This investigation considers two Brazilian cases to assess the main factors in ICMs.

A number of management-and control-focused studies consider inter-organizational relationships that influence costs. Coad and Scapens suggest that strategic alliances and other intercompany structures affect cost containment. Different forms of contracts also lead to different governance arrangements. Menard proposes that different structural arrangements can lead to market-based forms at one end and full vertical integration (hierarchy) at the other. Effective structuring of inter-organizational cost management (ICM) is one approach to controls for forms operating within extended value chains.

Many commentators regard inter-organizational relationship-control mechanisms as strategic management tools. Some studies suggest that there are internal or external factors that determine how far strategic management mechanisms can be deemed to exist. Of relevance are the factors that may be regarded as conditioning ICMs, irrespective of how these are associated with strategy.

This investigation considers two Brazilian cases to assess the main conditioning factors in ICMs. The study was carried out in two different organizational networks in the corporate service sector, and it considered the companies' relationships with clients and suppliers and analyzed factors influencing the operationalization of ICMs.

What shapes inter-organizational cost management systems?

A number of researchers have considered different control facets of ICMs. Cooper and Slagmulder and Hofijan and Kruse regard ICMs as providing...
a structured approach for coordinating the activities of firms in a supplier network so that total costs in the network can be reduced. Thus, they specifically focus on cost containment. In a value chain context this encompasses basic research to the servicing of end products.

Some commentators emphasize total cost reduction as the main goal of ICM. Others focus on the assurance of fair returns on investment for the overall chain of companies via altering cost structures and competitive advantages or focusing on revenue increase rather than cost containment. ICM may be regarded as enabling the search for solutions through coordinated actions among organizations in the value chain, which would not be possible if the companies sought to manage costs independently of one another. ICM may be viewed as a cooperative cost management process involving other organizations and the competitive advantages across the entire value chain.

There is evidence that the likelihood of successful ICM implementation is dependent on five key variables: product, product components, relationship levels, value chain categories, and governance mechanisms.

**Products.** From the product point of view, two aspects have to be analyzed: profit margin and functionality. ICM is favorable to products with lower margins when compared to the target margin. By expanding the cost management process beyond the bounds of the organization, the range of possibilities for cost optimization expands, improving the margin toward the target.

Functionality refers to the decomposition of a product into its different properties or product attributes. The higher the number of functionalities, the wider the field of cost management possibilities beyond the organization's frontiers. The possibility of effectively applying ICM becomes greater for multi-functionality products.

For each product, a viability zone can be determined across four regions to identify how ICM could produce favorable results.

As suggested in Exhibit 1, high functionality and low margin products are the most viable for ICM focus.

**Components.** ICM does not necessarily apply to all suppliers of all product components. It is essential to identify the components whose suppliers can implement ICM. In this sense, two vari-
ables should be analyzed: technological constraints and value ratio.

The technological restriction level determines if it is strategic and whether the company seeks to maintain strict confidence around the product. If not, research and development can be candidates for using partners, and enhanced solutions for technological advances can be sought.

For each product’s components, a value ratio can be derived to measure its cost-benefit relation (Exhibit 2).

The lower the value ratio, the greater the need for cost management, as the cost tends to be higher than the benefit offered by the functionality of the component. The potential applicability of ICM is assessed by analyzing the two characteristics. Low value ratio and technological restriction components offer the most potential for ICM.

**Relationship levels.** The next phase of the ICM process is the analysis of the partnership relations and the classification of the suppliers (common, auxiliary, main, or family). According to Cooper and Slagmulder, to apply ICM successfully, a favorable relationship between companies is needed. This involves interdependence, stability, cooperation, mutual benefits, and trust. The more intense the relationship level, the more favorable the ICM.

**Interdependence.** A company and its suppliers are mutually dependent if the former cannot complete its product without the latter’s input, and if, at the same time, the inexistence of the product makes the supplier lose a large part of its production volume. The higher the interdependence level, the more potential there is for ICM.

**Trust.** Trust refers to the certainty that a transaction is real. It is generally built over time, through knowledge about attitudes, transactions, and information. The more correct the information in a relationship, the more it is relied upon, thus increasing trust. The higher the level of trust, the more favorable ICM becomes.

