to variously as the hybrid form (Buvik 2002; Gencturk & Aulakh 2007; Williamson 1991), domesticated markets¹ (Arndt 1979, p. 70), relational exchange (Ivens & Blois 2004; Macneil 1980), or clans (Ouchi 1980). From a marketing perspective, Heide (1994) proposes using the term “non-market governance” and stresses that any type of governance “includes elements of establishing and structuring exchange as well as aspects of monitoring and enforcement” (p. 72).

This study focuses on governance mechanisms that apply in non-market, relational exchange types of governance rather than on the more general decision for a specific governance type in an exchange with a given actor. Hence, we discuss the governance mechanisms that apply in the relational exchange type of governance.

¹ In a comment on Arndt’s (1979) article, Stidsen (1979) points to the work of Commons (1934), who had already discussed forms of exchange, which he referred to as rationing transactions. Goodman (1979) mentions the work of Alderson (1965) and Commons (1934): “The idea of continuity in relationships ... is clearly evident from Commons, Alderson, and nearly all the work in organizational buying.”

GOVERNANCE MECHANISMS IN THE MARKETING LITERATURE

Jap and Ganesan (2000, p. 230) define governance mechanisms as “safeguards that firms put in place to govern interorganisational exchange.” Among these safeguards are, for example, “incentive structures, monitoring mechanisms, contractual provisions, reputations, norms, and interpersonal trust” (Jap & Anderson 2003, p. 1). The marketing literature encompasses extensive conceptual and empirical research of governance mechanisms that have relevance in relational exchange. Extant research has, for example, studied written contracts (Cannon et al. 2000; Lusch & Brown 1996; Stinchcombe 1985), specific investments (De Wulf, Odekerken-Schröder, & Iacobucci 2001; Gundlach, Achrol, & Mentzer 1995; Jap & Ganesan 2000), and relational norms (Andersen, Christensen, & Damgaard 2009; Dant & Schul 1992; Heide & John 1992; Pilling, Crosby, & Jackson 1994; Tangpong, Hung, & Ro 2010).

Formal written contracts are legally binding documents in which the parties involved agree on their rights and obligations in the transactions they intend to execute. Contracts and contract law continue “to play a key governance role in almost all exchanges” (Gundlach 1994, p. 246). However, the business-to-business marketing literature also shows that not all uncertainties can be eliminated by a written contract. Hence, an additional governance structure is required to mitigate uncertainty. This can be achieved through the use of additional governance mechanisms that express a sincere interest “in developing a long-term collaborative effort and common orientation toward individual and mutual goals” (Fontenot and Wilson 1997). Relationship-specific investments and relational norms are two examples of such complementary governance mechanisms.

Specific investments comprise all investments one party makes in transactions with a partner that would have limited value outside this focal relationship (Williamson 1985; Stump & Heide 1996). Actors often make such investments deliberately. For example a supplier may invest into equipment that can only be used to manufacture items that the specific buying partner purchases but for which other customers do not exist. From the buyer’s perspective, they represent a safeguard against supplier opportunism because if supplier opportunistic behaviours lead to the termination of the relationship, the investments made lose their value for the supplier (Jap & Ganesan 2000).

Heide and John (1992) refer to relational norms as expectations about behaviour that actors in a relationship share at least partially. Norms control behaviours not through incentives but through moral control and internalization (Joshi & Stump 1999). They are “not necessarily enforceable” (Kaufmann 1987, p. 75), but they define both appropriate and deviant behaviour. Macneil (1980) describes a set of ten common norms (such as solidarity, flexibility, and reciprocity). In our examination of norms, we draw on a classification of common norms that distinguishes between norms that aid in creating value and norms that govern value-claiming processes (Kaufmann 1987). Value-creating norms help the parties expand the level of value created by the exchange. Value-claiming norms govern the distribution of that value among the parties. Although this conceptual distinction has been confirmed empirically (Ivens 2006), it has not been tested in an international context thus far.

According to the literature, an important challenge for firms lies in the design of efficient and effective combinations of governance mechanisms (Bradach & Eccles 1989). In empirical research, scholars have studied the interaction between formal contracts and norm-based behaviour (Lusch & Brown 1996), the interaction between formal contracts and specific

investment (Yu, Liao, & Lin 2006), the interaction between specific investment and trust (Suh & Kwon 2006; Yu et al. 2006), and the effect of contracts and norms on relationship performance (Cannon et al. 2000). One of the most detailed studies conducted so far examines the time-dependent nature of contracts, norms, and specific investments and their effect on commitment in retailer–supplier dyads (Jap & Ganesan 2000).

