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Inter-Organisational Cost Management and Governance Mechanisms: A Conceptual Review

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ABSTRACT: Interorganisational cost management focuses on cost minimisation through strategic alliance with the aim of creating competitive advantages and ensuring sustainability of the bottom line. This study's main purpose is the synthesis of governance mechanism as a necessary tool for minimising the inhibitors of interorganisational cost management practice among companies in developing economies like Nigeria. Literature or a qualitative research method was utilised to situate the existing research in interorganisational cost management (IOCM) and governance mechanisms usually used in practice. This study found from extant literature that hybrid governance mechanism or model, market-based mechanism, hierarchical governance and network administrative organisation governance are the most common governance mechanism that can limit inhibiting factors to the practice of interorganisational cost management such as opportunistic behaviour, weak open book accounting practice, weak employee and top management support, and poor choice governance mechanism. This study demonstrates that proper choice of governance mechanism as a coordinating mechanism in IOCM can lead to a greater value creation for the participating organisations. Therefore, this study recommends that companies in developing economies should embark on IOCM practices to combat lack of coordinated resources and huge capital demand on raising the required factors of production by single entity.

KEYWORDS: interorganisational cost management, governance mechanism, value chain, resource dependency.

1. INTRODUCTION

There have been local challenges of scarcity of organisational resources needed to cope with the current level of economic recession in Nigeria and the global competitiveness arising from globalisation and technological growth. Survival strategies is the most wanted approach amongst firms as well as keeping all stakeholders at the table. Cost of production is soaring high and the demand for products is low and unpredictable due to the volatility of the security, political and economic variables such as inflation. Managers must therefore explore avenues of ensuring operational sustainability. One of the most critical avenues is through cost management (Anderson, 2007) and sourcing of factors of production through strategic alliances. Akpotu and Jamine (2016) reported that multi-dimension of strategic alliances (technological, human capital development and research and development) has significant relationship with operational sustainability of a company. This result may be difficult to achieve and sustain, of which inter-organisation cost management and governance mechanisms, if well harnessed can go a long way.

Inter-organisational cost management is a strategic cost management approach to managing costs that extend beyond organisational boundaries for internal value creation and supply chains relationships management (Fayard, et al. 2012). Strategic cost management and its role in inter-organisational relationships is no longer a new concept. Inter-organisational cost management is a "coordinated actions between companies of the same chain, in order to reduce costs and earn consumer price, offer opportunities for improved results" (Farias, 2016, p. 68). It is a structured approach with a broad vision that extend beyond the borders of the organization, which aims to achieve optimal costs control at both the internal and external levels. The relationship could be formal or relational, short term or long term, or for specified business circle. Certainly, cost management is a complex issue that permeates all areas of the organization and may pose a number of difficulties for it to be implemented and sustained (Farias, 2016).

Despite many strategic benefits that can be derived from IOCM, the problem of successful implementation and practice seems to be difficult. The difficulties which are human related, includes but not limited to lack of mutually accepted accounting practice (Kulmala, 2002), lack of understanding of cost across organisational boundary, absence of trust, and poor support from top management, wider examination by researchers (Bastl, et al., 2010; DhaifAllah, 2016; Roehricha, et al., 2019; Lu, et al, 2019). Therefore, this study aims to present a conceptual clarification of the role of governance in minimising these inhibitors.

The next parts of this paper are structured as follows: section two provided a discussion on IOCM and cooperation, section three presented discussion on the theoretical basis of IOCM. In section four, IOCM techniques, and governance mechanisms in IOCM in section five. Section six presented review of empirical studies and section seven concluded with recommendations.

2.1 Inter-Organisational Cost Management and Inter-Organisation Cooperation

Organizations basically aligned their operation in accordance with their strategic positioning choice. These strategic positioning in cost management as postulated by Shank and Govindarajan (1993) are cost leadership and product differentiation. Strategic positioning plays a crucial role in determining an organisation's reception of IOCM. More so, motivation and associated costs of inter-organisational cooperation takes an important turn in IOCM.