**Stability.** A stable relationship is solid, lasting, secure, and constant, thereby increasing the chances of a continued partnership. Cooper and Slagmulder note that a stable relationship is built on four main factors: trust relationships, security in goals achievement, cooperation in investments, and activity coordination.

**Cooperation** refers to mutual help between entities to achieve common goals; this requires interaction, collaboration, complementariness and reciprocity, common goals, and coordinated joint activities and actions. A cooperative relationship allows companies to work together in order to manage costs and solve problems raised by the pressure from external adversities. Information about project costs, processes, and costs are shared, allowing companies to increase their innovation level. A cooperative relationship is a strong characteristic of ICM, as it enables joint work in the search for cost management.

**Mutual benefit** is the sharing of the gains obtained among organizations, which encourages the maintenance of the relationship. Some benefits can be generated for suppliers (increased production and access to new technologies) and others for clients (increased functionality and cost reduction).

A common supplier presents the weakest interrelation with a company, and it is generally the supplier that contacts the company to sell its products. According to Lockamy and Smith, in this kind of relationship, price is usually the most relevant factor. Little or no interaction occurs in terms of cost management between the companies. Kajuter and Kulmala state that basic inputs, standards, or commodities are offered; Porter comments that, for security reasons, companies tend to have a wide range of this kind of supplier. The lowest levels of interdependence, trust, stability, cooperation, and mutual benefits are found in this type of relationship, so ICM implementation is improbable.

A supplier classified as a subcontractor presents higher levels of interdependence, trust, stability, cooperation, and mutual benefits than the common type. Subcontractors are generally introduced by the company after the product has been designed. According to Cooper and Slagmulder, there is relatively little
need for extensive research, as the company normally gives the product design and instructions for production (supplier) or usage (client). For Lockamy and Smith, a company's primary role in this type of relationship is to be certain that the partner has the ability to provide the required transactions. The main task, in the case of suppliers, is to produce the components in line with the company's specifications; in the case of clients, the main task is to contribute to the company by paying their invoices on time. For security reasons, in general, the company still maintains a diversified base, although a bit lower in comparison with a common supplier. In this case, applying ICM becomes possible.

In some contexts, there may be higher levels of interdependence, trust, stability, cooperation, and mutual benefit between the companies than with the subcontractor type. The supplier may work with the company on a regular basis and be generally involved in product creation and the development process. Major partners have specialized knowledge and can contribute to the development of the product. The company normally has already projected the specifications of the product but may jointly plan and establish product details. The partnership is formalized through long-term contracts. Coordinated efforts are made to reduce inventories through techniques like “just in time,” reduced transaction costs, and others. Relations are close enough to allow joint efforts and, therefore, simplify operations in the value chain. The application of ICM becomes probable.

The familiar type presents the highest levels of interdependence, trust, stability, cooperation, and mutual benefits. Kajuter and Kulmala consider that, together with the company, the family partner is responsible for projecting the product or component. A high level of autonomy is delegated. The partner works almost as part of the company, often using the company badge. According to Mouritsen et al., the relationship is likely to be long standing, with extensive information exchange. The partnership is based on joint efforts in developing and improving products. In line with Cooper and Slagmulder, this should be considered a unique resource to be protected and cultivated. In this case, the applicability of ICM is highly probable and likely to produce favorable results.

**Value chain categories.** Cooper and Slagmulder identify three categories of value chains: kingdom, barony, and republic. This classification is determined by the number of companies holding power in the value chain, and the goal is to identify which of them is/are favorable to the application of ICM.

In the kingdom chain type, only one company dominates and commands; it has great power, and the transactions occur in favorable conditions for this company, thereby setting the rules. Protocols and control mechanisms are imposed, as well as shared values. For clients, the kingdom company can strongly restrict cost management, as it generally provides important input and has great price-setting power. This chain type is amenable to ICM.

In the barony chains, two or more companies dominate and command; the power is shared among the barony companies, and none of them has sufficient negotiation power to dominate the others. Like in the kingdom type, transaction conditions are favorable for the barony companies, but clients and suppliers can minimize this power by negotiating with other barony companies. Protocols can be established formally or informally. Information sharing and extent of competition or cooperation is negotiated.

