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**COLLECTIVE BRAND GOVERNANCE AND THE DESIGN OF
INTERORGANIZATIONAL RELATIONSHIPS**

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Track : Rethinking Inter-organizational Relationships

COLLECTIVE BRAND GOVERNANCE AND THE DESIGN OF INTERORGANIZATIONAL RELATIONSHIPS

Abstract

The development of joint actions in marketing challenges the theory, mainly because it shifts research objectives towards the design of organizational relationships. Focused on one type of joint actions, the collective brand, we summarize the main findings of researchers in the field of transaction-cost analysis. Considering that a collective brand is the result of an interorganizational strategy, we propose an analytical framework helping to understand the design of interorganizational relationships. We identify the endogenous variables determining the organizational choices. Then we propose a two-step model focused on the allocation of decision rights and on governance mechanisms.

Key words : interfirm relationships, collective brands, governance, authority

1-Introduction

A collective brand is a brand which property and/or use is shared between several legally autonomous actors. Therefore a collective brand will systematically imply coordination among partners. This specific context places the design of interorganizational relationships at the core of the marketing strategy. Indeed these actors will have to create, sustain and guarantee the brand's reputation, both at individual and interfirm level. Several marketing theorists, mainly influenced by transaction-cost analysis (hereafter TCA) developed conceptual framework to understand the design of interorganizational relationships when there is a joint marketing action (cf for example Achrol 1997, Anderson 1996, Bergen et al. 1992, Carson et al. 1999, Rindfleisch and Heide 1997). In a first part we summarize their main findings. Then we propose a conceptual framework to understand the design of interorganizational relationships between actors engaged in a collective brand. We show that two aspects are crucial in this design : (i) the allocation of decision rights leading to the definition of a collective authority, and (ii) the set up of governance mechanisms which purpose will be to mitigate all forms of contractual hazards found between agents.

2- Managing a collective brand: implications for the design of interorganizational relationships.

When creating a collective brand, actors will face two types of problems. First, when a collective brand is a source of value, it is also a potential source of conflicts. Each actor has an incentive to take over a wide part of the created value to the detriment of others, through opportunist behavior. For example each producer is incited to free ride with regard to the collective reputation by not following the rules allowing to obtain the expected quality. Consequently the producers are placed in a situation of interdependence. Second, the agents cannot foresee all the contingencies which may arise during the progress of the cooperation, in particular when uncertainty is important. Therefore a complete contract to govern the relations is not a feasible alternative. These two problems emphasize the role of *ex post* and *ex ante* brand governance mechanisms. This situation is still enhanced because a collective

brand, to be credible for consumers, must homogenize in time and space all the individual marketing strategies.

Stemming from the TCA literature, the core principle for the choice of a governance form is the alignment principle : "Transactions, which differ in their attributes, are aligned with governance structures, which differ in their competences, in a discriminating way" (Williamson, 1996). This alignment principle can be extended: the choice of a governance form has to be matched with the "nature of the situation at hand and the features of the selected governance mechanisms" (Heide 1994:83).

The basic assumption of TCA is that "the study of governance is concerned with the identification, explanation and mitigation of all forms of contractual hazards" (Williamson, 1996:5). Contractual hazards may be of various nature: a network of firms developing a collective brand is expected to face multilateral dependencies and adaptation problems. According to Ghosh and John (1999), this general argument, for marketing decisions, turns into:

- Securing specific investments. This is the main prediction of transaction-cost economics. As long as agents cooperate in a strategy with an objective of value creation, they must provide safeguards in the exchange process. These safeguard clauses are a set of mechanisms implement to reduce contractual hazards between agents. This sends back to the type of co-investments made between the partners and to the contractual provisions of their interfirm relationships.

- Facilitating adaptation to external and internal uncertainty. In relational governance, because of the existence of long-term relationships without discretionary power (as in the hierarchical forms), governance mechanisms must allow adaptations. This situation is particularly frequent in marketing decisions, with the need to adapt to unforeseeable situations such as evolution of markets, change in consumer needs, competitors' new marketing strategies...

- Accommodating performance measurement difficulties. The cost of effort measurement between the parties in the network also determines the way the value sustaining and claiming problem is managed. Usually, there is an equilibrium between the control (outcome- or behavior-based controls) and the monitoring designs (Heide and Stump 1996, Brown, Dev and Lee 2000).

This statement will help us, in the following paragraph, to formalize a framework for the design of interorganizational relationships, in considering that multigovernance structures such as networks are a combination of these dimensions. Each of these dimensions will have a specific role in the management of the collective brand.

3- Collective brand governance : an analytical framework

A collective brand is the result of an interorganizational strategy. As suggested by Zaheer and Venkatraman (1995:375), relational governance has two main dimensions : the process (how the strategic decisions are made) and the structure (the result of these decisions). In our example the process deals with the variables, both exogeneous and endogeneous, that influences the organizational choices and the design of governance structures *per se*. Exogeneous variables deal with environment constraints. There are two types of constraints. The first one concerns sector and market characteristics, such as market size, concentration ratio, existing marketing strategies. These are the competitive environment constraints that are not managable by the incumbent firm. The second one is the institutional environment. Indeed, the set of existing rules is going to influence the relative costs of implementing alternative modes of governance forms, or event prevent some of them to be set up.

In our framework we will clearly focus on endogeneous variables. The owners and users of a collective brand have to arbitrate on two types of variables: the choice of a specific configuration (allocation) of decision rights regarding this brand, and the choice of governance mechanisms.