LEVELS OF GOVERNANCE MECHANISMS

The B2B marketing literature has produced a considerable amount of research on governance mechanisms at the level of the individual relationship. At this level, firms use formal contracts (e.g., framework agreements, buying-conditions, or multi-year agreements) as well as informal contracts in the form of norms (Macneil 1980, Poppo & Zenger 2002: 709-710). The combination of bi-lateral formal and informal agreements allows managing important aspects of the coordination, structure and organization of a relationship (Sobrero & Schrader 1998) and “adapting to uncertainty” (Rindfleisch & Heide 1997: 41). They may be complemented by uni-lateral pledges (e.g. relationship-specific investments) that represent signals of good faith or trust.

However, both the definition of governance mechanisms cited above (Jap and Ganesan 2000) and the conceptualization reflected in Bradach and Eccles (1989) assume that firms involved in exchange relationships design or put in place the combinations of governance mechanisms that regulate their relational exchange. While the empirical evidence cited above corroborates that this is true for a specific subset of governance mechanisms, we argue that the governance mechanisms studied in that specific stream of research only represent one possible type of mechanisms. Put differently, we posit that there are several types of governance mechanisms that apply in relational exchange and that

- (a) not all of them are designed by the actors who are directly involved in that exchange; and
- (b) not all are designed specifically to govern only a single exchange relationship.

We argue that these additional governance mechanisms are different from relationship-specific mechanisms, such as written contracts or relational norms, because the parties involved in relational exchange have very limited influence on the design of these governance mechanisms; and the actors who design these mechanisms do not take relationship characteristics particularly into account when designing them.

The extant literature on governance mechanisms in relational marketing exchange has paid very limited attention to these mechanisms. Such additional mechanisms - that companies typically don't design (or “put in place”) - encompass, for example, international and national law, and supra-national or national norms (“soft law”) developed through the action of non-governmental organisations. Moreover, below the political level of nations or international agreements, industries or firm-networks often develop their proper set of formal or informal standards that equally influence the behaviour of firms in relationships. Both types of governance mechanisms, that is those situated at the national and international level and those located at a market or industry level, are related to what Macneil (1980) refers to as the norm of “harmonization with the social matrix” in which firms and relationships are embedded. Finally, firms themselves define general standards or codes of conduct that influence how actors can and do interact in business relationships with suppliers or buyers.

Against this background we argue that governance mechanisms that are relevant in relational exchange can actually be located at four different levels, that is,

- (1) within a specific relationship,
- (2) at the level of the firms interacting in the relationship,
- (3) at the level of the industries or networks in which the interacting firms are embedded, and
- (4) at the level of national or supranational governance.

We also argue that governance mechanisms from all four levels combine into the governance structure that two interacting firms rely on in relational exchange. Figure 1 presents an overview of the four levels of governance mechanisms in relational exchange and their interplay.

Level (1) encompasses all relationship-specific governance mechanisms. They are indeed designed by actors belonging to the firms involved in relational exchange in order to suit the specific requirements of the relationship. Two types of relationship-specific governance mechanisms exist:

- (a) bi-lateral governance agreements, such as formal written contracts and relational norms express mutual expectations that have been developed by both parties through interaction over time. These mutual expectations are more or less clearly documented, but they are essentially shared between both parties;
- (b) uni-lateral pledges, such as relationship-specific investments or individual promises made by the buyer or the supplier, are initiatives taken by one side in the relationship and that send a signal to the other side that stands for trustworthiness, long-term orientation, and commitment to the relationship.

Both types of relationship-specific governance mechanisms become more and more bespoke or tailor-made with regard to the specific buyer-supplier relationship and, hence, will usually not be found in an identical constellation in other relationships that the buyer or the seller maintains with different partners.