In the republic type, no single or small group of organizations is in command; the firms should build alliances, since they all have about the same level of power. Negotiation conditions are similar for the companies, their clients, and suppliers. This kind of value chain structure minimizes ICM possibilities, but where there is strong negotiation power between two companies, ICM can become favorable. This chain structure decreases the possibilities of ICM.

Cooper and Slagmulder state that ICM is favorable in kingdom and barony chain types. The closer the characteristics to the kingdom type, the more prob-
able the variability of ICM implementation becomes.

**Mechanisms.** There are two mechanisms that act as the managerial tools, providing support to the cost management process between firms to orient, control, measure, inform, provide parameters, and generally to guide organizations.

Disciplining mechanisms in organizational relationships enable observation and correction where there is lack of compliance. These mechanisms generate rules to control actions and reward organizations complying with their obligations. Rewards can be monetary ( bonus for targets achieved) or nonmonetary (long-term relationships). According to Cooper and Slagmulder,²⁸ the objective is to transmit cost pressure across the chain via cost reduction targets and to help attain the chain’s desired return on investment target. Examples of disciplining mechanisms are target costing, network protocols, and inter-organizational budgets.

Enabling mechanisms are instruments or tools that provide skills and competencies, and confer possibilities aimed at solving difficulties in the ICM process. The aim is to help companies in the value chain find ways for conciliating their skills and coordinating efforts to collectively reach their cost management targets. Enabling mechanisms are aimed at advising, teaching, and educating organizational players. Examples are activity-based management, value engineering, open book accounting, inter-organizational cost investigations, concurrent cost management, **kaizen** costing, collaborative forecasts, and inter-organizational training.

**Two case studies**

The research was undertaken within two Brazilian companies from the corporate service industry. Semi-structured interviews were undertaken using different questions reflecting interviewee contexts.

Five interview scripts were created, focusing on the following interviewee: directors, persons responsible for supplier relations, persons responsible for client relations, suppliers, and clients.

The first company (referred to here as Alpha) has been operating as a corporate travel agency for more than fifty years and is one of the ten largest specialists in that sector in Brazil. It operates in three states—São Paulo, Rio de Janeiro, and Bahia—with its headquarters located in São Paulo City. Its staff consists of approximately three hundred people, and, in 2010, revenues amounted to approximately BRL 0.5 billion.

The second company (Beta) operates in the corporate food services industry across almost three hundred cities in seventeen Brazilian states. Its headquarters are located in São Paulo City. It has approximately twenty-one thousand staff members, with BRL 1.5 billion in revenues in 2010.

The product analyzed in Alpha is a travel account management service. The company as a whole had not been achieving its target.

The functionality of this product is divided into four types: fundamental, strategic, physical, and psychological. The fundamental type is determined by the service level agreed upon, which determines the level of demand, penalties, and gratifications. The strategic type involves a revision process of the client’s account to verify spending every three months. A series of analyses are performed, with the previous year and period comparisons. Physical functionality includes infrastructure (agency size) and company systems. The infrastructure and its systems guarantee that clients will be serviced out the duration of the contract via a software system called Alphasoft.

Psychological functionality is reflective of brand. Alpha generates much of its revenues by networks and contacts with chairmen and directors. On the basis of margins and functionality, the service delivered by Alpha presents characteristics that are compatible with the application of ICM (Exhibit 3).

The product analyzed in company Beta is corporate food provision. The clients’ choices are mainly based on the low price as well as supply characteristics (quan-
tity and type of meals). Thus, companies with the same service level compete in terms of price, which brings down the profit margin. Stockholders determine a minimum return for each contract, and, when it is lower, cost management becomes crucial even before the contract is signed.

Fundamental functionality is determined by the contract with the clients, which determines type, quantity, and quality of the meals. This is the basic information for planning the menus. Strategic functionality includes infrastructure, company size, and the systems used for managing the meals. Size can guarantee that clients will be serviced over the duration of the contract. Physical functionality includes the place where meals are taken. The existence of an appropriate environment for food is regarded by end consumers as a relevant operational factor. Psychological functionality is determined by the brand. Beta is one of the largest companies in this sector in Brazil and works with renowned brands like Coca-Cola, Ambev/Inbev, Nestlé, and Brazil Food. Managing the functionality level can reveal management opportunities, rendering ICM viable. It is concluded that the service delivered by company Beta presents characteristics conducive to the application of ICM.

