

**WHO WE ARE AND HOW WE GOVERN: THE EFFECT OF IDENTITY
ORIENTATION ON GOVERNANCE CHOICE**

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Abstract

We draw on emerging research in organization theory to suggest how different firm-level identity orientations (individualistic, relational, or collectivistic) impact governance choice. We develop a conceptual framework which focuses on the relationship between a focal firm's own identity orientation and that of a value chain partner. The framework identifies a series of match and mismatch scenarios, where the latter represent unique governance problems that are not accounted for by existing theory. Some of the mismatch scenarios involve pseudo-matches which resemble convergent orientations between parties, but which actually represent governance problems. Theoretically, our framework advances the governance literature by providing a comprehensive and nuanced account of (1) the orientations that parties bring to bear on a relationship, and (2) how their effects vary depending on the interdependence structure between the parties. We also advance the general literature on identity orientation by connecting it to concrete governance practices, by showing how multiple internal identity orientations create unique internal governance challenges, and by delineating two possible solutions to these challenges. We rely on the framework to develop managerial guidelines for governance choice.

Keywords

Organizational identity orientation, relationship governance, relationship management, partnerships

Marketing theory and practice are based on the principle that relationships between firms and their value chain partners such as suppliers, customers, and resellers must be purposely organized or governed. Theoretically, purposeful governance means shifting an exchange away from an “arm’s length” transaction by deploying governance mechanisms of various kinds (Dwyer, Schurr, and Oh 1987; Geyskens, Steenkamp, and Kumar 2006; Rindfleisch and Heide 1997). For instance, a manufacturer may manage its channel relationships based on formal contracts and standard operating procedures (Mooi and Ghosh 2010; Wuyts and Geyskens 2005). Alternatively, the firm may organize such relationships through informal implicit rules (Heide and John 1992; Jap and Ganesan 2000; Scheer, Kumar, and Steenkamp 2003).

Much of the extant research on governance is anchored in “The New Institutional Economics” literature; in particular in its transaction cost economics (TCE) branch (Williamson 2010). One of TCE’s key underpinnings pertains to an exchange partner’s possible opportunistic orientation, and the need for “motivational levers” (Gibbons and Roberts 2013, p. 57) that mitigate “self-interest seeking with guile” (Williamson 1975, p. 6). This is an important research stream, as evidenced by a large body of supporting empirical evidence. However, it also provides a limited account of the actual orientations that firms may possess. Two issues are particularly salient. First, in TCE a given firm’s *own* orientation rarely enters the governance calculus – the focus is squarely on the *partner*. We posit, however, that the juxtaposition between the two orientations – between what a focal firm and a partner bring to the relationship – represents a unique source of friction that must be managed. Second, while researchers have acknowledged orientations other than individual self-interest, and considered the effects of collective goals (Heide and John 1992; Wuyts and Geyskens 2005), past research has not considered the

possibility that different *forms* of collectivism may exist. We will show, however, that different forms have important theoretical and practical implications.

In this paper, we draw on a growing stream of work in organization theory to offer a novel theoretical model of how firms' identities affect governance choices. This line of work suggests that firms not only possess general *organizational identities* – shared perceptions about “who we are as an organization” (Albert and Whetten 1985, p. 220) – but also specific *organizational identity orientations* which systematically shape their interactions with external parties. These orientations are concerned with how a firm's identity influences its relationships across the supply chain – shared perceptions across a firm about “who are we as an organization vis-à-vis our stakeholders” (Brickson 2007, p. 866).

Brickson (2000, 2005, 2007) makes a distinction between three identity orientations which differ in their focus and underlying motivation; namely whether a firm's motivational base is focused on its own objectives (*individualistic orientation*), a particular dyadic partner (*relational orientation*), or a larger collective (*collectivistic orientation*). For example, the members of regional clusters (Tracey, Heide, and Bell 2014) often exhibit collectivistic orientations, sometimes called “regional identities” (Romanelli and Khessina 2005), which drive innovation (Tallman et al. 2004). The specific role that these properties play, however, remains poorly understood.

We build on Brickson's work to link the identity orientation construct with a firm's governance choices towards its partners; specifically, whether the focal firm relies on formal or informal governance mechanisms in a particular relationship. Our particular focus is on the *juxtaposition* between a focal firm's own identity orientation and that of a partner, and on how mismatches between them give rise to friction and potential transaction costs. These mismatches

represent different governance challenges, and can be resolved via formal or informal mechanisms. Ultimately, however, the ability to resolve a particular mismatch through governance choices is contingent on, (1) a given firm's own identity orientation, and (2) the relationship's larger interdependence structure (Kumar, Scheer, and Steenkamp 1995). The former determines the focal firm's ability to implement a given (formal or informal) governance regime internally. The latter, which captures "each firm's dependence, the magnitude of the firms' total interdependence, and the degree of interdependence asymmetry between the firms" (Kumar, Scheer, and Steenkamp 1995, p. 349), determines a given firm's ability to impose a particular governance regime on the partner.

We identify one particular form of mismatch, called a "pseudo-match," which involves the combination of relational and collectivistic orientations. Interestingly, while these two orientations seem compatible by virtue of their other-oriented predispositions, their combination represents a unique source of friction, because the two possess different focal points, namely an individual partner and a larger system, respectively.

We make five contributions to the literature. First, we provide an expanded framework of inter-firm governance by accounting for a range of different identity orientations, including different forms of other-centered orientations. Understanding these differences is crucial for firms seeking to reduce relationship friction and promote value creation.

Second, we provide a new perspective on relationship alignment and misalignment. These concepts are central in the governance literature, although past research has considered alignment somewhat narrowly, in terms of the relationship between a transaction's attributes and the mechanisms used to govern it. Indeed, with some notable exceptions (e.g., Ghosh and John 1999; Mayer and Argyres 2004), governance theory is more concerned with the attributes of a

given transaction than with the characteristics of the parties that comprise it. This provides a limited account of the types of governance problems that firms may encounter, as well as the related costs. We propose that alignment (and misalignment) also resides in the juxtaposition between two parties' identity orientations, and that different constellations between them have important governance implications. Our framework responds to calls (Geyskens, Steenkamp, and Kumar 2006, p. 532) for "insight into the underlying mechanisms driving governance decisions."

Third, we build on recent research (Carson and Ghosh 2019) to integrate the efficiency reasoning of TCE with power-dependence considerations. We posit that while mismatched identity orientations represent a motivation to govern a given relationship in a particular fashion, the actual ability to do so resides in the parties' interdependence (e.g., Kumar, Scheer, and Steenkamp 1995; Wathne et al. 2018). Carson and Ghosh (2019) specifically note how TCE tends to be "silent on the process by which all parties come to accept ... [a] governance structure" (p. 104). We show that different aspects of interdependence facilitate the use of formal and informal governance to manage mismatches in identity orientation.

Fourth, we show the implications of the identity orientation construct by linking it with fundamental strategy choices. Specifically, we propose that different identity orientations are uniquely associated with value creation versus value appropriation strategies (Dyer and Singh 1998; Ghosh and John 1999). Our framework further suggests how firms' identity orientations can be leveraged into concrete, value-enhancing, governance practices.

Finally, we advance the general identity orientation literature by showing how multiple identity orientations may co-exist within a firm at the same time. Such a scenario may give rise to governance-related mismatches in its own right. We identify some possible sources of such problems and offer some tentative organizational solutions.

We begin by providing an overview of the organizational identity construct. Next, we present our conceptual framework, including a set of research propositions. We close with a discussion of the implications of our framework for marketing theory and practice.

Organizational Identity Orientation: Theoretical Background

Organizational identity refers to the features of an organization that members consider to be central, enduring, and distinctive (Albert and Whetten 1985). In other words, it is a shared definition of “who we are as an organization” that helps organizational members to position their firm in the strategic landscape and differentiate it from other firms of a similar type (Kreiner et al. 2015; Nag, Corley, and Gioia 2007). Since Albert and Whetten’s foundational contribution, it has become a core concept in management research and there is now an extensive literature on the topic. This work has focused in particular on the link between organizational identity and strategy, but is increasingly concerned with how an organization’s identity influences its relationship to other organizations (Gal, Jensen, and Lyytinen 2014; Gioia et al. 2010).