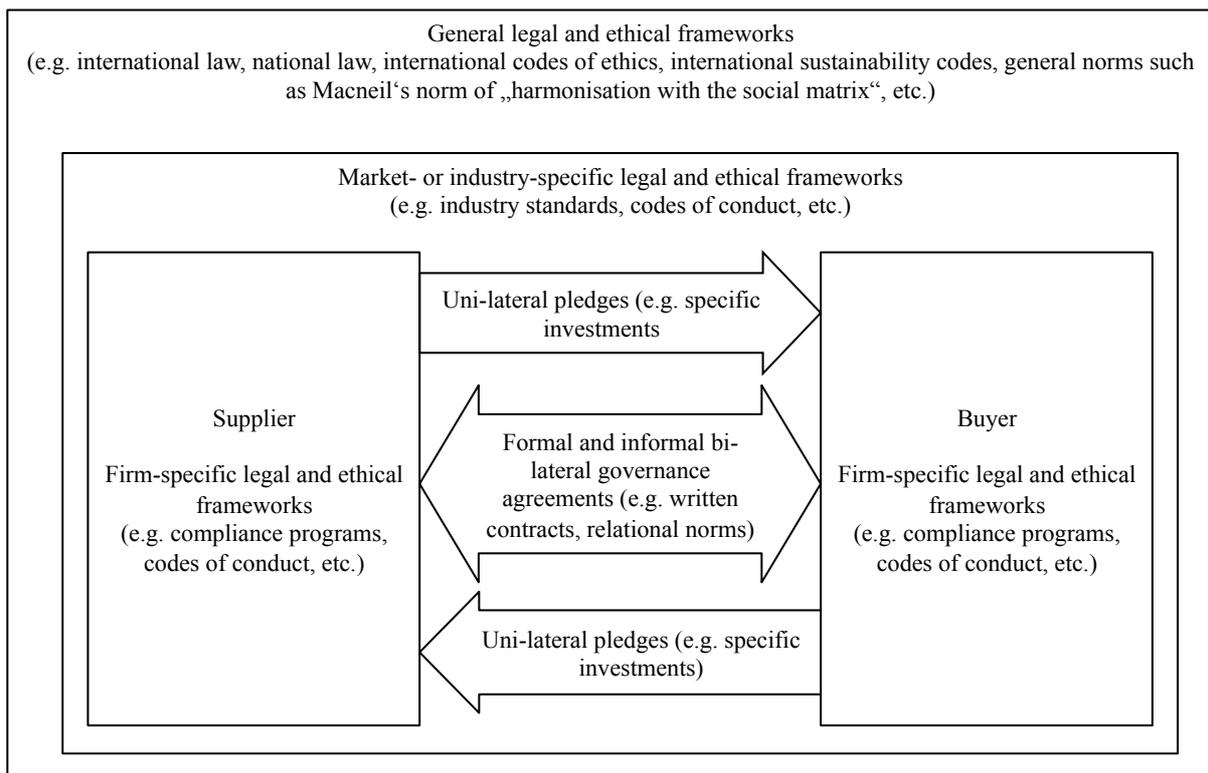
Level (2) encompasses governance mechanisms that are placed at the interface between the “social matrix” (society in general, governmental and non-governmental institutions, industry associations etc.) and the individual relationship, that is, at the level of a firm (or a division, or business unit). These firm-specific legal and ethical frameworks are developed without specific regard to any one buyer-supplier relationship either side is involved in. Therefore, firms have more direct control over the content of the firm-specific legal and ethical frameworks they wish to put in place. Such frameworks include, for example, codes of conduct for their employees and so-called compliance programs that set general standards that are not adapted to individual exchange relationships. Rather, their aim is to create a normative framework that defines, among other things, the limits between acceptable and unacceptable exchange behaviours for members of the organization, such as sales people, key account managers, customer service employees, or members of the board. Two parties involved in mutual relational exchange may thus work with very different firm-specific legal and ethical frameworks. The larger the gap between the buyer’s and the seller’s firm-specific framework, the more likely a field of tension develops that may potentially create problems that limit the effectiveness and the efficiency of the buyer-supplier relationship.

Level (3) is constituted by legal and ethical frameworks that have been created by institutions that federate several similar market actors, such as industry associations or market boards. Members of these institutions may formulate common standards or best practice codes of conduct that summarize how members of an industry or a network of companies intend to behave and which behaviours, in turn, are unacceptable. As a consequence, these standards that a single company can’t easily change also contribute to establishing which behaviours are adequate or inappropriate in relational exchanges.

Level (4) encompasses governance mechanisms with an even larger field of application. Similar to mechanisms located at level (3) the single company can hardly exert strong influence on these mechanisms. Rather, they are formulated by national or supra-national political institutions (such as governments, international organisations and the like) or, in less formalized forms, by society at large in the form of social norms. These governance mechanisms, too, influence relational exchange, for example in the form of a norm of “harmonization with the social matrix” as included in the set of relational norms defined by Macneil (1980).

Figure 1 shows how these four levels of governance mechanisms are related to each other. It presents a comprehensive model that encompasses both governance mechanisms that the parties involved in a buyer-supplier relationship jointly develop and governance mechanisms that are formulated or designed by other actor constellations (individual firms, industry associations, political institutions, societies, etc.). The model thus expresses that governance mechanisms, contrary to certain observations made in the extant literature, are only partially designed by actors involved in relational exchange while other governance mechanisms are predefined by other actors.

Figure 1 - Governance mechanisms for business relationships



The business-to-business marketing literature has discussed and studied relationship-specific governance mechanisms (i.e., level 2 mechanisms) in much detail. At the same time, the other three types of governance mechanisms presented in our framework (figure 1) receive very little attention in this same stream of research. For example, Ivens and Blois (2004) provide an overview which ones of Macneil’s relational norms (1980) have been conceptualized and operationalized in marketing research as well as included in empirical studies. While empirical evidence is available for the use and importance of relational norms

such as role integrity, flexibility, and reciprocity, the norm of harmonisation with the social matrix has not been operationalized and studied in empirical research.