**Components.** In company Alpha, the attributes of the service components are generated through the use of three resources: human (60 percent); technological (10 percent); and overhead (30 percent). Human resources recruitment and selection are performed through the hierarchy; that is, the team is constituted by employees from the company itself, given the strategic importance.

Technological resources tend to increase because technology is a way for reducing the use of labor and facilitating client account management. In 2002, a technology project started that culminated in the development of Alphasoft, a travel policy request and control system. Knowledge of this software is restricted to the company, which makes
it impossible to apply ICM. According to an interview with a client:

"We have quit the previous agency for two reasons: because we reconsider our contracts every two years and the previous company had been working for four years and, second, we needed a good control system. We hired a consultancy specialized in the analysis of travel agencies and chose company [Alpha], mainly due to [Alphasoft]."

The attributes of Alpha's components have characteristics that make it difficult to apply ICM (Exhibit 4) due to the high level of technological restriction.

In company Beta, the cost of the meal service is divided into four components: raw material (47 percent); human resources (30 percent); different materials (11 percent); and overhead (12 percent). Raw material is an essential component, and there is no technological restriction. The human resource team is hired through the hierarchy because this is about the main service, which is considered strategically important.

Betasoft is the cost and menu management system; it was developed by a specialized consulting firm, but part of this development occurred in cooperation with company Beta itself. According to the financial director:

"The creation, development, and implantation process of the cost system was formalized with a consulting firm. An exclusivity contract for use by our company was signed for a two-year period. Our company provided the knowledge about the business, while the consulting firm offered the informatics."

This partnership was only feasible because the software was not considered strategic knowledge. As the components present a low technological restriction level, outsourced companies are used for its supply; however, the human resources are exclusively managed by the company (Exhibit 5).

**Relationship levels.** Company Alpha keeps relationships with direct and indirect suppliers. Indirect suppliers' services are used by the clients but managed by Alpha (flight companies, hotel network, rent-a-car companies, and insurance brokers); direct suppliers' services are used to attend to the internal production process (consultants and providers of different products, such as cleaning and warehousing).

Among Alpha's indirect suppliers, flight companies represent the greatest purchase volume. The largest part of its revenues is provided by the sales of these suppliers' products. Although they are no direct suppliers of Alpha, this link receives special attention due to its strategic importance. However, in cost management, this relation is restricted to price negotiation, so the attention is concentrated there.

The view is different in terms of clients. The company rates them into four types: diamond, gold, silver, and bronze. This classification determines the relationship level, the attention made available, and the account manager (supervisor, manager, or director). According to the financial manager:

"This classification guides our relationship with the clients... Nowadays, we have: 1 percent diamond, 7 percent gold, 5 percent silver, 7 percent silver, and 0 percent bronze."
### Exhibit 6 Comparison between literature and case studies – products

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>Margin</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Functionality</td>
<td>Inconclusive</td>
<td>Inconclusive</td>
</tr>
</tbody>
</table>

### Exhibit 7 Comparison between literature and case studies – components

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
<td>Technological constraints</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Value ratio</td>
<td>Inconclusive</td>
<td>Inconclusive</td>
</tr>
</tbody>
</table>

### Exhibit 8 Comparison between literature and case studies – relationship levels

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship levels</td>
<td>Common</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Subcontractors</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Major</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Family</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Exhibit 9 Comparison between literature and case studies – relationship levels

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value chain categories</td>
<td>Kingdom</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Barony</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Republic</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

### Exhibit 10 Comparison between literature and case studies – mechanisms

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanisms</td>
<td>Disciplining</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Enabling</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

and 87 percent bronze. According to revenues, 44 percent are diamond, 38 percent gold, 7 percent silver, and 11 percent bronze.

As diamond and gold clients are the most important, directors closely follow their problems and needs in order to deliver a good service. The mean relationship span ranges from one to seven years. Activities are generally developed at the client company, and Alpha employees feel part of the team and often receive their own badge.