In this respect, work on organizational identity orientation – members’ interpretation of an organization’s role in relation to other organizations (Brickson 2000, 2005, 2007) – represents a key step. The concept combines ideas from stakeholder theory (Freeman 1984) and social psychology (Brewer and Gardner 1996) to distinguish three fundamental dispositions that frame an organization’s relationships with others: individualistic, relational, and collectivistic. These dispositions represent mental models comprising members’ accepted beliefs about the fundamental nature of an organization vis-à-vis its interactions with stakeholders (Brickson 2008; Gebhardt, Farrelly, and Conduit 2019).

Types of Organizational Identity Orientation

Members of firms with an *individualistic identity orientation* view themselves as

belonging to an organization that is clearly distinct from its stakeholders and emphasize the interests and welfare of the focal firm with respect to key outcomes such as revenue, reputation, and market share. An example is Wal-Mart, whose strategy of “market share expansion by any means” (Sethi 2014, p. 424) has led it to adopt a policy of “unrelenting pressure” with respect to its suppliers, negotiating hard on supplier margins in the first instance and then requiring that each supplier reduces the cost of similar products year on year (Fishman 2006, p. 7).

By contrast, members of firms with a *relational identity orientation* view their firm as “dyadically interdependent” (Brickson 2005, p. 577) and make claims that it possesses shared traits with a specific partner that tie the two entities together. The emphasis is on maximizing the interests and welfare of dyadic relationships and on maintaining them over time, using a “we” frame (Bacharach 2006) as a basis for decision-making. An example is GoPro, the technology company whose cameras are used by extreme sportspeople. It has a longstanding partnership with Red Bull, the energy drinks company whose marketing strategy is built around extreme sports. The firms see themselves as kindred spirits, with the GoPro founder Nicholas Woodman emphasizing that “we share the same vision... to inspire the world to live a bigger life”, while Red Bull founder Dietrich Mateschitz has highlighted that the bond between the two firms is cemented by their “unique ability to fascinate” (Stewart 2016).

Members of firms with a *collectivistic identity orientation* view their firm as part of a broader group and make claims that it possesses traits that tie it to that group. The emphasis is on maximizing the interests and welfare of a larger collective. Granovetter (2005) notes how so-called “business groups” like Japanese keiretsus and Korean chaebols do not consider individual firm performance in isolation, but in the context of the role it plays within the group. As a specific example, Toyota’s relationships with its suppliers have long been shaped by its

collectivistic identity orientation. It has developed a “deep supplier collaboration system” that “emphasizes symmetrical collaboration to optimize outcome effectiveness for the total ecosystem” and is explicitly designed to guard against outcomes that are “sub-optim[al] for only certain members, sub-units or component firms” (McMillan 2018, p. 11).

How Organizational Identity Orientation Matters

Organizational identity orientation matters because “[a]n organization’s perceived role relative to others is arguably foundational in how it manages all of its relations” (Brickson 2005, p. 577). For example, VW has been described as having a strong individualistic identity orientation. This orientation became particularly entrenched in the 1990s when they recruited a new head of purchasing from General Motors, Jose Ignacio Lopez. Lopez “was known to refer to his closest colleagues as ‘warriors’” and his determined approach to cutting costs and increasing efficiency across the supply chain “earned him a new nickname among suppliers [in Germany]: ‘The Strangler’” (Wimmer and Muni 2011, p. 108). His legacy continues to be felt at the firm.

In contrast, Zara’s relational identity orientation underlies its adeptness in transitioning products very rapidly from concept design to the shop floor. This competency, which is at the core of its success, supports the firm’s “longstanding relations” with specific local manufacturers, which have been carefully nurtured over many years. By investing heavily in multiple dyadic supplier relationships, and tying its own welfare to these relationships, Zara is able to “place short-term quick orders, to be cancelled or expanded at short notice depending upon fashion trends and customer demands” (Bailey 2015).

Finally, Nestle’s collectivist identity orientation, exemplified in its “shared value” strategy (Porter and Kramer 2011, p. 62), has allowed the firm to markedly improve its coffee procurement. Unlike Zara – which focuses on a series of dyadic relationships – Nestle seeks to

support a collective of coffee producers and a system of coffee production. Specifically, through its AAA Sustainable Quality Program, the company has worked with thousands of farmers across the Global South to improve coffee growing and production methods. It has also invested in community infrastructure, including schools and roads, and has encouraged farmers to support one another by, for example, laying electricity cables to neighboring farms (Nestle 2020).

In the organizational literature, these orientations are assumed to structure how firms engage with external partners. For example, the enactment of different organizational identity orientations may facilitate different types of reciprocation (Gal et al., 2014); they may influence the extent to which firms engage in “prosocial strategies” vis-à-vis partners and the communities in which they operate (Hernandez 2012); and they may impact task and reward structures within and between organizations (Brickson, 2000).

How Organizational Identity Orientation Differs from Organizational Culture

Research on organizational identity has grown dramatically in management in recent years, partly replacing established concepts such as organizational culture (Alvesson, Ashcraft, and Thomas 2008). This contrasts with marketing where the concept of organizational culture as well as market orientation – a particular kind of organizational culture – have remained dominant. While organizational culture is sometimes considered in conjunction with the concept of organizational identity, they differ in important ways (see Ravasi and Schultz 2006). Organizational culture is the set of beliefs, norms and values that influence behavior in organizations (Trice and Beyer 1984). Because some of these beliefs, norms and values “lie beneath the surface of organizational life” (Beyer and Trice 1987, p. 6), parts of an organizational culture may be invisible to organizational members. Culture is therefore broader than organizational identity – which is focused only on the characteristics of an organization that

members believe define it; and organizational identity orientation – which is focused only on the characteristics of an organization that members believe define it in relation to its interactions with stakeholders. Of course, when organizational members consider that particular organizational beliefs, norms or values form part of the organization’s defining characteristics, then elements of an organization’s culture form part of its identity. Culture, therefore, “may or may not be part of the answer to the identity question” (Albert 1998, p. 3), but they capture different aspects of organizational life (Whetten 2006). The strength of identity and identity orientation thus lies in their specificity: identity is concerned with concrete *claims* by members about an organization’s distinctiveness rather than the broader set of cultural attributes, which may or may not be recognized as salient by organizational members. For clarity, Table 1 provides a summary comparison of organizational identity orientation, organizational identity, organizational culture, and market orientation.

Governance Implications of Identity Orientations

As described above, the original identity orientation literature (e.g., Brickson 2005, p. 602) has made a general case for how “an identity orientation ... determines how organizations structure and manage relationships with customers, suppliers, and other stakeholders”. At the same time, the specific mechanisms of identity enactment have been left unspecified. Indeed, the emphasis in this literature has been on the antecedents of identity orientations, rather than on their governance implications. We posit, however, that there are inherent linkages between different (firm-level) identity orientations, on the one hand, and the mechanisms used to govern relationships with partners, on the other. These linkages exist due to different identity orientations’ unique focal points and sources of motivation, which align naturally with the logics of different governance mechanisms.