Against the background of this lack of research, the remainder of this article focuses on the role of governance mechanisms that are not relationship-specific. In particular we discuss a governance mechanism that is located at level (2) in our model, that is, firm-specific compliance programs. We focus on compliance programs because

- (a) in the past years many firms have strongly increased their focus on compliance as an issue of corporate governance (for example, a survey among German companies shows that 84 percent of participating companies have established a compliance program, Sieber & Engelhart 2014: 35.) and
- (b) because compliance programs represent an example of governance mechanisms that are usually neither designed by the actors involved in a specific buyer-seller exchange relationship (such as sales people or key account managers) nor designed to govern a specific exchange relationship. After a general discussion of compliance programs we illustrate their role as governance mechanisms in the specific context of buyer-supplier relationships between tier 1 suppliers and OEMs in the automotive industry. Since these relationships are often managed – on the supplier side – through key account management systems, we also introduce the concept of key account management as well as the specific context of tier 1 supplier – OEM relationships in the automotive industry.

COMPLIANCE PROGRAMS AS FIRM-SPECIFIC FRAMEWORKS

Governance mechanisms located at level (2) in our framework are firm-specific legal and ethical frameworks. Such frameworks are designed within individual firms with the aim of ensuring that the firm and its employees adhere to the legal and moral standards of the environments in which the firm operates. As such, they document which standards the firm wishes to comply with.

The management literature provides several alternative definitions of compliance programs. Arguably, however, they concur that corporate compliance deals with the observance of and adherence to all laws, rules, policies and regulations that are relevant for the internal and external business activities of a particular firm (Kremer & Klahold 2010; Parker & Nielsen 2009). Content and focus of compliance programs can vary between companies. But they are relevant to business relationships because they influence the behaviour of employees (Schwartz 2001: 248), especially those involved in direct exchange with customers or suppliers (Valentine & Barnett 2002). Through the documentation of relevant standards - as well as by offering compliance-specific trainings and material - the firm allows employees to identify behaviours that are appropriate and others that are inappropriate when the employees act in the name of the firm.

Legal, ethical, and economic factors lead companies to implement compliance programs. For actors involved in buyer-supplier relationships compliance programs represent governance mechanisms that are implemented at the interface between the “social matrix” and the individual relationship, that is, at the level of a firm (or a division, or business unit). While compliance programs contain general standards that aren’t formulated with the context of one specific buyer-supplier relationship in mind, they still define the boundaries of the behaviour that firm employees may show in buyer-supplier relationships. Their specific purpose is to empower employees to fulfill all legal requirements surrounding their activities and, thus, to

reduce the risk of misconduct by management and employees. Their aim is to create a normative framework that defines, among other things, the limits between acceptable and unacceptable exchange behaviors for members of the organization, such as sales people, key account managers, or members of the board.

As a consequence, compliance programs become one element among others in the overall governance system surrounding a buyer-supplier relationship. However, to date, little is known about their specific role. We aim to make a conceptual contribution to filling this gap.

COMPLIANCE PROGRAMS IN GOVERNANCE STRUCTURES

The emergence of compliance programs in firms creates an additional governance mechanism that potentially affects exchange in B2B relationships. It complements the other governance mechanisms that form the overall governance structure that is relevant for a given relationship. As shown in figure 1, different types of governance mechanisms regulate B2B exchanges. Several issues arise with respect to the role of compliance programs (and possibly other firm-level standards located at level (2) in our framework).

First, compliance program represent a translation mechanism between the general rules and expectations that apply in the societal group in which exchange is conducted. Macneil (1983) argues that the social matrix stipulates the minimum necessary for exchange to occur. This comprises: a means of communication which both parties understand; a system of order so parties exchange instead of robbing; a monetary system; and, a mechanism to enforce promises. This social matrix refers to levels (3) and (4) in our model. Where these factors exist then a society shares a number of common norms. These norms, he believes, have an impact on contractual relations because they will deem that contracts contain certain features but make statements about others unnecessary. The social matrix within which they operate has therefore influenced any contracts that do exist. This is illustrated when formulating transnational agreements, when a ‘foreigner’s’ demand as to what should go into a contract will often surprise us but what we would not consider necessary to include may surprise them. Compliance programs help translate the more general and often unspecified norms and values that form the social matrix within which exchange occurs and they render them more concrete. They allow management and employees to consult the interpretation that their firm makes with respect to the general factors from levels (3) and (4) and they document this interpretation.