The contemporary accounting environment demands for new cost management techniques or refining the old ones to survive the ongoing and anticipated future challenges. The point is that IOCM is a critical tool for survival in economic turbulence and competitive business environment. Inter-organizational cost management has been in study for almost two decades now since the pioneering work of Cooper and Slagmulder (1999). It is a fairly new phenomenon in strategic management accounting that has been "studied primarily in hierarchical networks of the car and electronics industry" in Japan (Kulmala, Kajutar, and Volkakori, 2007, p. 2). As posited by Uddin and Hassan (2011) it is difficult to achieve sustainable competitive advantage in a competitive business environment by a firm without collaboration with its partners. To achieve competitive advantage, firms develop market endeavours to control their resources and capabilities by collaborating with firms that have distinctive capability and know-how (expertise knowledge) from both domestic and foreign environment. To reduce the transaction costs and have control over resources, firms have to enter coalition with competent partners who have market knowledge and technological know-how (Faria, et al., 2014; Hitt, et al., 2000). These networks are usually led by large construction and manufacturing multinational firms and in industrialised economy, which are also applicable in other industries in both developed and developing countries.

These networks give rise to inter-organisation cooperation which forms the structure of interconnected nodes were information and knowledge are transferred and shared (Schermerhorn, 1975). The study of inter-organisational cooperation (relationship) focuses on how organisations relate with each other in achieving their common objectives – cost optimisation. Cost optimisation is the process taken by an organisation to drive more value from its cost activities. Cost is optimised when a firm spending and/or cost reduction resulted in a higher marginal benefit.

An organisation may consider inter-organisation cooperation (IOC) as determined by factors such as need to form or increase market concentration (like in the case of the Big 4 audit firms) or market power, need to raise resources and skill that an individual firm would not be able to produce, necessity to share knowledge, utility of the use of experience, innovative solution, and so on and so forth (Schermerhorn, 1975). The pursuit of these objectives can lead to formation of buyer and seller relationships, collaboration or partnership with the sole efforts of reducing costs. When the focus is costs optimisation, it is termed as the inter-organisational cost management.

Inter-organisational cost management's major focus according to Cooper and Slagmulder (1999), is costs minimisation through management of relationship with other firms, hence, the focus is broader than ICM. It focuses on creating competitive advantage in the value chains for the participating firms in relation to other competition chains (Faria, et al., 2014). Value is created when the same product, service and process is done at the lowest possible costs without compromising the functionality and quality of the product. In other words, a cost system has created value when increase in costs resulted to a greater marginal increase in revenue than the marginal increase in costs. The cost savings would result to higher profit for the participating firms. This strategy is a viable survival tool, since economic and business environment are becoming harder and more complicated, characterised by competition insurgence, occasioned by globalisation and technology that virtually demolished border barriers to businesses. The external pressures mount emphases on organisation's survival, thereby making it necessary for managers to explore various innovative means of competitiveness that could result in cost efficiency while still keeping all stakeholders at the table.

Indeed, the importance of governance structure and mechanisms in effective deployment of IOCM strategies cannot be over emphasised. IOCM is a structural cost management feature. Structural cost management defines the parameter of IOCM and by extension, the inter-organisational relation across organisation's operational boundary (Anderson, 2007). This makes IOCM to be a paramount strategy in the contemporary management accounting environment.

2.2 Concept of Inter-Organisational Cost Management

Hoffjan and Kruse (2006) defined IOCM as the structural approach to the coordination of activities in companies' contractual relationship, considering a supply network, leading to minimised total cost. IOCM could enable an organisation to obtain its production factors at the lowest cost possible. IOCM helps in identifying ways to make the interface between the firms more efficient, and help the cooperating firm (buyers and suppliers) explore additional ways to reduce the manufacturing cost of products (Kulmala, Paranko, and Uusi-Rauva, 2002).

According to Cooper and Slagmulder (1999, p. 145), IOCM "is a structured approach for coordinating the activities of firms in a supplier network so that total costs in the network can be reduced". The definition explains the focus of cost management across organisational boundary is to reduce total costs. It seems rather limited and the weakness in the definition is that it tends to look at only cost minimisation without given due consideration to the possibility of increasing total cost for more synergetic value realisation.

Agdal and Nilsson (2009) define IOCM as buyers' and suppliers' coordinated efforts to reduce costs. This definition implies outsourcing where a firm make or buy decision analysis resulted to "buy" decision option. One thing to note is that IOCM effort can result to partnership and not necessary buyer and seller relationships only.

Uddin and Hassan (2011, p. 302) defined IOCM as the "process which enables the firms routine wise or non-routine wise achievement of cost advantage across the boundary of firms by sharing information, knowledge, and innovative activities". This definition is broader in concept than the former once. IOCM is motivated by the need to achieve cost competitive advantage through formal or informal relationships amongst firms, and sharing of information is a critical factor. However, information asymmetry can inhibit the relationship (Farias and Gasparetto, 2016).