In those cases when Alphasoft is implemented, it is adapted to the client's needs, which delivers greater integration. The two companies make joint efforts to improve performance. According to the
Exhibit 11 Comparison between literature and case studies – mechanisms

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CHARACTERISTICS</th>
<th>ALPHA COMPANY</th>
<th>BETA COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>Margin</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Functionality</td>
<td>Inconclusive</td>
<td>Inconclusive</td>
</tr>
<tr>
<td>Component</td>
<td>Technological restriction</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Value ratio</td>
<td>Inconclusive</td>
<td>Inconclusive</td>
</tr>
<tr>
<td>Relationship levels</td>
<td>Common</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Subcontractors</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Major</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Family</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Chain types</td>
<td>Kingdom</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Barony</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Republic</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mechanisms</td>
<td>Disciplining</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Enabling</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

company’s information manager and commercial director:

“The [Alphasoft] system was developed due to the request by a gold client who wanted better management of his travel expenses. This request led to the development of a system that saved BRL 2 million per year.”

For diamond and gold clients, the application of ICM is viable and can become an important step in cost management.

Silver clients are also important for the company, but with a lower integration level. Managers or supervisors are responsible for direct contact instead of the directors. The goal is to deliver services in line with the standards, providing the certainty that Alpha is able to perform the demanded transactions. In this case, the application of ICM is less probable.

Bronze clients are the category with the lowest level of interrelation. Normally, profitability is the only factor analyzed for continuing service delivery. These clients are seen as replaceable, and it is generally the client who first contacts the company. For this type of client, the possibility of applying ICM is remote.

Company Beta has been working with a large number of clients, which makes highly integrated relationships difficult.

The analysis is mainly based on the return the client will generate; cost management is not a priority. Therefore, ICM is improbable.

Upstream, Beta works directly with the suppliers on product creation and development; it does not establish supplier types, but classification is based on the purchase volume per product.

Type A suppliers (i.e., Coca-Cola, Camil, Frigoba, Friboi, Perdigão, Sadia, Diversey, Ecolab, and Ambev/Inbev) are considered the most important, and follow-up is effected on a daily basis. They are also monitored by the headquarters’ purchase area. Relationships tend to be long—normally more than ten years—and great effort is made to maintain this type of supplier, making it viable to apply ICM.

Interdependence exists between Beta and its suppliers due to the trade volume. For Beta, few organizations are capable of supplying to the specifications they need. For suppliers, Beta represents a large volume in their client portfolio.

Information exchange occurs from the start of an account, and communication with type A suppliers is daily. Product development is based on knowledge about the consumers, analyzed by Beta, as well as on the supplier’s technical perspective. Due to changing costs, Beta tends to
maintain a stable relationship; although one-year contracts exist, these relationships have existed for more than ten.

New product development is generally driven by Beta's request; this request continues due to the mutual benefit created. One example of product development, according to a director:

"We needed a cheaper detergent, which would avoid waste, as the one we used had to be diluted in water and, as we couldn't control the amount of water the employees added, there was plenty of waste. The supplier invested in the development of a new detergent, which was directly connected to the tap. When the water pressure is controlled, the correct quantities of detergent and water are automatically mixed, avoiding waste. One of the difficulties to implement this new detergent is that it does not produce foam, generating mistrust among the employees as to whether it actually cleans and giving the impression that it was not a good product. Training was provided to disseminate that it is not the foam that cleans. The agreement had mutual benefits: [Beta] saved about 30 percent on the cost of the detergent; to the supplier, [Beta] guaranteed that it would purchase 80 percent of its production volume. In addition, this detergent became a standard product that could be sold to other clients."

The development of Betasoft is another example that generated benefits for both sides. According to the director of the consulting company:

"[Beta] helped to develop our company as a supplier, investing in our relationship and helping to develop [Betasoft]. In 1992, they did a pilot project: they placed consultants paid by them in our company to analyze the processes. These consultants proposed a new organizational structure and helped in the communication process between the two companies. Our company now manages to supply technological innovations to [Beta]."

For the suppliers of Beta classified as type A, a relationship level was found that favors the application of ICM.

Value chain categories. Alpha has been working with large clients, mainly of the diamond and gold types, who act in different chains, most of which are from the barony type (there is only one kingdom supply chain). Negotiations occur in conditions that are favorable to clients (barony or kingdom companies), as they normally request the disclosure of cost information by Alpha and its competitors, using the competition between them. Alpha tries to minimize this power by negotiating with other companies, expanding its client portfolio.