Second, compliance programs also establish the boundaries within the firm is willing to develop relationship-specific governance mechanisms on level (1) of our framework. All relationship-specific governance mechanisms that emerge within the different exchange relationships with buyers or suppliers need to be aligned with the general compliance rules of the firm. The probability that the compliance rules developed by a buyer and a supplier within one and the same national or cultural context diverge is high, since the specific formulation of these rules partially depends on such factors as firm-size, industry practices, or managerial awareness for the necessity to comply with certain external standards (REFERENCE?). The gap between buyer and seller compliance rules likely is particularly large when both sides stem from national or cultural contexts that differ strongly in their fundamental values, legal system, or common business practices. In any case, a firm – through its compliance rules – defines how far it is ready to allow employees to adapt their behaviour or activities to the expectations of an exchange partner. Thus, compliance

programs limit the choice and the specific design of any relationship-level governance mechanism.

Hence, while the formulation of compliance programs by buyer and seller firms help the actors involved in inter-firm relational exchange define the specific governance mechanisms they find most appropriate for the relationship, compliance programs also limit these actors in the design of governance mechanisms. Gaps between both sides' compliance programs raise several issues:

- (a) They create a need for the actors involved in exchange to understand the limits that the other side's compliance rules represent for exchange and the governance mechanisms used;
- (b) They potentially limit the freedom of action within the exchange relationship, for example if one side's compliance rules allow a specific behaviour while the other side's compliance rules define it as inappropriate.
- (c) If one side deems the prohibited activities essential for the further development of the exchange relationship, extending or even preserving the existing relationship may become difficult or even impossible.
- (d) Competitors working with compliance programs that are more similar to the ones defined by the other side may use the situation in order to improve their own situation.

In order to illustrate some of these issues and to identify potential avenues for future research, we now turn to a specific context, that is, the automotive industry and the type of relationships that are common between tier 1 suppliers who typically use key account management systems in order to manage the exchange relationship and their customers, the OEMs who sell the finished cars. We first present some basic characteristics of buyer-supplier relationships in the automotive industry. Second we discuss key account management as a system for managing customers.

COMPLIANCE PROGRAMS IN KEY ACCOUNT MANAGEMENT IN THE AUTOMOTIVE INDUSTRY

THE AUTOMOTIVE INDUSTRY

Suppliers to original equipment manufacturers (OEMs) who are active in the automotive market are confronted with an oligopolistic customer structure. Suppliers and OEMs have adapted the governance of transactions to the specific characteristics of this market. In many cases this has led to the establishment of close, on-going, and important relationships, in particular between OEMs and the direct (so-called tier1) suppliers. These specific buyer-supplier relationships have received considerable attention in academic research (Clark and Fujimoto 1991; Chen, Su, and Ro 2017; Dyer and Chu 2000; Inemek and MaQhyssens 2013; Zirpoli and Camuffo 2009).

In fact, over the past decades the automotive industry has moved from an arm's length approach to selling rather standardized parts to long-term buyer-supplier relationships that are characterized by a variety of factors and focus more strongly on transactions around integrated components or systems (such as entire fuel systems, seat systems, or door systems) (Mudambi and Helper 1998). A long although shortening product life cycle (often 10 to 12 years between the start of the development phase for a new model until the phase out of the

model from the market), increasing modularization and higher component complexity with higher development costs characterize the change in the entire automotive industry (Piller and Waringer 1999).

The OEMs have outsourced many development services due to the increased technological complexity of the different systems composing a vehicle. The OEMs use the innovative strength of tier 1 suppliers in order to remain competitive in terms of technology, time and price (Liker and Choi 2004). However, OEMs retain the internal capabilities to verify supplier developments and to integrate them into the production process (Takeishi 2001). Therefore, there are regular exchanges between the departments for the transfer of knowledge, whereby the development departments of the tier 1 suppliers are involved more and more and more intensively in interactions with partners on the buying side (Inemek and MaQhyssens 2013; McEvily and Marcus 2005).

The long-term relationships are also the result of many years of product life cycles, which require high development costs and up-front investment in advance. The structure of these product life cycles also narrows the number of relationships, so that the OEMs for certain products rely on few existing suppliers with corresponding experience (Hundertmark 2013). This reduces additional transaction costs and the risk of opportunistic behaviour. The buying side selects a small number of preferred suppliers for one product to save internal resources like “preparing and analysing bids, comparing products, negotiating prices, writing contracts” (Zirpoli and Caputo 2002, p. 1393).

However, dual sourcing is typically implemented in order to maintain pressure on price and keep competition up (Zirpoli and Caputo 2002). All these factors lead to long-term contractual agreement based on framework agreements, buying-conditions and multiyear agreements. The relational exchange of communication, collaboration and coordination promotes mutuality and leads to strong business relationships (Mukherji and Francis 2008; Poppo and Zenger 2002).