Souza and Rocha (2009, p. 3) defined IOCM as "a cooperative cost management process involving other organizations besides the company itself, aiming at competitive advantages for the value chain". This definition and Uddin and Hassan (2011) are broader and similar in views. Therefore, the main objective of IOCM should be to find solutions (by achieving competitive advantages) through coordinated efforts among participating firms in the value chain, which would not be possible for a single firm that tried to manage its costs independently (Souza and Rocha, 2009).

All of the aforementioned definitions of IOCM posited that the central objective is to reduce total cost. One can easily infer the narrowness of these definitions with exception of two. Therefore, we define IOCM as the integrated and strategic application of cost management techniques in managing inter-organisational relations for optimal creation of value throughout a value chain. The value chain refers to the entire life cycle of each product. This implies that the ultimate target of IOCM is optimal value creation which could be through cost reduction, cost reconfiguration and/or otherwise. Firm value can be maximised not only through cost reduction, but also through increase of total cost, minding the trade-off with cost minimisation and realisable value.

2.3 Elements of Inter-organisational Cost Management

IOCM possess two elements as identified by Uddin and Hassan (2011) as organisational setting and inter-organisation accounting. The first element, organisational setting refers to the structural environment collectively put by participating firms. This element is defined by the governance of IOCM. Success of the relationship largely depends on this element. It leads to the coordinated plans to reduce costs in companies across a supply chain in three different ways. First, it can help the participating firms find new and innovative ways of designing products so that they can be manufactured at a least cost. Second, it can help the participating firms find ways to further reduce the cost of products during manufacturing. And finally, it can help identify ways to make the structural relationship between companies more effective and efficient in operation (Cooper and Slagmulder, 1999).

The second element of IOCM is inter-organisational accounting (inter-organisational cost management techniques), which is referred to as enabling mechanisms. An effective IOCM requires careful integration of structural relationship with enabling mechanisms that operates both product and relationship (De Melo & Granja, 2012). Discipline is also required to enable the transmission of the cost optimisation aims to every participant in relationship under the auspices of the governance mechanism (Gonzaga, et al., 2015). According to De Melo and Granja (2012), the major goal of the enabling mechanisms is to aid the firms in coordinating ways to pool their skills and their manufacturing design efforts and how they interact to achieve their cost reduction objectives.

These mechanisms or IOCM techniques such as target costing, open book accounting, value engineering, functionality quality trade-offs, inter-organisational cost investigation, and concurrent cost management (De Melo & Granja, 2012; Cooper & Slagmulder, 2006, 2004; Hansen & Hanse, 2001).

2.4 Inter-organisational Cost Management in Value Chain

The value chain here encompasses both the internal value creative activities and the external supply chain. Value chain is defined by Porter (1986) as the set of activities the organizations develop in the relationship with suppliers, production and sales cycle until the final distribution. Rocha & Borinelli (2007) emphasised adaptability and flexibility as prominent features of such inter-organisational networks which offers a new strategic and market view for enabling of long-standing relation between or among the supply chain members. This imply that IOCM relationship should be intended for a long-term and continuous relationship for the achievement of its strategic purposes. The relationship is maintained by sharing of information and experiences, without compromising the members' independence. This suggests that IOCM focuses not only on cost reduction, but also competitive leverage in the value chain of the participating members. According to Faria, et al. (2014), it is an advanced tool for minimising costs and leveraging profitability by focusing on collaboration for the whole supply chain.

In the context of supply management, IOCM defines the buyer and seller relationship. It is not necessarily viewed as outsourcing and a mutual contractual relationship governed by laws and pure market structure. The relationship enables the partners to concentrate on core activities and object of their business for better performance and development of expertise. The requisite resources for differentiation are a sources of competitive advantage and these resources are located within both internal and external environment of an organization. Organisations' impetus to acquire requisite resources at possible minimum cost drive them to form inter-organisational relationship. The organisational theories that explain such relationship are briefly presented in the following section.

3. THEORETICAL FOUNDATION

The practice of inter-organisational cooperation or relation can be interpreted as the search for competitive advantages. The study has been guided and enriched with theoretical concepts based on the theories of the firm. According to Uddin and Hassan (2011), theories such as transaction cost economics, resource-based view, agency theory, contingency theory, actor network theory, industrial network approach, and structuration theory are some of the firm's theoretical models that provide the theoretical foundation for the study of IOCM. From theoretical point of view, this study focuses on three major theories. The transaction costs theory, resource-based view theory (resource dependency), and agency theory. As argued by Rossignoli and Ricciardi (2015), these theories share the same idea of inter-organizational relationships formation to be founded on opportunism and bounded rationality, explaining that organizations seek to control the critical aspects of their business network interactions in order to pursue their goals.