Table 1: A Comparison of Organizational Identity Orientation with Related Concepts

Concept	Definition	Core assumptions	Key studies in marketing
<i>Organizational identity orientation</i>	“The nature of assumed relations between an organization and its stakeholders as perceived by members” (Brickson 2007, p. 864)	<p>Concerned with how an organization’s identity influences its external relationships – “who are we as an organization vis-à-vis our stakeholders?”</p> <p>Considers organizations to be characterized by three discrete identity orientations which differ in their focus and underlying motivation; namely whether a firm’s motivational base is tied to itself (individualistic orientation), a particular dyadic partner (relational orientation), or a larger collective (collectivistic orientation).</p> <p>Is rooted in an organization’s identity. Used by members to guide their interactions with stakeholders.</p>	-
<i>Organizational identity</i>	“An organization’s self-definition [that] specifies how the organization is both similar to and different from other organizations” (Whetten and Mackey 2002, p. 399)	<p>Is focused on the core question of “who are we?” as an organization. It is self-referential: involves members’ conscious efforts to define the organization to which they belong.</p> <p>Concerns those features of an organization that are central to its character, distinctive from other organizations of a similar kind, and endures over time. These features become apparent through specific, agreed upon identity claims, and are used by organizational members to make sense of situations and organizational priorities</p> <p>Feeds into an organization’s identity orientation and therefore inherently linked to it.</p>	Ahearne, Bhattacharya, and Gruen (2005); Bhattacharya, Rao, and Glynn (1995); Bhattacharya and Sen (2003)
<i>Organizational culture</i>	“A network of shared understandings, norms, and values that are taken for granted and that lie beneath the surface of organizational life” (Beyer and Trice 1987, p. 6)	<p>Based on the idea that organizations comprise a set of beliefs, norms and values that guide members’ behavior.</p> <p>These beliefs, norms and values are manifest in different kinds of cultural material – stories, rituals, artefacts, policies, conventions, and operating procedures. Some aspects of culture are visible, explicit, and consciously understood, while others are invisible, tacit and exert influence subconsciously.</p> <p>It is therefore broader than organizational identity and identity orientation – while these are concerned with concrete claims about those parts of the organization that members collectively believe define it, organizational culture is concerned with the more general set of attributes that characterize the organization, which may or may not be recognized as salient by organizational members.</p>	Deshpandé, Farley and Webster (1993); Moorman, Deshpandé and Zaltman (1993); Wuyts and Geyskens (2005)
<i>Market orientation</i>	“[T]he organization culture... that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (Narver and Slater 1990, p. 21)	<p>A type of organizational culture that emphasizes and prioritizes the creation of value for customers as its core attribute.</p> <p>Comprises three behavioral components: customer orientation (a focus on understanding customer needs), competitor orientation (a focus on understanding alternatives providers), and interfunctional co-ordination (a focus on ensuring that all parts of the firm share information and direct energies to creating value for customers).</p> <p>Like identity orientation it is concerned with relations with stakeholders, but it also differs from identity orientation in two key ways: 1) while firms may exhibit differences in their degree of market orientation, identity orientation also differs systematically in terms of content (individualistic, relational, collectivistic); 2) market orientation’s focal point is inherently tied to customers and the downstream market, whereas identity orientation also extends to supplier relationships and other members of the larger value chain.</p>	Jaworski and Kohli (1993); Kohli and Jaworski (1990); Narver and Slater (1990)

We show these linkages in Table 2. Columns two and three show Brewer and Gardner's (1996) original distinctions between the three identity orientations with respect to locus of self-definition and source of motivation. Next, we show how these two attributes have implications for (1) a given firm's *interface* with other firms; namely the manner in which the parties' actions are linked, (2) its general *governance goal* in terms of value claiming versus value creation and, ultimately, the (3) specific *governance mechanisms* that follow from these goals. We note that our theorizing here, just like Brickson's (2007) original conceptual framework, relies on a Weberian (1947) "ideal types" formulation which identifies the (theoretically) defining characteristics of each identity orientation.

As a starting point, consider an individualistic identity orientation where a firm's focus and primary source of motivation is self-interest (Brickson 2007). Inherently, such an orientation emphasizes autonomy (Gal, Jensen, and Lyytinen 2014) or, at most, weak ties with other firms (Brickson 2007). We characterize such organizational interfaces as discrete, in that the focal firm values boundary maintenance and a separation of activities vis-à-vis the partner (Dyer and Singh 1998; Santos and Eisenhardt 2005). Theoretically, such a perspective underlies TCE's original single-party focus (Zajac and Olsen 1993), where the larger governance goal involves value claiming, rather than value creation, and governance decisions are driven by a desire for rigidity, implemented through formal contracts that specify unilateral decision rights and standard operating procedures (Argyres and Mayer 2007). Ghosh and John (1999) specifically note how formal governance practices that are (1) designed to claim value by restraining partners' actions are also (2) inherently constrained in their value creation ability.

Table 2: Identity Orientations and Governance Implications¹

Identity Orientation	Locus of Self-Definition	Source of Motivation	Organizational Interfaces	Governance Objective	Governance Mechanism
<i>Individualistic</i>	Individual firm	Self-interest	Discrete	Value appropriation	Formal (rules, contracts)
<i>Relational</i>	Dyad	Relationship welfare	Permeable (vs. dyadic partner)	Value creation (dyadic)	Informal (wealth-maximizing norms)
<i>Collectivistic</i>	System	System welfare	Permeable (vs. member firms)	Value creation (system)	Informal (wealth-maximizing norms)

Consider next relational and collectivistic identity orientations. While the focus of the two orientations differs, namely a dyadic partner versus a larger system, they share a motivational base of joint, rather than individual, welfare. As such, both of these identity orientations emphasize permeable organizational interfaces (Santos and Eisenhardt 2005) in the form of joint activities and overlapping roles (Heide 1994), although the linkages involve an individual partner and a collection of member firms, respectively. In practice, both orientations emphasize joint action (Heide and John 1990), integrated activities (Jap 1999), and more broadly, a “unit action” paradigm (Bonoma 1976). With regard to governance objectives, both orientations emphasize value creation. As a specific example, Jap’s (1999) work on “pie-expansion” describes how Bose Corporation integrated its core activities with suppliers by placing supplier representatives on-site and giving them responsibility for inventory management. With regard to governance mechanisms, such a focus implies informal governance based on norms that maximize joint payoffs; so-called wealth-maximizing norms (Ellickson

¹ Adapted from Brewer and Gardner (1996)

1989). Dyer et al. (2018) specifically note how informal governance possesses unique value-creation properties.²

Combinations of Identity Orientations

The above discussion suggests that an existing identity orientation will predispose a focal firm (e.g., a buyer) towards deploying a particular form of governance vis-a-vis a partner (e.g., a supplier). Further, the partner's own orientation will influence its willingness to accept the mechanisms in question. Figure 1 shows different constellations of identity orientations between a firm and a partner. The focal firm's own identity orientation (individualistic, relational, collectivistic) is shown on the vertical axis, and the partner's orientation is shown on the horizontal axis. The joint consideration of both orientations produces nine different scenarios. Three of them, shown by the white boxes on the diagonal (Cells 1, 5, and 9), are *matches*, because the parties' identity orientations parallel each other. Specifically, there is convergence between the parties' individualistic (Cell 1), relational (Cell 5), or collectivistic (Cell 9) orientations.

Cells 2, 3, 4, and 7, shown by the dark shaded boxes in Figure 1, represent *mismatches*. We use the term mismatch to denote the incompatibility between the self-interested motivation of an individualistic orientation and the other two orientations' concern for the welfare of a larger unit.

Finally, Cells 6 and 8, shown by the lightly shaded boxes in Figure 1, are characterized as *pseudo matches*. Technically, because the parties' identity orientations do not converge, these two scenarios represent mismatches. They differ, however, from the mismatches in Cells 2, 3, 4,

² Helper and Levine (1992) provide an interesting illustration of some of the above linkages. They show how US auto manufacturers at one point, motivated by well-documented individualistic identity orientations, failed to engage in efficient (value-creating) supply chain practices, and instead insisted on rigid contractual practices and a value-claiming strategy that limited their suppliers' ability to bargain for rents.

and 7, because relational and collectivistic orientations share commonalities, namely (1) a belief that self-interest is tied to relationship partners and (2) a motivational anchoring in the welfare of a higher-order unit. These commonalities suggest the presence of certain governance benefits. However, as we will discuss, the differing focus on a particular relationship or a collective, represents a unique source of friction, hence the term pseudo-matches.