Beta also has been working with large clients, who individually do not represent a large percentage of its revenues, and with large suppliers, which all have significant power and influence in Beta's business segment. Beta is one of the largest companies in its sector with great bargaining power, mainly due to the number of clients, infrastructure, operations volume, and national coverage.

The supply chain is part of its characterized as a barony chain, and Beta is one of the companies with the power to manage the chain. Some suppliers have extensive bargaining power, due to their size and the magnitude of their role within the value chain.

Negotiations normally take place under conditions that are favorable to the barony company. When a new component is needed, the company asks the supplier and indicates the target price for negotiations to occur. The component is developed by the supplier, with recommendations and tests made by company Beta. The type of supply chain and structure created by company Beta favors the use of ICM with its suppliers.

Mechanisms. In Alpha, in the negotiation phase with clients, accounts are opened. The company projects costs and provides a detailed report to its clients.

Target cost and margin are used for a number of transactions estimated by the client. Based on the estimated volume of transactions, the agency guarantees its fees for administering the service, and the client manages the travel costs. Once these variables (volume, costs, and margin) have been determined, both sides negotiate to establish the amounts. This standardization of cost information increases the possibility of identifying potential targets in cost management, making it possible to apply ICM. Obligations are determined to guide the organizations' relationships. These rules serve as the basis for commissions and the continuity of contracts.

In Beta's hiring phase, books are also opened when a contract is signed with the clients. This process covers investment, costs, and margin, which are the
basis for contract negotiations. The amounts sought should be sufficient to generate a return that pays off the investment within half of the span of the contract. The relationship level with suppliers is more favorable to ICM. Contracts with the main suppliers guarantee the service level, creating obligations that rule the organizations' relationship. This is a disciplining mechanism.

**Discussion**

The literature-based knowledge on ICMs is compared with the evidence collected in the two case studies in this study to identify similarities and differences. The investigation is revealing in terms of the fit between theory and practice. Exhibit 6 shows the summary results.

In the analysis of the product dimensions, low margins were found for the two products, confirming that the application of ICM is recommendable, as demonstrated by theory.

Although both companies understand the functionalities of their products, no conclusions could be drawn about functionality level management, as the companies do not practice this for cost management purposes but to trade their products. Conclusions about the functionality level for ICM purposes cannot be firm.

Exhibit 7 shows that components with a high technological constrained context limit the application of ICM, since partnerships are limited when considering component strategies for the company. On the other hand, in company Beta, with components offering a low technological restriction level, ICM can be applied.

The value ratio by itself does not eliminate or make possible the application of ICM. It does help to identify the most and least plausible components for using ICM, but in this study, no conclusion can be established about this characteristic.

The high relationship level among the agents in the value chain favors interaction for achieving cost management goals, with clients in Alpha as well as with suppliers in Beta. In fact, in line with the literature, the higher the relationship level, the more favorable the implementation of ICM will be. The "yes" marked in Exhibit 8 does not necessarily mean that the companies practice ICM, but that the study found great propensity in this light.

The two companies under study fundamentally belong to barony supply chains; in both, cooperation between supplier and client was identified, as well as competition among suppliers, as theory suggests. In company Beta's value chain, rapid dissemination of access to new technologies (input development, etc.) was found, as competing companies have the same suppliers and all work for the same end consumers (see Exhibit 9).

Only disciplining mechanisms were found in Alpha and Beta's relationships with their clients and suppliers. Open books and service level contracts suggest the disciplining of relationships. Enabling mechanisms were not found (see Exhibit 10).

The factors identified in the literature review as well as their relation with case observations are summarized in Exhibit 11.

**Conclusion**

This research study has shed light on whether the conditioning factors of inter-organizational cost management, as reported in literature, are present in the two companies studied. The investigation suggests that most of the anticipated factors were present in the two companies.

However, the study also suggests that ICM in a sustained strategic cost management sense was non-existent in the companies. ■

**NOTES**

4. Cooper, R., SIgmulder, R. "Supply chain development for the lean enterprise-interorganizational


14. Ibid.

15. Ibid.


24. Ibid.

25. Ibid.

26. Ibid.