3.1 Transaction Cost Economic Theory

The transaction cost economic (TCE) explains why firms exist and it is central to the studies of strategic cost management. TCE theory came into fruition for organisational studies as the result of the works of Commons (1931) and Coase (1937). TCE explains the behaviour of a firm regarding cost in transactions and that a firm interact with other firms for transaction to occur. Central to the theory is the concept of opportunism, where individual firm in either the formal and informal contractual arrangement seeks to advance their objective (cost minimisation) at the expense of the other participating firms. The theory gain popularity in academic research in the early 1980s because of industrial modernisation. The theory posits that in any transaction, organisations seek to achieve the minimum cost involve. This implies that organisations are driven by need to minimise costs and maximise benefits when interact with others (Rossignoli & Ricciardi, 2015). Transaction costs in IOCM are costs incurred or associated with searching for appropriate partners, cost of negotiation, costs of implementation and governing (monitoring) the relationships. The central focus of this theory is in transaction and the aim is cost minimisation and control of behaviour which is the main theme of IOCM.

As posited by Williams (1979), central to this theory is the concept of opportunism. The central assumption therefore is that opportunism is inherent in many transactions. Hill (1990) viewed opportunism as self-interest seeking, especially with calculated efforts to mislead, distort information, disguise, or otherwise confuse someone. When put together with the bounded rationality, the risk of opportunism suggests that partners in the transaction may attempt to expropriate the economic rent that persuaded participation in the relationships. Which means that each firm must identify its boundary of efficiency where the transaction costs are minimal (Rossignoli and Ricciardi, 2015). The implication on IOR is that the objectives of IOCM would fail and lead to the disbandment of the cooperation if governance mechanism is ineffective.

Since this issue emanate from the transaction process, participants are driven by their interest to minimise the transaction costs through the institution of appropriate governance mechanism in IOCM processes. This posit that governance is related to the assumption of TCE, i.e. the inherency of opportunism requires moderation. In summary, this theory holds that for the successful implementation of IOCM, governance mechanisms must be put in place. However, empirical and survey studies in Nigeria and other developing countries failed to investigate the extent of the relationship between IOCM and governance structures and mechanism available for adoption in IOR.

3.2 Agency Theory

Agency theory provides a valuable insight for managing relationships among organisations where legal, social, and behavioural dynamics exist (Fayezi, O'Loughlin & Zutshi, 2012). It is a critical task for managers and partners to understand and mitigate abnormal behaviours across borders of any IOR and cost management. According to Fayezi, et al. (2012), agency theory mitigate opportunism by providing partners with a "useful tool to response to transaction cost dilemmas through contractual and non-contractual remedies" (p. 556). Agency theory and transaction cost perspective share the same assumption in respect of managerial opportunism and bounded rationality. The theory concentrates on economic mechanisms, such as price and incentives, for managing conflicts (Rossignoli & Ricciardi, 2015). The conflict arises when there is information asymmetry – when one party is better informed than the other. The very existence of information asymmetry may result to two hazards: moral (where information asymmetry is used for self-interest) and the adverse selection (other parties would not be able to assess the commitment of each other), and so, extra cost must be incurred for monitoring (Bouckova, 2015).

The posit that agency theory in IOCM claims that organizations are driven by the need for aligning their behaviours or outcomes of all parties toward the overall expectations of the partners. The focus of analysis in this case is in the contract or agreement between participating partners, which certain motivation must be in place to encourage the continuity of the relationship, thereby depicts the need for governance in IOCM relationships. As stated earlier, the primary motive of IOCM is cost reduction and optimal efficiency. Without governance and joint motivation, partners may be prone to seeking their individual interests in place of the collective interests. This theory is basically applicable in both hybrid and hierarchical governance structure and corroborate that governance is a critical phenomenon in IOR and cost management.

3.3 Resource Dependence Theory

Another relevant and important theory that is central to IOCM is the resource dependency theory. The central thesis of this theory is that organisational behaviours are better understood by analysing their environmental context (Pfeffer & Salancik, 1978). The perspective of the theory focuses on the effect of environment on organisation and how organisation responds to external constraints (Davis and Cobb, 2010). The theory holds that interdependence exist when an organisation does not have entire control of all necessary production factors for achieving its outcome. Therefore, interdependence characterised the need for IORs. According to Pfeffer and Salancik (1978), the interdependence is distinguished into outcome and behaviour interdependence. Outcome like profit for example depends on price (cost and margin) and quantity sold. Each participant independently makes pricing and quantity decisions, and profit would be influenced by participants and competition. The behaviour interdependence explains that IOCM would not be possible except the participants' behaviour exhibit cooperation. So, the success depends on partners' behavioural cooperation in sustaining the value chain through reduction of information asymmetry.