Figure 1: Combinations of Identity Orientations

		Partner Firm's Identity Orientation		
		Individualistic	Relational	Collectivistic
Focal Firm's Identity Orientation	Individualistic	1	2	3
	Relational	4	5	6
	Collectivistic	7	8	9

Key:

- Match
- Pseudo Match
- Mismatch

Match Scenarios

Conceptually, the match scenarios in Cells 1, 5, and 9 reflect shared mental models between the focal parties (Gebhardt, Farrelly, and Conduit 2019) with regard to motivation and decision-making focus. Unlike the mismatch and pseudo-match scenarios discussed below, they do not involve governance problems per se, and we therefore do not advance specific propositions for them.

In Cell 1 where both parties possess individualistic orientations the compatible self-oriented mindsets will facilitate the use of formal governance. The focal firm's identity orientation will predispose it towards formal governance, and such practices will be acceptable to the partner who possesses a similar orientation. In practical terms, this means that both parties will be accepting of a rule-based mode of governance (Mooi and Ghosh 2010); for instance in the form of contracts which constrain individual decision-making.

In Cell 5 the two parties' convergent relational identity orientations, whose underlying motivations are tied to the specific counterpart, will support informal relationship governance. Essentially, the general concern for the partner's welfare which defines a relational identity orientation will facilitate the emergence of partner-specific norms (Heide and John 1992).

Cell 9, which involves matched collectivistic orientations, represents a unique governance scenario. Here, both parties' motivations are tied to the same, larger (non-dyadic) entity whose welfare guides the parties' decision-making. Imagine, for instance, two firms that identify with a larger business group (Granovetter 2005) or industry cluster (Romanelli and Khessina 2005). This involves a match, but we argue that it differs from the match in Cell 5. While the parties' motivations are other-directed and open to a reliance on informal governance practices, their focus is on the larger group or cluster, rather than on the individual partner per se. Therefore, the basis for deploying informal governance within a given relationship will be inherently weaker in Cell 9 than in Cell 5. At the very least, the system-level codes must be adapted to the relationship level or modified to suit the particular circumstances at hand (Brusco 1999).³

³ We note that our current discussion of matched collectivistic orientations assumes that both parties belong to the same collective. In the Discussion section we consider the governance implications when firms belong to different collectives.

Mismatch Scenarios: Governance Predictions

Implicit in our discussion of matches is that firms have an inherent preference for partners with compatible identity orientations, which organically eliminates certain sources of friction. That said, firms may have many reasons to transact with incompatible partners, including small candidate pools or business considerations that require certain partners. When this occurs, firms must consider governance choices that minimize on-going friction.

In Cells 2, 3, 4, and 7 divergent identity orientations give rise to different governance problems, due to the parties' differences in focus and motivation. Consequently, explicit relationship-level governance is needed to minimize on-going friction between the parties. The specific governance solution, however, follows from a complex interplay between the parties' motivation and ability.

A focal firm's motivation follows from the goals of ensuring a frictionless relationship with the partner in a way that is cost-efficient given the firm's own identity orientation. The actual ability to act on the motivation, however, depends on the *partner's* particular identity orientation, which may serve as a unique constraint on governance deployment. Importantly, ability also resides in the overall interdependence structure – “each firm's dependence, the magnitude of the firms' total interdependence, and the degree of interdependence asymmetry between the firms” (Kumar, Scheer, and Steenkamp 1995, p. 349) – that characterizes the relationship in question. As shown in past research, interdependence structure determines the relative ease with which parties can exit from their relationship, and that in turn determines a given party's power to govern a relationship in a particular fashion (Kumar, Scheer, and Steenkamp 1995; Carson and Ghosh 2019).

In developing our propositions, we consider four different interdependence scenarios, namely (1) symmetric and high interdependence where the parties are mutually locked into the focal relationship, (2) symmetric and low interdependence where both parties can easily exit, and asymmetric dependence in (3) the focal firm's or (4) the partner's favor. Below, we discuss how each scenario, due to its unique power implications, impact the ability to resolve mismatches in identity orientation through purposeful (formal or informal) governance.

Consider first the mismatches in Cells 2 and 3, where an individualistically oriented firm interacts with a partner who is relationally or collectivistically oriented. On the face of it, these scenarios appear relatively unproblematic, given that the partner's orientation is broadly other-directed in nature. We argue, however, that the inherent differences in decision-making mode that underlie the parties' identity orientations give rise to friction, and thus necessitate explicit relationship-level governance. Specifically, as shown in Table 2, the focal firm's predisposition towards unilateral, rule-based, formal governance is inherently inconsistent with partners who value boundary permeability and norm-based interaction. Indeed, relationally and collectivistically oriented firms may find formal governance practices abrasive. Consequently, an individualistically oriented firm's ability to deploy formal mechanisms for a particular relationship depends on whether it possesses sufficient power in the relationship.

To the extent that the prevailing interdependence structure is asymmetric and the partner is more dependent on the focal firm than vice versa, the focal firm will possess an inherent power advantage (Emerson 1962). As an example, this may be the case if the partner is a supplier who has made significant, unilateral investments in assets dedicated to the focal firm. Under such conditions, the asymmetric dependence in favor of the focal firm allows it to act on its governance motivation. We propose:

P1: A relationship between an individualistically oriented focal firm and a relationally or collectivistically oriented partner will be based on formal governance if the relationship's interdependence structure is asymmetric in the focal firm's favor.

If, however, the prevailing interdependence structure does not favor the focal firm, its ability to deploy formal governance is undermined. Under such conditions, the only option available to the focal firm for minimizing relationship friction is to accede the partner's preference for informal governance, implemented through socialization efforts (Chatman 1991) that promote norm formation. However, given that such governance efforts do not align naturally with the focal firm's (individualistic) identity orientation, socialization initiatives may face internal obstacles and require extensive employee (re)training. However, if the on-going friction that follows from the divergent identity orientations is sufficiently problematic, the necessary investments in training can be justified. In proposition form:

P2: A relationship between an individualistically oriented focal firm and a relationally/collectivistically oriented partner will be based on informal governance if the prevailing interdependence structure is asymmetric in the partner's favor.

In principle, Cells 4 and 7 in Figure 1 involve the same types of dyads as in Cells 2 and 3, and the same form of friction caused by different identity orientations (self- versus other-oriented). The two sets of cells, differ, however, in terms of the focal firm's identity orientations, which represent different internal organizational constraints, namely the inherent difficulty of an other-focused firm with using formal governance (Cells 4 and 7), versus an individualistically oriented firm's reluctance to rely on informal mechanisms (Cells 2 and 3). Nonetheless, due to the functional similarity between the two sets of cells with regard to the core governance problem, we refrain from offering a unique prediction for cells 4 and 7.

In the different mismatch scenarios discussed above the effect of dependence asymmetry (in the focal firm's or the partner's favor) is to facilitate or constrain the focal firm's use of a

particular form of relationship governance. Next, we consider the implications of an interdependence structure in which partners are both highly dependent on one another (symmetric and highly dependent). In practice, this may happen as a result of a “hostage exchange” between parties (Wathne et al. 2018; Williamson 2010) or the joint offering of credible commitments (Anderson and Weitz 1992). As a specific example, Jap (2015) describes how Pillsbury and Cinnabon made joint investments in manufacturing processes, communication routines, and packaging. Given that such investments produce mutual exit barriers for the parties (Kumar, Scheer, and Steenkamp 1995), they may in themselves produce governance benefits that reduce the need for formal or informal restraints on partner behavior.

To see why this is so, consider that formal and informal governance, as previously discussed, represent “the rules of the game” (Henisz and Williamson 1999) whose general purpose is to streamline exchange by directly (formally or informally) constraining parties’ actions. A condition of symmetric dependence, in contrast, serves to align parties’ basic incentives, and thus reduces the on-going friction that otherwise would follow from mismatched identity orientations. If such an incentive structure exists, it lessens the need to explicitly govern a relationship through formal or informal rules.