3-1 Collective brand and authority: the allocation of decision rights

Following Stinchcombe (1990), Heide shows that, in relational governance situations, authority "can be achieved between firms by means of contractual provisions" (Heide 1994:74). As developed previously, we saw that *ex post* governance mechanisms are necessary to fill the gap of contract incompleteness. Authority, and consequently the allocation of decision rights, is central to the question of collective brand governance. This idea that authority can be achieved by other means than hierarchical governance but also by uni- or multilateral contractual provisions is central to the analysis of collective brand governance (Bucklin and Sengupta 1993).

The allocation of decision rights defines who takes decisions and the nature of these decisions. Such an allocation of decision rights determines the roles and mutual obligations of the parts. As showned by Raynaud (1999), one must clearly distinguish between the design of the institutional arrangement in itself (its internal structure) and the interorganizational architecture, defined as the way the set of multilateral arrangements is organized. An ongoing research on collective brands (Sauvée 2000) showed that this interorganizational architecture leads to a central party, which role is to monitor the network. This central party will possess a certain number of rights: for example the right to control partners, to exclude or to coopt them.

As long as the allocation of decision rights coincides with property rights (i.e an independant firm responsible for its decisions) this identification is trivial. But, as authors like Ménard showed, in networks, there exists inevitably a specific decision mechanism in charge of some collective decisions, called authority. This concept of authority is defined as a "delegation by legally autonomous actors of decision power on a sub class of their actions". (Ménard 1997:746). Then a central party, which can be a firm, a third party or a negotiation structure, will be tailored to deal with some decisions.

In some cases, an assembly of co-owners will be in charge of marketing decisions such as promotional expenses. In a sense the franchisees create their own franchisor. In other cases, there is a negotiation structure which owns the brand, like in cooperatives. Through a delegation of individual rights, this negotiation structure will decide the strategic orientations of the brand. The partners in the network can also co-invest in a specialized company, in charge of the monitoring of the brand. Doing so the partners create a type of marketing joint-venture. Formally, this 'central party' may take different forms. But its role is always to create a private order within a group of legally autonomous firms or actors.

3-2 Governance mechanisms for marketing decisions

The interorganizational architecture being defined, let us turn to the governance mechanisms themselves. For Brousseau and Fares (2000), there are three generic governance mechanisms: supervision, control and incentive, and litigation mechanisms. All of them may be seen as decision procedures to fill the gap of contract incompleteness and to enforce the contractual promises.

(i) Supervision mechanism. In a situation of relational governance, an entity (for example the franchisor in franchise system) has the formal right to make decisions about

internal functioning and the evolution of the cooperation. It could be a modification of a brand's list of specification, investments in products promotion, launch of a new product. These decisions will be made in many cases by the central party. But, when the network is large and complex, this supervision mechanism can be divided in two parts: on the one hand the strategic decisions (for example the marketing strategy) and on the other hand more operational decisions (that are delegated to the partners) (Sauvée 2000).

(ii) Incentive and control/coercion mechanism. These mechanisms are designed to "incite the agents to follow the behavior required, or, on the contrary, to dissuade them from adopting behavior that are opposed to their commitments" (Brousseau and Fares 2000:411). To understand fully these mechanisms, we must consider that control and incentive are complementary. Control mechanisms are a necessary condition to protect the value of the collective brand. In order to limit the cost of control, there is a trade off between behavior-based and outcome-based mechanisms (cf for example Stump and Heide, 1996). This trade off will depend upon the information characteristics of the brand's value. But this necessary condition is not sufficient to fully understand the design of interorganizational relationships. The creation and the distribution of a stream of rents connected to the brand will create incentives, for the partners, to maintain the high value of the brand and its reputation. This may be done through the price system (for example a price premium for product quality) or by the threat of termination of the relationships.

(iii) Litigation mechanism. Behaviors of firms, in networks, may result in conflicts. These conflicts find their sources in voluntary or even involuntary opportunist behaviors. In any case, it is necessary to design a mechanism to deal with such situations: exact extent of rights and duties of the parties, formal and informal arbitration processes, designation of arbitrators. Many other means, such as relational norms or corporate identity, may be used to limit conflicts. But the existence of litigation mechanisms is also a way to indirectly limit opportunist behavior through a fear of exclusion from the network.

In spite of the wide variety and diversity of devices inside each type of mechanism, ongoing research in that field showed that these three generic mechanisms are found in every network situations. It plays the role of invariant schemes in front of universal contractual hazards: adverse selection, moral hazards, free riding. But the ability to protect in the long run the value of the collective brand is determining for the success of the cooperation (Madhok and Tallman 1998).

4- Concluding comments

Drawing from the existing literature on relational governance and from empirical researches, we suggest that the governance of collective brands must address clearly the design of interorganizational relationships on two aspects: first, in the recognition of an authority principle to fill the gap of joint action incompleteness; second, in the set up of governance mechanisms which rationale is to be found in the mitigation of contractual hazards. The contractual hazards linked to the common ownership and use of a collective brand are mainly network externalities. Therefore the design of interorganizational relationships will be the result of choices made to guarantee the flexibility for enforcing decisions in a changing environment while securing the network's partners in the value of their collective brand. In that perspective, the challenge of future research is to understand more completely how firms engaged in a collective brand strategy try to optimize the institutional design of their relationships under efficiency principle.

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