Resource dependency theory also explains that organizations are driven by the need to get and control the resources that are critical to achieving their goals and objectives (Rossignoli & Ricciardi, 2015). These resources are natural capital, human capital, social capital, manufactured capital (e.g. technology), and financial capital. These resources are obtained and sustained for competitive advantage. Even though resource-based view suggest that firms should exploit the internal resources rather than looking from the competitive environment (Wernerfelt, 1984), firms cannot certainly acquire all necessary resource because of high cost and some are immobile, while some resources are needed based on when opportunity presents itself. Technological resources for instance, may be outsourced so that the firm can focus on its core competence for efficiency. These scenarios explain the existence and the phenomenon of resource dependency theory. Firms depends on their resources and those resources belonging to the environment in which the firm operates, and owned by other firms. In order to successfully survive the competition, firms form various IORs for obtaining required resources at lower cost and optimal efficiency and also to form economic and market power.

We adopted this theory because it basically explains that the need for IOR is optimal acquisition and use of production resources which explains the objective of IOCM. The implication is that, control of resources (whether collective or individual) translates to influence and power. Resource control is a powerful tool for competition and survival in economic turbulence, and above all sustainable profit.

4. INTER-ORGANISATIONAL COST MANAGEMENT TECHNIQUES

Fayard, et al. (2012) posited that the IOCM is the inter-organisational application of classical and traditional cost management activities, such as activity-based costing (ABC), target costing, and total quality management. It can also be viewed as supply chain management techniques that benefits partners, for example just-in-time process to manage inventory. The common theme of IOCM activities is that they involve collaborative or cooperative efforts among members for optimal cost control and thereby create value. Based on this view, the techniques of IOCM must span beyond the legal definition of organisational boundaries and that these techniques are regarded as organisational resources used for value creation. These resources according to Fayard, et al. (2012) consisted of organisational capabilities, activities routine, and other supply chain relationships. The implication here is that individual firm's cost management resources forms part of the IOCM overall resources. Surowiec (2013) and Cooper and Slagmulder (2006) posited that a firm that succeeded in effective implementation of its internal cost management resources have the higher likelihood to succeed at IOCM. This can be deduced that IOCM depends to certain extent on the effective use of internal cost management resources by the participating members. If this position is true, then the inference is that the success of internal governance has direct implication on the inter-organisational governance and contextual relationships among firms. However, there are no accessible researches that investigated this assertion. Therefore, this paper wishes to set a background for attentions of researchers to be drawn for possible empirical investigation into the issues of governance in IOCM. Furthermore, the application of IOCM techniques for effective and mutual value creation, certainly depends on firms' specific and relational resources as the critical enablers, which include internal and external electronic integration, internal cost management, and absorptive capacity (Fayard, et al., 2012; Cooper & Slagmulder, 2006). Moreover, there are limited accessible studies that investigated the extent or the degree to which these critical resources affect the success of IOCM.

Fayard, et al., (2012), Cooper and Slagmulder, (2006), and Cooper and Slagmulder, (2004) identified the following as IOCM techniques: inter-organisational application of ABC, target costing, kaizen costing, open book accounting, functionality-price-quality trade-offs, inter-organisational cost investigation, and concurrent cost management.

Target Costing: target costing is the determination of the desired cost for a product on the basis of a given competitive price, such that the product will earn an anticipated profit (Blocher, Stout, & Cokins, 2010). A target cost is the difference between sales price needed to gain the desired per-unit profit (Hensen & Mowen, 2006). Cost is therefore determined by the desired price. The firms using target costing must often adopt strict cost reduction measures or redesign the product or reengineer the manufacturing process to meet the market price and remain profitable.

Inter-organisational application of ABC: the ABC method is one of the most popular management accounting innovations for almost three decades now. The concept was developed to correct the misleading overhead cost allocations by functional costing system. It is a refined cost system which enables the classification of costs as more direct to expend the number of indirect cost pool and to identify cost drivers (Wegmann, 2009). ABC enhances better identification and allocation of costs using smaller cost pools referred to as activities. As posited by Hansen and Mowen (2006), ABC cost accounting system offers an improved product costing, of course with related increase in cost. The justification for the adoption of the ABC system is that it provides a significantly different cost information (especially overhead cost) from the functional based costing system. The premise of this costing system analysis is based on activities (resource consumption) performed to produce goods and services, instead of the units produced. Examples of these activities are handling of customers complains, delivery, supervising, scheduling, packaging, etc. The development of ABC system is founded on the strategic management accounting (SMA) streams of innovation (Wegmann, 2009). The concepts like marketing, supply chain and buyer-supplier relationship are classified under SMA.