We note that symmetric dependence from a theoretical standpoint is a different phenomenon from matched relational identity orientations, as per our earlier discussion. The latter captures firms’ *general* decision-making practices, whereas symmetric dependence pertains to a particular relationship. Further, the “organic” governance properties that follow from a matched relational identity orientation differ from the calculative mindset that is induced by a bilateral hostage exchange. We propose the following:

P3: The need to resolve mismatches in identity orientation through formal and informal relationship governance will be reduced under conditions of symmetric and high interdependence.

We believe, however that the substitution scenario described above is associated with boundary conditions, in that it is strongest for mismatches involving individualistic and relational identity orientations (Cells 2 and 4). Symmetric dependence, as discussed above, is by definition dyadic in nature, and may have inherently limited effects vis-a-vis firms whose identities are tied to a larger system. If one of the parties possesses a collectivistic identity orientation (as in Cells 3 and 7), incentive alignment within a particular relationship dyad will have inherent limitations given the system-level imperatives felt by a collectivistically oriented firm. Therefore, the mismatches in Cells 3 and 7 will require explicit relationship governance to adapt system-level codes and norms to the relationship level, as per our earlier discussion. In proposition form:

P4: The substitution effect in P3 will be stronger when the mismatch in question involves individualistic and relational identity orientations than when the mismatch involves a firm with a collectivistic identity orientation.

Next, consider the implications of a different interdependence structure, namely symmetric and low dependence. Assume, for instance, that the parties' investments involve purely general-purpose, rather than relationship-specific, assets, and that both firms as a consequence face low exit barriers. As before, the mismatches in identity orientation that underlie Cells 2, 3, 4, and 7 involve friction, but low symmetric dependence changes the parties' decision calculus. Specifically, rather than resolving the on-going friction through the deployment of (formal or informal) relationship governance, exiting the relationship and replacing the partner will be a viable option. In other words, rather than remaining in a relationship with a partner whose identity orientation gives rise to friction, finding a new (and compatible) partner is likely to be a preferred option. This will be the most likely option for focal

firms with individualistic and relational identity orientations (i.e., Cells 2, 3 and 4), for which the dyad is the primary focus.

For focal firms with collectivistic orientations, mismatches with individualistic partners (i.e., Cell 7), exit is less likely to be the first option. Given that the selection of the mismatched firm was likely driven by the interests of the collective in the first place, the focal firm will attempt to resolve the relevant differences. Interestingly, investing in governance arrangements to resolve a mismatch might shift the relationship from no dependence (i.e., low-low) towards a material level of interdependence (e.g., through idiosyncratic investments in partner training and socialization). Exit will remain an option, but there may be a modest trade-off between exiting and remaining in the relationship and continuing to resolve friction through purposeful governance. We propose the following:

P5: Mismatches in identity orientation will be resolved through relationship exit rather than through governance deployment under conditions of symmetric and low interdependence; this effect will be stronger for firms that possess individualistic and relational identity orientations than for firms with collectivistic identity orientations.

Pseudo-match Scenarios

The final two cells in Figure 1, Cell 6 and 8, represent special cases which we describe as pseudo-matches. Technically, these two scenarios represent mismatches, because the parties' orientations (relational and collectivistic) differ. At the same time, because both orientations are other-centered in nature, there exists a certain commonality between them; hence the term "pseudo". Intuitively, one might expect the commonality between a relational and a collectivistic identity orientation to resemble the "organic" governance scenarios in Cells 5 or 9. This, however, is not necessarily the case. In fact, because the two orientations have different foci, namely the partner and the larger system, there is the distinct possibility of on-going friction between the parties in question.

Consider first Cell 6, where the focal firm's orientation is relational and tied to the individual partner, whereas the partner's collectivistic orientation is tied to a larger system. As an example, imagine an on-going dyadic relationship between a supplier and a buyer/manufacturer, where the buyer belongs to a particular industry cluster, but the supplier does not. The focal firm's (supplier's) orientation will predispose it towards informal governance in the form of partner-specific norms. The buyer's collectivistic orientation is broadly consistent with an informal governance approach, but its tie to its collective (the cluster) raises the possibilities that the supplier's partner-specific efforts will not be reciprocated, and the on-going interaction between the parties will be conflictual, due to divided loyalties. Cell 6, therefore, involves inherent vulnerability for the focal firm (the supplier).

In principle, two governance options exist for the supplier. First, it might consider informal governance given the inherent predisposition of both identity orientations toward such a norm-based governance approach. While the focus of the respective norms differs, the supplier may invest in deliberate efforts to *reorient* the partner's focus from the larger system of relationships in which it is embedded to the dyadic relationship between the two firms.

Second, the pseudo-match in Cell 6 may be resolved through formal governance initiated by the supplier, designed to reduce the risk of the collectivistic partner (the buyer) dividing its loyalty between the focal firm and the members of the collective to which it belongs. While the collectivistic partner may be receptive to socialization attempts around relationship-specific norms given its (generally) other-centered motivation, it is unlikely to fully disconnect from the needs of the collective (Pallares-Barbera, Tulla, and Vera 2004). Indeed, the complex role structure that characterizes a collective, and which involves multiple partners, means that a collectivistic orientation is inherently difficult to unwind and redirect (Lorenzen and Foss 2002;

Saxenian 1994). Stated differently, the necessary socialization effort may be considerable. Consequently, and perhaps counter-intuitively, in Cell 6 we expect to see formal governance by the supplier as a means of aligning the partner to the relationship at hand. Specifically, this can be done through mechanisms like rules and contracts that are inherently easier to establish and offer immediate means of reducing friction. This view is consistent with Jap and Ganesan's (2000, p. 232) finding that formal contracts are likely to be used in the exploration phase of a relationship due to the "uncertainty regarding the future value of the relationship." We note, however, that in a parallel fashion to P1, the expectation of formal governance is contingent on the focal firm having sufficient bargaining power to implement the relevant mechanisms.

Next consider the pseudo-match in Cell 8, involving a collectivistically oriented focal firm and a relationally oriented partner from outside the collective. Assume, for instance, that a supplier who belongs to a cluster, and transacts on a regular basis with buyers from the cluster, also has an on-going (dyadic) relationship with a buyer who is external to the cluster. Again, both orientations are other-centered, but they have different foci, which represents a source of friction. Interestingly, while the actions that follow from the external buyer's relational orientation stand to benefit the cluster-based supplier individually, they are inconsistent with the latter's investments in the larger cluster and its attachment to other (cluster-based) buyers. While the external buyer's actions, which are directed only towards the cluster-based supplier, may coincidentally align with the ambitions of the larger system, the system is not a primary focus. Indeed, the buyer's requests and actions may represent competing demands which ultimately come at the expense of the collective. For instance, the external buyer may, based on its relational interaction with the supplier, request privileged on-time information on demand and supply chain practices that place cluster-based buyers at a competitive disadvantage. The

cluster-based supplier may stand to benefit from such information sharing, but its larger (cluster-based) network of relationships is not enhanced. Indeed, the sharing may put the supplier's standing within the collective at risk.

In this scenario, the supplier is faced with the challenge of reorienting the buyer's focus from their dyadic relationship to the larger collective of firms in which the focal firm is embedded.⁴ While it might seem counterintuitive that a focal firm would encourage a partner to be *less* concerned with their relationship, such an approach is consistent with a collectivistic identity orientation in which the goals of the broader system are paramount (Giuliani 2013; Saxenian 1994). In principle, the focal firm may engage in socialization designed to build loyalty to the system. However, just like unwinding an established collectivistic orientation may be costly, crafting system-level norms (or converting the current dyadic ones) may impose significant costs on the focal firm (Visser and Boschma 2004).

Consequently, given sufficient bargaining power, we again expect to see the focal firm (the supplier) apply rule-based, formal governance, to reduce friction with the relationally oriented buyer. While seemingly incompatible with the focal firm's collectivistic orientations, this approach is designed to restrain the partner's decision-making autonomy – effectively 'tying their hands' – to protect the interests of the collective. Grewal, Chakravarty, and Saini (2010), for example, show that electronic business-to-business markets rely on formal rules to build and maintain communities among exchange partners. We therefore propose the following:

⁴ Conceivably, codes of conduct that exist at the level of the collective may have governance effects in their own right and permeate the transactions between member firms. We see this in the impact of 'macrocultures' within regional clusters (e.g., Bell, Tracey, and Heide 2009) and codes of conduct that influence the behavior of communities (Ellickson 1991) and members within networks (Provan and Kenis 2008). However, such processes are time consuming, and the general level at which these codes exist means that they in themselves possess limitations in protecting the interests of the collective.