KEY ACCOUNT MANAGEMENT

Key account management (KAM) refers to the management of “relationships with those customers of the firm who have the highest level of strategic importance for the firm's long-term performance” (Ivens et al., 2017). It reflects heterogeneity in the structure of suppliers' customer portfolios and the necessity to address different types of customers through different management approaches (Shapiro and Wyman 1981; Stevenson 1981; Stevenson and Page 1979; Weilbaker and Weeks 1997), for example based on criteria such as sales volume, profitability or costs to serve the account (Boles, Johnston, and Gardner 1999). In addition, strategic elements with a long-term perspective are also relevant when selecting key accounts (Gosselin and Heene 2003; Toulan, Birkinshaw, and Arnold 2006).

Hence, KAM differs from classical sales as conducted through a field sales force. It represents a holistic perspective that addresses the customer and related needs in a proactive and global approach. The focus shifts from short-term sales transactions to long-term business relationship (Grönroos 1994; Parvatiyar and Sheth 2000). KAM reflects some of the core tenets of relationship marketing applied on business to business markets (Richards and Jones 2009). The key account manager acts as boundary spanner between the own and the customer company and coordinates the use of available resources between the internal departments at the supplier firm and related units within the customer organization (Wilson

and Millman 2003). This coordination encompasses activities across departments such as production, engineering and R&D, but also further cross functional competence centers (Barrett 1986; Homburg, Workman, and Jensen 2002).

KAM thus exerts a coordinating function for actors, resources, and activities that constitute a network in which numerous units from buyer and supplier firm are involved. It becomes a decisive factor within the governance structure of the inter-firm network. These governance factors have effects on outcome variables such as sales, profitability, or market share (Davies and Ryals 2014; Sharma 2006; Workman Jr, Homburg, and Jensen 2003) or joint activities, knowledge development or mutual adaptation (Mukherji and Francis 2008). Especially, relational governance factors allow evaluating the basic exchange relationship, which in turn influences relationship quality and relationship effectiveness (Crosby, Evans, and Cowles 1990; Gounaris and Tzempelikos 2014). A large number of papers have already studied the relational success factors of KAM in business relationships (Ivens and Pardo 2007; Wong, Thoo, and Hamid 2015).

KEY ACCOUNT MANAGEMENT IN THE AUTOMOTIVE INDUSTRY

In addition to strategic planning of the customer account (J. Ryals and A. Davies 2013), competition analyses in the market environment (Ivens and Pardo 2014) and coordination of actors, resources, and activities (Storbacka 2012), KAM is primarily responsible for the inter-organizational exchange of information with the customer. However, the complexity of the automotive industry engenders an increased complexity in governing relationships in this business. The aforementioned long-term business relationships integrate KAM into the different statuses of product and project life cycles. These range from quoting, negotiations, project planning, follow-up until series release, supervision of auditing and capacity balancing to subannual price negotiations up to handover the parts to the aftermarket (Georges and Eggert 2003). Above all, negative factors and their quick and problem-free solution approach in various areas are in the responsibility of KAM such as delivery performance or quality problems. The solution requirement extends to worldwide production plants of the own as well as of the customer company, since a delivery failure is associated with high costs for the supplier. The interaction of KAM across a broad field within the customer organization requires a close and good relationship with individual departments and contact persons, based on trust, flexibility, reliability and communication to solve problems quickly and unbureaucratically (Ryals and Humphries 2007).

COMPLIANCE IN AUTOMOTIVE BUYER-SELLER RELATIONSHIPS

First, there is a need to clarify, why compliance in the automotive industry is such a hypersensitive topic. Over the last two decades, significant violations of the law have occurred in the automotive industry in the areas of corruption, antitrust and competition law. “We suspect cartels in almost all parts that you need for a car” said Joaquín Almunia (2014) former European Competition Commissioner. The list includes almost all well-known OEMs and large suppliers. Starting from Daimler, Iveco, DAF, Volvo/Renault, MAN for truck cartel, Schaeffler, SKF, NTN and NSK for bearings, Takata, Toyoda Gosei, Tokai Rika and Marutaka for airbags, Bosch, Denso and NGK for spark plugs, Continental, Bosch and ZF TRW for brake systems, Sumitomo, Yakazi, Furukawa, S-Y Systems Technologies and Leoni for wire harnesses. Furthermore, the accusations against BMW, Daimler and the VW Group relating to the Diesel Gate scandal have still not been fully clarified and solved. In addition to the immense financial penalties that several actors have had to pay in certain parts

of the world (e.g., Volkswagen in the US), the reputation of convicted companies suffers a substantial damage. As a response, companies attempt to reduce the risk of similar damage occurring in the future by establishing policies of prevention. At the moment, the implementation of corporate compliance programs is a key measure in this area and receives considerable attention (Parker and Nielsen, 2009).