IOCM is a spatial widening of organisation's cost parameter to include environment, suppliers and partners. This makes ABC system to be a good costing method in managing IOR. ABC is a very significant profit profiling method and it can help determine which relationship and the supplier are the most profitable. It can enable management determine which activity or process in IOCM could result to reduced cost and enhanced value creation. This benefit can be achieved when cost analysis is extended to suppliers or partners, which will require the application of open book accounting. ABC helps in describing the value chain between firms in relationship (Wegman, 2009).

5. GOVERNANCE MECHANISMS IN INTER-ORGANISATIONAL COST MANAGEMENT

Organisational control mechanisms are the tools required for the successful application of IOCM. The mechanisms are key elements for a successful business relationship (Ivens, 2011). The governance is comprised of key strategic tools for safeguarding both contractual and non-contractual relationship. According to Yang (2011, p. 157), "governance mechanism refers to the regulation of activities so that they are in accord with the expectations established in policies and targets". Governance is intended for improving goal congruence and reducing preference divergences among alliance participants, and is widely acknowledged as an essential mechanism for IOCM and other forms of cooperation. Governance mechanisms are critical to the limitation of the risk of opportunism in IOR. In order to coordinate the goals and behaviour of participating partners, a careful combination of the governance mechanisms should be effectively corroborated. As posited by Yang (2011), the combination process should bear in mind the aspect of behaviour risk among members. One of the strong pillars of IOCM success is trust. Opportunistic behaviour by any participant, can lead to lack of trust (Farias & Gosparatto, 2016; Seppanen, Blomqvist & Sundqvist, 2007), which could lead to failure of IOCM process. Opportunistic behaviour causes partners to fill being taken advantage of by another, and thereby inhibit the success of IOCM. Therefore, as suggested by transaction costs theory, the objective of governance in transactions is to limit opportunistic behaviour and decrease transaction costs.

The control of IOCM conceptual relationship and such issues are done under the auspices of governance (disciplining) mechanism. The objective of the governance mechanism is to optimise the return of the value chain beyond the limits of the firm boundary through cost management (Gonzaga, et al. 2015). This implies that IOCM goes beyond the legal limits (to include informal agreement) and that there is a contractual relationship among firms participating to achieve their goals. No company is self-sufficient unto itself. Hence firms have to be receptive to collaborative relationships in order to be sufficient. Studies such as Klein and Pereira, 2016, Gonzaga, 2015, Oll, 2014, and Laimer, 2015 have highlighted the increase of the IORs with the sole aim of value creation as a response to competition, economic crisis, uncertainty, globalisation, and desire to be more efficient. The IOR could take the forms such as strategic alliances, partnership, vertical integration, franchise, outsourcing, and project groups (Kujala & Aaltonen, 2020; Fayard, et al., 2014; Isoraite, 2009; Fayard, et al., 2009). The central theme of all these forms of IOR is cost optimisation, which invariably lead to profitability and wealth creation.

Therefore, IOCM is a tool or mechanism of cost management in both informal and formal contractual relationships between companies. In complement, Hoffjan and Kruse (2006) posited IOCM as an approach to structural coordination of activities in companies' contractual relationship, taken into consideration the supply chain network for lowering total cost. This assertion claims that main objective of IOCM is lowering of total cost through management of supply chain contractual relationship. It is a kind of buyer and seller relationship configuration. Inter-organisation relations can take many forms as stated earlier, and not only buyer and supply relationship as posited by this definition.

There is no specifically and standardised form IOCM governance. Since IOR may be for cost management, management mechanism in IOCM can take three governance forms, and five governance mechanisms. The governance structures (models) are: market, hybrid, and hierarchical structures (Peres, 2007; Gonzaga, 2015; Chandra & Hillegersberg, 2018). The summary is presented in table 1 below.

However, there is no specific governance structure supported in literature to best fit IOCM systems. This study has identified five governance mechanisms that are applicable in IOCM. These mechanisms are contracts, value-creating norms, value-claiming norms, specific investments and trust.