P6: A pseudo-match involving a collectivistically and relationally oriented firm will promote formal relationship governance regardless of the asymmetry of the prevailing interdependence structure.

Multiple Identity Orientations and their Internal Governance Implications

We have set out a series of arguments to explain how different firm-level identity orientations and interdependence structures impact governance choice, showing how a range of matches, mismatches and pseudo-matches can facilitate and constrain relationships with external partners. Consistent with the organizational identity literature (Ashforth and Mael 1996; Ravasi and Phillips 2011), our assumption up to this point is that firms have a single, overarching identity orientation. In general, singular identity orientations that are clear and widely held are thought to facilitate firm performance, because they provide the organization with a common understanding of how it should manage and structure its external relationships (Brickson 2007).

However, singular identity orientations can be also constraining because they limit firms' room to maneuver in their dealings with individual partners. By contrast, multiple identity orientations allow for "response flexibility" (Thoits 1983). Such flexibility can be advantageous because it enables organizations to cater to the sometimes conflicting demands of multiple relationships in their value chain, giving firms "a significant competitive edge" (Pratt and Foreman 2000, p. 22) over rivals who lack this capability. For example, Amazon exhibits a strong relational identity orientation towards its customers, but a strong individualistic identity orientation towards its suppliers and third-party sellers. This allows it to deliver outstanding service to customers downstream, while exerting control over its upstream relationships. In this case, we also see how multiple identity orientations can actually support one another: the upstream individualistic orientation with suppliers benefits the firm's ability to deploy its relational orientation with customers.

At the same time, managing multiple identity orientations creates the potential for another set of mismatches that generate costs *internally*. In our Amazon example, customer-facing departments will bring a relational identity orientation and a predisposition for informal governance to their dealings with supplier-facing departments, while supplier-facing departments will bring an individualistic identity orientation and a predisposition for formal governance to their dealings with customer-facing departments. When both parties need to work together, this can create friction. Imagine a dispute between an Amazon customer who claims a product is defective and a third-party supplier who insists the problem is customer negligence. Reflecting its individualistic identity orientation, the department that engages third party suppliers may seek resolution through formal sanctions – perhaps by fining the supplier. However, such a course of action may be suboptimal for customer relations. Rather, for the customer service department, with its relational identity orientation, the optimal scenario may be to meet the cost of a replacement product.

Drawing on identity research at the individual and organizational levels (Pratt and Foreman 2000; Stryker and Serpe 1982), we propose two ways that this kind of mismatch can be resolved. First, firms can nurture a dominant identity orientation that reflects their strategic priorities and that allows for building a consistent internal governance regime. The dominant identity orientation and the governance practices associated with it explicitly and consistently take precedence in interactions between departments. For a department whose identity orientation is matched with the dominant orientation, the situation is straightforward: the governance regime deployed internally mirrors that used with external partners. In contrast, for a department whose identity orientation is mismatched with the dominant orientation, the situation is more complex because it is required to compartmentalize: to deploy governance practices

consistent with its identity orientation when dealing with external partners, but to suppress or subordinate it in its dealings with colleagues internally. Such an approach can facilitate internal cooperation by providing clarity in how different organizational functions are expected to relate to one another (Pratt and Foreman 2000). In our Amazon example, nurturing a dominant identity orientation would mean the company defaulting to a relational identity orientation centered around customers to guide decision-making inside the firm in all aspects of its operations. The solution does have potential downsides: it can create political tensions between departments (Albert and Whetten 1985) and foster feelings of alienation among departments required to enact governance practices inconsistent with their identity orientations. But it does allow for a managed mismatch situation that helps to reduce the friction in interactions between departments with different identity orientations.

Second, firms can create an identity orientation salience hierarchy.⁵ It involves firms nurturing multiple identity orientations across the organization but prescribing a clear set of rules about when a particular identity orientation and its associated governance practices are to be invoked and deployed internally. For example, again using Amazon as a reference point, the firm might specify a relational orientation prioritizing customers at the apex of its identity orientation hierarchy, but with the flexibility to deploy a collectivistic orientation when departments work together on R&D (such as the AI needed for its line of Alexa products), or an individualistic identity orientation when departments work together to engage important suppliers. Thus, firms can shift between an emphasis on value creation and value claiming, contingent upon the circumstances at hand. The advantage of this approach is that it provides maximum strategic

⁵ The concept of an “identity salience hierarchy” has its roots in the psychological literature on identity (Stryker and Serpe 1982). Organizational scholars have also drawn on the concept to theorize how organizations can manage multiple identities (Pratt and Foreman 2000). It has not yet been applied in the context of multiple organizational identity orientations.

flexibility for the management of internal and external relationships. However, its potential costs may also be high. Specifically, disagreements may emerge about which identities should be prioritized in a given situation, which can heighten political tensions between departments (Golden-Biddle and Rao 1997). At the same time, by maintaining multiple identity orientations alongside one another there is a risk that both will become diluted. Such an approach may also create ambiguity about what the firm stands for and how it organizes its key relationships (Pratt and Corley 2007). But it does provide an alternative way of achieving a managed mismatch and reducing the friction between departments with different identity orientations, albeit in a complex way.

The decision about which solution to adopt may be influenced by the degree of synergy between the identity orientations in question (McCall and Simmons 1966). Specifically, when firms seek to manage relational and collectivistic identity orientations, the construction of an identity orientation salience hierarchy may be the optimal approach, because it is relatively less costly to transition between orientations that are other-centered than between those that are self- and other-centered. By contrast, where firms seek to manage individualistic and relational or collectivist identity orientations, or indeed all three, transitioning between orientations may be more costly. In these circumstances, firms may default to an internal governance regime constructed around a single dominant identity orientation.

Discussion

The literatures on governance and identity orientation have each made crucial contributions to management theory and practice, but they have largely remained separate from one another. We sought to address this omission by connecting core ideas from the two

perspectives in a novel conceptual framework. We now offer five implications for marketing theory, followed by managerial implications, limitations, and future research opportunities.

Theoretical Implications

An Expanded Perspective on Inter-organizational Governance. Relative to past research, our framework provides a more nuanced account of the orientations that parties bring to a relationship. As is commonly known, the standard TCE model is based on the possibility of an extreme form of an individualistic orientation (i.e., opportunism). Importantly, past research has recognized general deviations from such an orientation and highlighted the role of informal social norms and implicit rules in promoting the joint welfare of a focal firm and its exchange partner. However, past research, including extant work on culture, has not recognized different *forms* of other-regarding orientations. Drawing on identity orientation enables us to identify two different kinds, namely (1) a relational orientation that is focused on a particular partner and the overall welfare of that relationship, and (2) a collectivistic orientation that is focused on multiple partners and the welfare of a broader system. These firm-level orientations exert powerful influences on relationship management practices in at least two different ways.

To begin, the two orientations render firms vulnerable to different sources of malfeasance. A focal firm with a relational identity orientation that deploys informal governance towards a partner must guard against the risk of partner exploitation. By contrast, a focal firm with a collectivistic orientation that deploys informal governance faces the risk that the partner firm will exploit it at the expense of the broader system in which the focal firm operates. In both cases, the focal firm is exposed to a form of opportunism – “self-interest seeking with guile” (Williamson 1975, p. 6) – from a partner. However, the transactional difficulties encountered are different: a partner firm seeking to exploit the firm at the expense of the *broader system* cannot

easily be subject to direct monitoring across the system because of the scale and complexity of system-level dynamics, whereas the actions of a partner firm seeking to exploit the firm at the expense of the *relationship* will be easier to detect. In developing this insight, we answer calls for research on the “contextual considerations” that shape opportunistic behavior in inter-firm relationships (Rindfleisch et al. 2010, p. 213).