Second, to better understand what kind of influence corporate compliance programs might have, it is necessary to understand how commercial exchange within buyer-seller-relationships in the automotive industry takes place. On the one side, KAM is designed to build the closest possible customer relationship, to better understand the customer and to develop specific products to meet customer requirements. This promotes closer collaboration, which in turn enhances factors such as trust, commitment and satisfaction, which vice versa increases the financial performance of the relationship (Gao, Liu, and Qian 2016; Gounaris and Tzempelikos 2014). On the other side, in contrast, the goal of purchasing is to allow a social contact up to a certain level, through which the business relationship has positive effects on their own operational goals, such as cost, quality and delivery (Krause, Handfield, and Tyler 2007). The turning point is reached as soon as the relationship gets too close and turns into a dark type of relational exchange that prevents the buying side from implementing economically optimal purchasing solutions (Abosag, Yen, and Barnes 2016). This includes that too much confidence at the buyer side reduces monitoring, vigilance and safeguards. In addition, the seller can no longer objectively assess the business relationship and feels committed to the supplier (Villena, Revilla, and Choi 2011). One way to avoid such a turning point is to implement a relationship auditing or to rotate boundary spanners.

Arguably, due to past legal violations, the topic of corporate compliance receives more and more attention within the automotive industry. Corporate compliance programs are implemented in order to provide actors with general guidelines that specify dos and don'ts or green and red behavioural areas. This also affects the interpersonal relationship in within and inbetween buying and selling center (Webster and Wind 1972, Bonoma und Johnston 1978). Which impact do corporate compliance programs have within the governance structure. Do the relational exchange partners of both companies follow the rules? Basically, following the rules requires that everyone knows and understands the rules. Are employees careful beyond the legally required framework in order not to behave incorrectly with regard to rules that receive strong attention from top management and corporate lawyers? But more specifically, to what extent are corporate governance programs of buying and selling companies similar in the automotive industry? And if they differ, to what extent does the difference or variance between both sides' compliance directives create uncertainty for the actors? For example, behaviour that might be acceptable to one company might be unacceptable for another company. That raises the question how the buyer-seller relationship will change, because of the implementation of an additional governance element, known as compliance programs.

Several concrete situations in the automotive industry may illustrate these considerations, For example, while one supplier company – prior to a major industry trade show – planned to invite customer employees to the trade show and received permission for this activity from their compliance team, the employees of the customer firm received a strict order not to accept such an invitation. Hence, in one and the same situation the actors involved in the relationship receive different instructions concerning appropriate behaviour from their respective compliance specialists. This may not be a rare situation. But the consequence may be that even where on level (1) of governance actors may share joint expectations about what is or is not appropriate in a business relationship, these joint expectations may lose their

importance once one side is subject to strict compliance rules that run counter the established norms within the relationship.

Summarizing, in many industries corporate compliance programs as examples of governance mechanisms situated on level (2) determine more strongly what happens inside the relationship than in the past when compliance programs were less important. As a consequence, scholarly research should focus more precisely on the role that corporate governance plays in relationship governance.

AVENUES FOR FUTURE RESEARCH

This research argues that governance mechanisms can be located at four different levels. That is, (1) within a specific relationship, (2) at the level of the firms interacting in the relationship, (3) at the level of the industries or networks in which the interacting firms are embedded, and (4) at the level of national or international governance. Governance mechanisms from all four levels combine into the governance structure that two interacting firms rely on. Thus, the first core contribution of this research is to provide a framework that allows understanding differences between levels of governance while also showing that, after all, governance mechanisms from all four levels typically combine to define the boundaries within which exchange relationships develop and evolve.

Moreover, we observe that the B2B literature has produced a considerable amount of research at the level of the individual relationship (1). At this level, firms use formal contracts (e.g., framework agreements, buying-conditions, or multi-year agreements), informal contracts in the form of norms (Macneil 1980, Poppo & Zenger 2002: 709-710), and other mechanisms. The combination of bi-lateral formal and informal agreements allows managing important aspects of the coordination, structure and organization of a relationship (Sobrero & Schrader 1998) and “adapting to uncertainty” (Rindfleisch & Heide 1997: 41). At the same time, we observe that following some severe cases of legal and other transgressions in recent years, compliance issues arguably and understandably receive increasing attention both from practitioners and scholars. Hence, we identify compliance programs as a specific new topic within the field of governance research in business-to-business marketing.

Both main topics in this research, that is, the presentation of a comprehensive framework that provides an overview of governance mechanisms that are relevant in relational exchange as well as the identification of compliance programs as a relatively new type of governance mechanism, create room for future research. We believe that such research is required in order to understand the complex interplay between governance mechanisms in more detail.