Table 1. Forms of Governance in Inter-organisational cost management

Governance forms	Characteristics
Market	• In this type of governance structure, the incentives are strong and adjustments are made through the prices. • There is little need for administrative controls and the contracts are complied with without risks of opportunistic behaviour. • Does not require initial selection and initiation process, because identity is assumed to be irrelevant. • Terms of relationship is discrete. Each transaction is considered to be a completed event. • Members are seen as suppliers and customers brought together by contractual relationships.
Hierarchical	• A particular member coordinates major networks-levels of activities and decision making. • In the hierarchical structure, the incentives are weak and the market flaws exert a strong impact, to the extent of impairing the compliance of contracts that are always subject to the agents' opportunistic action. • In this environment, the bargain can be inefficient and there is a need for coordination and imposition of political authority to seek efficient results. • Relationship design for long term. It has time dimension beyond single transaction. • Open ended relationship which could sometimes be on contract.
Hybrid	• Based on selective entry process and formal evaluation and assessment required. • In this structure, the incentives are medium, as there are market flaws that make autonomous adjustments through the prices impossible. • Then, individual coordination is needed within incentive and contract systems that inhibit opportunistic behaviour and can reduce the transaction costs in an environment marked by information asymmetry. • Relationship design for long term. It has time dimension beyond individual transaction.
Network administrative organisation	• Separate entity that is not a member is charge with governance responsibility in the cooperation. • Provides the collaboration with the opportunity of having a neutral governance body. • The model prevents members from opportunistic behaviour and the use of economic power by bigger or large members.

Source: Researchers' Compilation, 2022

Contract mechanism: is a formal and legal agreement between partners in IOR designed to protect themselves against various hazards of exchange. According to Ivens and Pardo (2005), contracts are formal documents starting that two or more parties have agreed upon certain conditions of exchange. These conditions define individual party's roles and actions, as well the disciplinary measures in case of any default. As explained by the TCE theory, partners may be characterised as having bounded rationality and sometimes result to display of opportunistic behaviour (Yu, Liao & Lin, 2006). To mitigate this risk, the contract explicitly specifies course of action in the event of unforeseeable situations for minimisation of losses. This arrangement serves as a good motivation to performance as well as reduce performance uncertainty in hierarchical governance structure.

Value-creating and value claiming norms: is another governance mechanism. It is the expectation developed by partners that serves as guideline concerning the behaviour of each participant in the relationship. It is an informal agreement that is normally used together with the contract mechanism (Ivens & Pardo, 2005). The value claiming norms

Trust: arises out of the past interactions or the institutional environment that existed prior to the main exchange arrangement. Trust is the explicit pledge for relational continuity in the pursuit of the common goals among partners. The expectations of relationship continuity motivates partners to invest in the IOCM processes, and discourages opportunism (Wang & Wei, 2007). Trust could be exogenous and endogenous (intrinsic) to the choice of governance. Gulati and Nickerson (2002, p. 7) define "endogenous inter-organizational trust as trust that emerges from the governance arrangements in which an exchange between two organizations is embedded". While intrinsic trust arises from the governance arrangements chosen by virtue of the fact that the governance structure creates a set of incentives and engenders social processes that in turn impacts the predictability of partner's behaviour and thus the likely level of trust. Gulati and Nickerson (2008) found result that corroborated how trust influence the choice of governance mode (structure or form and mechanism). They argued that pre-existing inter-organizational trust increased the probability of chosen less formal (market), and less costly mode of governance.

Empirical studies support the indirect effect of exogenous trust mechanism, in which indicate increase in exogenous trust increases the probability that less hierarchical modes of governance are substituted for more hierarchical modes (Gulati and Nickerson, 2002). The implication of this result corroborate that level of trust determines the form or mode of governance structure to be adopted in IOCM arrangement. One can easily infer the critical role of trust in success of IOR, and by implication, IOCM. The implication of trust mechanism on optimisation of cost is not given due attention by researcher in both survey and empirical studies.

Specific investment: refers to those investments intended to support a specific manufacturer - supplier relationship, for instance foreign direct investment. For example, investment for production of specialised equipment or information technology. The investment does not mean that the suppler would not incur individual costs. When IOR is formed on specific investment, participating firms shows their willingness to cooperate and the overall efficiency of production is improved (Yu, Liao, & Lin, 2005). Yu, et al. (2005) in a survey study of Taiwanese firms using Chinese suppliers, examined the effectiveness of both formal and relational governance mechanisms in inducing specific investment. Their result claimed that trust moderate the tendencies of either formal or relational governance in specific investment.

The phenomenon of governance in IOCM have been discussed in survey, theoretical and empirical studies, adopting the application of inter-organisational relation (cooperation) governance strategies. The governance structure and strategies summarised in table 1 has been widely used as the inter-organisational disciplining and control mechanisms. Yang (2011) acknowledged that outsourcing capabilities (especially in IT) is maximized through high levels of knowledge sharing and proper governance mechanism. Knowledge and information sharing are part of the means of achieving IOCM goals. The interpretation is that since governance mechanism maximises outsourcing (buyer – supplier form) benefit (cost reduction), invariably the goals of IOCM is achieved.