Further, because relational and collectivistic orientations, while generally other-directed, imply different goals, they have unique implications for how informal governance is deployed. A focal firm whose priority is the dyadic relationship can create informal social norms and implicit rules that are jointly negotiated with the partner firm and bespoke for their exchange – as per conventional TCE logic (Heide and John 1992). By contrast, a focal firm whose priority is the system must rely in part on pre-existing system-level norms and rules that govern the behavior of all members of the collective. These need to be translated down and adapted to the relationship level but, because they are designed to be applied across a range of relationships within the system, may be relatively abstract. This translation process, whereby system-level rules are instantiated in a given dyad, is likely to be complex, and therefore represents a unique source of friction that actually weakens a firm’s predisposition towards informal governance – an insight that is not captured in past research.

Sources of Relationship Alignment and Misalignment. A novel feature of our framework is the consideration of the juxtaposition between the orientations that a focal firm and its partner bring to a relationship. Where the identity orientations of the parties are matched, we posit that the use of particular governance mechanisms is facilitated because the parties’ motivations and approach to the exchange are familiar and consistent. Mismatches, on the other hand, create unique governance problems and likely friction. In practice, this suggests that identity orientation

plays a key role in partner selection, with firms preferring to transact with partners whose identity orientation matches their own, while actively avoiding others. Interestingly, however, while this might produce transaction efficiencies, it also creates a particular type of risk for firms with relational and collectivistic identity orientations.

Specifically, in the context of matches and mismatches, we assume that each party to the exchange can accurately identify whether the other party's prevailing identity orientation is the same as, or different from, their own. We consider this a reasonable assumption because it involves a distinction between self-regarding and other-regarding predispositions, which are relatively straightforward to delineate. However, in the context of pseudo-matches – where one party is imbued with a relational identity orientation and the other with a collectivist one – this assumption may not hold. This is because both relational and collectivist orientations represent (generally) other-regarding predispositions. A focal firm may interpret its partner's identity orientation as mirroring its own because the partner signals that it is concerned with joint goals and more broadly with the welfare of others – not only with maximizing its own goals as an autonomous, self-regarding entity – and vice versa. But it may be difficult for a firm to ascertain whether the joint goals are designed to protect the welfare of a dyadic relationship or a broader collective of firms.

In practice, this may lead to a particularly dangerous form of adverse selection because the misalignment in orientation – and ultimately relationship goals – may not be apparent, which leaves firms exposed as the relationship unfolds. In these circumstances, a firm with a relational identity orientation that enters a relationship with a partner that it considers shares such an orientation, but is actually collectivistically oriented, may find itself 'sacrificed' for the system as a whole. On the other hand, a firm with a collectivistic identity orientation that enters a

relationship with a partner firm that it considers shares such an orientation but is actually relationally orientated, or perhaps even collectivistically oriented but aligned with a different collective, may find that the partner firm exploits the system for its own ends or those of another collective, with the effect of undermining the focal firm's broader configuration of relationships and its position within the collective.

These insights highlight an important shortcoming in the mainstream governance literature – that it downplays the role of perceptual errors and “interpretive uncertainty” (Weber and Mayer 2014, p. 344) – and provides a theoretical explanation for the empirical observation that “transaction-cost economics runs into serious problems if the organizational designer misreads the type of conflict going on” (Husted and Folger 2004, p. 722). Specifically, our framework highlights a novel source of interpretive uncertainty rooted in pseudo-matched identity orientations and theorizes its governance implications. More broadly, while we remain focused on dyadic relationships between two firms, our analysis incorporates important system-level insights that are often neglected in governance research (Williamson 2010). It does so by showing how, (1) governance decisions at the level of the relationship may adversely impact the broader system of relationships in which that dyad operates, and (2) collectivistic orientations may serve as a constraint at the relationship level and protect the larger system.

Efficiency and Power-Dependence Perspectives on Relationship Governance. Our framework suggests that mismatches in identity orientation represent sources of friction or transactional difficulties. This, in turn, points to a need for explicit governance. Indeed, our framework points to a new role for governance relative to past TCE research; one where formal or informal mechanisms are required in order to “infuse order, thereby to mitigate conflict, and realize mutual gain” (Williamson 2010, p. 674). In our framework, the choice between formal

and informal governance mechanisms hinges in part on the juxtaposition of identity orientations that characterize a relationship. In addition, we argued that the specific way mismatches are resolved is contingent on a given relationship's larger power-dependence structure. As such, the propositions that we advanced respond to recent calls (Carson and Ghosh 2019) for systematic theoretical integration between efficiency-oriented and power-dependence theories of organizations.

Identity Orientation and Value Creation. Our original aim was to extend the literature on inter-organizational governance by infusing it with identity orientation concepts. However, our framework also adds important precision to the identity orientation literature itself. Importantly, the identity orientation construct moves the general concept of identity to the inter-organizational level. At the same time, the extant scholarship is vague with respect to the specific ways in which relationships are enacted, beyond general statements about "cognitive understandings ... that guide social motivation and relationships with others" (Brickson 2005, p. 576).

By drawing on the governance literature we were able to specify mechanisms through which identity enactment takes place in relationships; specifically, how different orientations are translated into concrete governance practices. Recognizing these linkages is important, because governance practices are intimately linked with firms' basic strategy choices, including decisions pertaining to value creation and value claiming. Of particular importance is the link between relational and collectivistic identity orientations and informal governance. As noted both by marketing (Ghosh and John 1999) and strategy scholars (Dyer and Singh 1998), informal governance play a crucial value creation role. Indeed, there exists a body of work in marketing (e.g., Noordewier, John, and Nevin 1990) which explicitly shows the performance implications of informal governance. It is less clear, however, how parties can 'get to' informal governance in

the first place. Past research (e.g., Dyer, Singh, and Hesterly 2018) has suggested that relationship characteristics such as the frequency of interaction between parties represent important drivers. We believe, however, that the answer to the question also depends in part on the attributes of the relationship parties themselves, more specifically on their identity orientations.

Note that there is potential to deepen these insights still further through an expanded framework: our current framework is concerned with *designed* (formal and informal) governance and does not therefore account for market governance, which by definition is arms' length in nature and does not involve explicit relationship management (Heide 1994). Interestingly, however, an individualistic identity orientation is consistent with both market governance and formal governance – each is predicated on the notion that the adopting firm is self-regarding and instrumental in its interactions with others. It would be interesting to consider how firms with an individualistic identity orientation come to choose, or shift between, market and formal modes of governance to maximize firm outcomes.

Multiple Identity Orientations. Although the identity orientation literature tends to assume that firms possess a single overarching identity orientation, we posited that different identity orientations may co-exist within a given firm and guide different departments' interactions with their external counterparts. This possibility, we argued, raises interesting questions of intra-organizational mismatches that are not uncommon in practice. They have, however, received limited attention in academic research. Indeed, Brickson (2005, p. 603) asked “how do some organizations successfully balance different orientations, while others breach expectations and lose credibility with stakeholders?” – and yet this call has gone unheeded. By drawing on insights from governance theory, our framework begins to answer this question.

Importantly, we suggested two different ways in which the friction that results from multiple internal identity orientations could be mitigated, involving the creation of a single dominant identity orientation and an identity orientation salience hierarchy. While these suggestions are somewhat tentative, they offer new insights that inform the original identity orientation literature.

Managerial Implications

While firm guidelines for managerial decision-making must await empirical evidence, it is nevertheless useful to consider some tentative implications of our framework. Below, we consider two specific ones. First, we underscore the importance of making a systematic assessment of the firm's identity orientation. Second, we suggest how managers might overcome the decision biases that follow from its identity orientation.