With respect to the more general interplay of governance mechanisms around business relationships, from our vantage point the following issues represent interesting avenues for future research.

While there is research that studies the interplay of some relationship-specific governance mechanisms in buyer-seller relationships (e.g., Palmatier et al. Palmatier, Dant, & Grewal, 2007) there clearly is a need to gain a deeper understanding of how these mechanisms from level (1) in our model interact with mechanisms from other levels. For example, while we know quite a bit about how written formal contracts and relational norms complete each

other, we have little knowledge concerning the interplay of, for example, market- or industry-level (3) governance mechanisms with contracts and norms.

Additional potential research questions include, for example, the question how aware buyers and sellers are of such industry- or market-specific mechanisms? The literature doesn't actually provide much insight into the question how awareness for such governance mechanisms builds up. Are there differences, for example based on job tenure or time spent in the industry? Or are they based on other variables, maybe related to personality or social background?

While awareness for higher level governance mechanisms is one important aspect, another question relates to whether awareness also leads to compliance with such mechanisms. Or put differently: to what extent are actors on the buying or the selling side willing to move away from such governance mechanisms (or disrespect them) if the other side requires or expects such behaviour? And in a similar vein: Who decides whether to stick to general standards set in a society, an industry, or a specific firm, or whether to adapt to the requirements of a partner? Are there patterns how such decisions are taken on the buying or the selling side?

More generally, in case partners from very different national, cultural or industry environments enter into relational exchange, how do they determine to what extent governance mechanisms should reflect the standards of one or the other culture, national context or market? In such divergent configurations, how do constellations of governance mechanisms actually emerge? Is this, for example, a race to the bottom where the lowest standards apply as some sort of smallest common denominator? Incidents in apparel brands' supply chains over the past seem to suggest that this has, at least in some cases, been the rule between fashion brands from developed countries and their suppliers from developing economies. Or, to the contrary, do more demanding standards make it into the governance structure of the dyad? Is there a process towards such increased levels of standards because buying companies from developed countries have learned and realized that in the eyes of customers they have a responsibility for their supply chain and suppliers (Hartmann and Moeller 2014). Which actors are typically involved in adjusting the relationship-specific governance mechanisms to the more general elements of the governance structure? And what specific roles do actors from sales and marketing units play in this area?

In terms of research methodology, the literature on governance mechanisms, especially on relationship-specific governance mechanisms, has produced quite a substantial number of empirical results that stem from large-scale survey-based quantitative research and that draw on regression analysis or structural equation modelling. With respect to the KAM literature, on the other hand, in a their review of empirical approaches used, Guesalaga and Johnston (2010) show that out of 79 empirical articles the largest part relied upon qualitative analysis or descriptive statistics. Thus, as compared to many phenomena studied, for example, in organizational research, predictions about if-then-relationships in KAM are hardly available. We believe that this observation may be seen as an encouragement for scholars. It does not necessarily imply the use of large samples, for example for structural equation modelling. Increasingly, methods allowing analyses of small samples are now available. For example, qualitative comparative analysis (e.g. Fiss 2007, 2011; Leischnig et al. 2014) provides interesting opportunities. For example, it allows performing contrarian case analysis that shows that opposite relationships may occur for cases from the same sample, that is, X relates to Y positively, negatively and not at all in the same set of data - even when the main effect of X on Y is positive and substantial (Ordanini et al., 2013). Such a perspective is quite

plausible with respect to configurations of governance mechanisms and, at the same time, to the best of the authors' knowledge, has not yet been used to study governance issues in KAM relationships. Yet, it could be interesting to test if, for example, the existence of strong formal corporate compliance programs or practices systematically occur in combination with the use of specific relationship-level governance mechanisms or if, on the contrary, several configurations of these mechanisms occur in managerial practice that lead to similar outcomes. In this context, researchers may consider applying complexity theory and configural analysis to have a deeper and richer perspective on data than we currently have in quantitative studies both on governance mechanisms and on KAM (Woodside 2013, 2016).

These are but some of the many topic areas in which business-to-business marketing scholars may develop more research interest in the future. Against this background, we would hope to see more research dedicated both to the more general field of governance systems that emerge from the configuration of governance mechanisms described by our model across the four levels we distinguish and also to the more specific role that compliance programs have started to play for business relationships. As briefly indicated by the case of the automotive industry, where tier 1 suppliers and OEMs often interact very closely in key account relationships, compliance programs seem to gain importance and influence interaction patterns in buyer-supplier relationships. At the same time, research doesn't provide many insights into the concrete effects. Hence, we encourage scholars to study the specific role of corporate compliance programs for buyer-seller relationships on business-to-business markets.

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