Hernandez-Espallardo, Rodrıguez-Orejuela and Sanchez-Perez (2015) affirm to the above conclusion that, Knowledge sharing and learning have a positive influence on the outsourcing (supply chain's) performance. The study suggest that the supply chain's competitiveness depends on the adequate governance of the inter-firm relationships, by using trust, hostages and behavioural control to support information and knowledge exchange. However, these studies have been silent about which governance structure is most effective and with which form of relationship, for optimal cost management. Hence, there is a need for both survey and empirical studies to investigate which governance structure is more effective and with which type of relationship. Most of these studies were not conducted in developing countries, except Brazil, rather there were done in industrialized developed economies like US and Japan.

Ivens and Pardo (2007) conducted survey research to examine the impact of different governance mechanisms on relationship quality and reported that governance have significant impact on the success of IORs. They further argued that it was unclear what impact individual governance mechanisms had on key outcome variables and processes in business relationships.

6. REVIEW OF EMPIRICAL STUDIES

The interest of scrupulous cost and management accounting scholars that wrote on inter-organisational cost management devoted much of their discussion on IOCM as a new paradigm shift in cost management, with few focusing on case-study method. While others studied it in the content of other organisational relations. They presented the concept of IOCM as relatively new concept that is based on the theory of the firm which also give more focus to theories such as resource-based view (RBV), industrial network approach, and transaction cost economics (TCE) (Uddin and Hassan, 2011). Others like Gonzaga, et al (2015) corroborated whether the disciplining mechanisms present in the conceptual structure of IOCM are related to the governance mechanisms established in TCE, as well as the tools for safeguarding IORs. They concluded that the governance mechanisms specified in TCE are the same with the IOCM governance. In the same vein of qualitative study, Farias (2016) carried out an exploratory study on the inhibitors of IOCM in supply chain. The study corroborated that the following as the major inhibitors: (i) corporate strategy; (ii) integration of companies; (iii) people; (iv) intra- and inter-organisational processes; (v) corporate training and education; (vi) disputes between companies; and (vii) lack of trust between companies. These sundry inhibitors could be alleviated through appropriate institution of governance mechanism, more especially anti opportunism discipline.

Drawing on the resource-based view of the firm, Fayard, et al. (2012) developed a model to predict which interrelated-resources motivate management of inter-organisational costs. Through a survey method and using structural equation model, their result revealed that resources of electronic integration (internal and external), ICM, and absorptive capacity plays significant roles in the development of IOCM resources. This study is rather a theoretical.

Fayard, et al. (2014) empirically examined the extent to which companies interact with supply chain partners in order to collectively manage cost more efficiently. Using data collected through survey of 76 firms, based on 7 point scale ranking, the paper presented collaborative activities the firms are engaging in and to what extent. They found seven IOCM activities which are: common demand, sales, or order forecasts; quality cost management; inventory management processes; target costing, common asset sharing; co-location of employees; business process redesign; and other collaborative activities.

The corroboration of these studies presented in this part, shows how researchers are still concern about the theoretical development of IOCM. Studies that examine from empirical data the benefits or pay offs of IOCM practice among firms are rather limited or non-accessible. Therefore, in this study we suggest that more attention should be given to the examination of its effectiveness as a cost management strategy. Doing so would enable organisations to appreciate the role of practicing IOCM in both normal and abnormal economic times and to improve sustainable profit maximisation.

7. CONCLUSION AND RECOMMENDATION

Despite the economic motivations behind IOCM after adecades of study, management accountants and academic researchers of other discipline like business management, are still focused on developing the theoretical aspect of IOCM, with less unified empirical measures for testing the relationship between IOCM and governance in inter-organisational relationships. However, this study suggests that the most efficient and effective means of handling IOCM inhibitors is through the implementation of a governance mechanism or combination of mechanisms. The choice of governance mechanism should be informed by the objectives of IOCM system and the expected life cycle of the cooperation. This paper advocates that intense and more empirical investigation on how to harness the accrued economic benefits of IOCM in developing economies is paramount. This is because companies in developing economies are the ones that have more challenges of generating all factors of production by a single entity. Therefore that there is a need for more studies in IOCM especially in Nigeria, to specifically investigate how IOR governance defines the structure of IOCM or techniques to be adopted, and vice versa.

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