Attributional Errors and Organizational Self-Assessments. Because of the similarity between the two other-directed identity orientations, pseudo-matches raise the possibility of attributional errors, to the extent that a party misreads the other's actions. We consider the potential for parties to be subject to a 'false consensus' bias (Flynn and Wiltermuth 2010) which leads parties to overestimate the extent to which a partner holds similar views toward the relationship. Overestimation is especially likely to occur after relationship initiation – the “honeymoon period” (Chmielewski-Raimondo, Shamsollahi, Bell, and Heide 2022, p. 8) – during which inter-partner dissimilarities are “likely to remain latent” (Estrada et al. 2016, p. 2018). As an example, in a supply chain context it may appear to a (relationally oriented) supplier that its (collectivistically oriented) manufacturer counterpart is engaging in actions that support the supplier in question. The manufacturer's actions, however, while seemingly supplier-oriented, may simply reflect its support of the larger ecosystem. If so, the pseudo-match in Cell 6 would, rather than our prediction in P6 (of formal governance), lead to informal governance, but

based on an erroneous conclusion about matched identity orientations. A similar outcome would be expected in Cell 8, where we would observe informal, rather than formal governance. The above discussion suggests an important implication of pseudo-matches, namely that attributional errors may cause firms to deploy “looser” (informal) governance regimes than what the situation calls for, which may ultimately create vulnerability.

Scenarios like the above suggest the need for systematic organizational self-assessments of identity. Organizational diagnostics have a record of successful application in business (e.g., Kaplan and Norton 1996) and could have a key role to play. We believe that systematic identity assessments are important parts of a firm’s overall governance efforts, both with respect to achieving efficient governance solutions, and with avoiding unintended consequences. Past research has made progress in measuring identity orientations. Most notably, Brickson (2005) employed a range of measures to capture organizational identity orientation that exhibit a high degree of consistency. Of particular note, in our view, is a measure she developed based on questions that were adapted from an established scale designed to capture individual-level identity orientation: the Relational, Individual, Collective Self-Aspects Scale (RIC) (Kashima and Hardie 2000). There have also been advances in the so-called ‘new analytics of culture’ which involve the capturing of the language employees use in electronic communication (Corritore, Goldberg, and Srivastava 2020). These approaches could make the on-going and real-time assessment of organizational identity orientation increasingly tractable.

These efforts may eventually provide the basis for a full-fledged “identity scorecard” that could be used to evaluate to the nature and strength of a firm’s identity and identity orientation. We suggest that such an organizational identity diagnostic could help, (1) draw attention to relationships with potential alignment problems, and (2) identify when and to what extent an

organization's identity might be undermined to allow identity "repair work" (Golden-Biddle and Rao 1997) to take place.

The utility of such a tool would, of course, be significantly augmented if firms were able to assess (potential and current) partners' identity orientations as well. Given the risks involved in the 'pseudo-matches' that are the focus of cells 6 and 8 in our framework – specifically, the inherent dangers of a relationally-oriented firm mistakenly evaluating a partner as characterized by a collectivist identity orientation, and vice versa – we believe that the tool would be of particular benefit for firms holding relational and collectivist identity orientations.

Overcoming Identity-Driven Convergence. The prevailing focus in the inter-firm governance literature – particularly TCE – is on firms' motivation to govern a relationship in a particular fashion. Motivation, in turn, resides in governance problems that are induced by transaction attributes like specific investments and uncertainty. At its core, TCE is based on a *decentralized* decision heuristic, with individual relationships being adapted to their unique circumstances or attributes. In practice, this would tend to manifest itself in the form of divergent governance approaches across a firm's overall portfolio of relationships. In contrast, our framework suggests that a firm's identity orientation represents a source of *centralized* influence, which, if sufficiently strong, will produce convergent governance practices across relationships, due to the previously noted linkages between particular identity orientations and governance mechanisms. As such, a firm's identity orientation represents an additional, potentially competing, source of influence which may impact the implementation of (relationship-specific) TCE-based prescriptions. This will make either (1) accepting the imposition of governance practices by a powerful mismatched partner particularly abrasive, or (2) applying practices that go against the firm's identity orientation (but which are necessary to meet the requirements of

the transaction) particularly challenging. The challenge for managers, therefore, will be to break this convergence without undermining the best of what a strong identity orientation might bring to the organization elsewhere.

In this regard, the development of multiple identity orientations could be advantageous: in addition to providing response flexibility, it encourages firms to think carefully about the most appropriate governance solution for the specific relationship in question, which is likely to counteract the convergence toward certain solutions. At the same time, multiple identity orientations have the potential to create governance problems internally when departments with different identity orientations are required to work together on a common issue. To address these internal problems, our framework offers two very specific solutions: the creation of a single dominant identity orientation; and the creation of an identity orientation salience hierarchy. The former has the advantage of clarity and simplicity but may create significant internal friction when firms default to an internal governance regime suboptimal for the problem at hand. By contrast, the latter has the potential for reduced friction because it allows for the most appropriate set of governance devices to be deployed for a given problem, but the complexity of this approach may generate other costs and inefficiencies.

Limitations and Research Directions

While we believe that we offer useful contributions to research on governance and identity orientation, our framework also has limitations which offer opportunities for future study. We identify five specific ones. First, our framework does not take account of certain transaction attributes such as uncertainty. However, expanding the current framework to include transaction attributes raises interesting questions, for instance regarding the interplay between the (1) decentralized influences of particular transaction attributes and (2) centralized influences of

identity orientations on firms' governance practices. Addressing these questions may require an expanded account of transaction costs, both external and internal ones, and the likely trade-offs among them.

Second, future research may identify additional sources of friction. Our current framework captured the friction that arises when parties hold different identity orientations, such as individualistic versus collectivistic ones. Conversely, similar identity orientations should mitigate friction. The reality, however, may be more complex and nuanced than this. For instance, if a set of parties both hold collectivistic identity orientations, it would suggest, at first glance, matched decision-making modes which would ensure frictionless on-going interactions. However, if the parties in question belong to *different* collectives, their focal points differ, and that may represent a source of friction in its own right.

Third, the possibility that firms hold multiple identity orientations simultaneously raises interesting theoretical and empirical questions. We raised such questions in the paper but stopped short of developing actual propositions. The notion of pseudo-matches is particularly intriguing in this regard. In fact, the potential for pseudo-matches may increase sharply where multiple identity orientations are held by one or both parties to an exchange. Under such circumstances the challenge of accurately evaluating the orientation of partners – and indeed of one's own firm – will inevitably become more difficult.

Fourth, our discussion of collectives points to some additional sources of relationship-level governance. Our current framework was based on the premise that transactional difficulties are managed by explicit, relationship-level, reliance on formal or informal governance mechanisms that reduce on-going friction. However, to the extent that the focal parties belong to the same collective, efficient governance mechanisms may be supplied exogenously, by virtue of

the common codes that exist. For instance, dense industry clusters in which the member firms are tightly connected (Rowley 1997) may possess strong informal norms that serve governance purposes (Tracey, Heide, and Bell 2014). Such clusters may also possess local reputation systems that facilitate monitoring. In such cases, crafting explicit, relationship-level, governance mechanisms may be largely redundant.⁶

Finally, we have not addressed how identity orientations emerge in the first place nor how they may change over time. Regarding the former, future research could connect to the literature that explores the identity dynamics of new ventures (e.g., Fauchart and Gruber 2011; Fisher, Kotha, and Lahiri 2016). While this work has not explicitly examined identity orientation, it has shown that the nature of ventures' early relationships with stakeholders can have a profound influence on how identities become established in organizations and may offer important insights to governance scholars interested in how identity orientations emerge. This line of research holds promise because governance practices may also change over the relationship lifecycle. For example, Wuyts and Geyskens (2005) found, counterintuitively, that collectivism increases firms' propensity to deploy explicit contracts in new relationships – possibly because contract negotiations provide a forum for relationship building, rather than as means of optimizing terms in their favor.

⁶ We note, however, that there is no inherent relationship between collectives and governance mechanisms. For instance, regional clusters, which are often used as examples of collectives, can possess vastly different levels of density (Markusen 1996) and, consequently, exhibit fundamentally different governance practices.

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