

COMPETITION, COLLABORATION AND CONTROL

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Competition, Collaboration and Control

Abstract

In this paper we investigate the management and control of inter-firm collaborations between several independent publishing houses. Book publishing involves the selection, editing and design of written material, its production and distribution, and the incurrence of the financial risk or responsibility for each of these operations. We undertake field-based enquiries to explore the collaborative efforts of independent publishing houses across various of these operations. Our findings provide insights into the inherent tensions involved in inter-firm activities between direct competitors and report on the significant role of management control mechanisms in balancing competition with collaboration. Importantly our findings reflect a multi-faceted perspective of the management and control of such collaborations gleaned by considering the opinions of, and information provided by, all the members to each of the alliances we consider. Further, where collaboration between the independent publishing houses is with respect to dealings with suppliers or customers we also collect evidence on the collaboration from these parties. From this study a picture emerges of a nexus of control that extends across a multitude of collaborations and weaves together the collective activities of a broader industry network. This evident inter-play of controls demonstrates the importance of progressing research into the governance and control of inter-firm relations beyond the study of simple dyadic relations.

Keywords: inter-firm relations, inter-firm control, competition, networks

Data Availability: Data used in this study cannot be made public due to confidentiality agreements with participating firms.

Introduction

The last 20 years has seen the rapid development of innovative inter-organisational relations as a source of competitive advantage for collaborating firms (Anderson & Sedatole, 2003). In this paper we investigate the management and control of a particular inter-organisational form that involves collaborative efforts between direct competitors. Hamel, Doz and Prahalad (1989) use the term ‘competitive collaborations’ in referring to a range of inter-organisational activity between competitors that may be evident in the form of joint ventures, outsourcing arrangements, or cooperative efforts spanning the value chain from research to production and through marketing, sales, and distribution. Distinguishing these competitive collaborations is the non-equity nature of the lateral relations between distinct and separate entities and the absence of a superordinate authority. The management and economics literatures have largely kept pace with the incidence of competitive collaborations in practice, investigating both the antecedents and consequences of ‘co-opetition’ (see Chen, 2008 for a review of this literature). In contrast, our understanding of management accounting and control issues in inter-organisational contexts, while greatly improved in recent years, still contains many unaddressed and unresolved lines of enquiry and in particular there is much scope to examine these issues in interactions between competitors where problems of opportunism and moral hazard are more acute (Caglio & Ditillo, 2008).

Only limited extant research informs our direct understanding of the management and control of competitive collaborations (see for example: Hakansson & Lind, 2004; van der Meer-Kooistra & Scapens, 2008). Further, as each specific form of inter-organisational collaboration and associated governance structure impose somewhat unique management control challenges there are constraints on what can be inferred about the control complexities of competitive collaborations from investigations of other forms of inter-organisational relations. In this study we aim to document the organisational tensions specific to inter-organisational relations between direct competitors and consider the type and use of control systems for the purpose of managing these tensions.

We study these issues in a range of competitive collaborations between independent publishing houses. We consider four different collaborative ventures that are undertaken by these publishing houses that relate to product development, production, sales and marketing, and warehousing and distribution operations. We gather evidence on the management and control of these competitive collaborations from each of the members to the alliance, which includes five of the largest independent publishing houses in the United Kingdom, as well as from their suppliers (such as graphic designers, printers, operators of warehouse and distribution facilities, and third party sales organisations) and customers (major booksellers). Such plurality of perspectives is argued to be important in fully understanding the control of inter-organisational relations (Caglio & Ditillo, 2008; Chua & Mahama, 2007)

Our paper contributes to the extant findings on the governance and control of inter-organisational relations by providing a rich account of the distinct tensions arising in collaborations between competitors as well as of the interplay of controls that facilitate and endeavour to ensure the success of such alliances. We find that tensions associated with acting in good faith toward cooperative partners while also pursuing vigorous competition are negotiated through extensive social networking arrangements that produce a shared set of beliefs and that impact the subsequent controls used to manage the relations. Significantly, the design of our study allows us to consider these management control issues across a number of interconnected alliances and thereby depict the broader nexus of control that

operates within the industry. Our findings demonstrate that observed controls in dyadic relationships are potentially under-specified until viewed from the wider perspective of other relationships within the same network. These findings demonstrate the importance of interpreting control observations beyond dyadic relations and from greater than one perspective.

In the ensuing sections we situate the contributions of this study in the context of extant research before describing the nature of the competitive collaborations we study and analysing the control mechanisms that support these alliances.

A Review of Competitive Collaborations

The proliferation of inter-firm relations that extend traditional organisational boundaries initiates complex management accounting and control challenges that are the subject of much attention in recent management accounting literature (see for example Chua & Mahama, 2007; Cooper & Slagmulder, 2004; Dekker, 2003, 2004; Hakansson & Lind, 2004; Mouritsen, Hansen & Hansen, 2001; Seal, Berry & Cullen, 2004; Tomkins, 2001; van der Meer-Kooistra & Vosselman, 2000). These studies examine accounting and control complexities within a diverse range of inter-firm governance arrangements that are evident in practice, including but not limited to, joint ventures, consortia, commercial agreements, sub-contracting, strategic alliances and organisational networks. While these innovative structures have garnered recent management accounting attention there is a much longer history of enquiry into these organisational forms in both the economics and management disciplines (as evidenced in the review paper by Grandori & Soda, 1995). This more established body of literature is commensurate with the occurrence of these structural forms in practice (Anderson and Sedatole, 2003).

In particular, for some years now inter-organisational activity between direct competitors has received considerable research attention in the management literature (for example Bengtsson & Kock, 2000; Gynawali, He & Madhavan, 2006; Hamel et al., 1989; Park & Russo, 1996). Collaborations of this nature are observed in a range of industries including automobile and electronic goods manufacture, the production of semiconductors, airlines, and the brewery and dairy industries to name but a few (Bengtsson & Kock, 2000; Evans, 2001; Gimeno & Jeong, 2001; Hamel et al., 1989; Browning, Beyer & Shetler, 1995). Krueger (2001) noted that IBM has an agreement with every one of its major competitors on every major computer component for years to come while Harbison & Pekar (1998) suggest that over 50 per cent of all cooperative alliances formed are between competitors.

Alliances among direct competitors involve cooperative and competitive relations simultaneously, which create a complex and nuanced dynamic (Ketchen et al., 2004). Firms involved in such activity need to balance cooperating with their partners in good faith with a posture of vigorous competition with these rivals (Gynawali et al. 2006). Management and economic research within this framework has provided insights into the paradoxical relationship between these concepts. These literatures investigate ‘co-opetition’, as simultaneous cooperation and competition between firms (Bengtsson & Kock, 2000; Loebecke, Van Fenema & Powell, 1999), and define ‘co-opete’ as “competing without having to kill the opposition and cooperation without having to ignore self-interest” (Brandenburger & Nalebuff, 1996). ‘Competitive collaborations’ are defined as alliances between direct competitors (Hamel et al, 1989; Chen, 2008).

Research in the economics and management literatures has canvassed the antecedents of competitive collaborations as well as the outcomes and consequences of such arrangements.¹ These studies are conducted from a range of theoretical perspectives, at various levels of analysis and using a range of research methods (Chen, 2008). With regard to the formation and nature of competitive collaborations researchers have explored why co-opetitive relations are developed (Bengtsson & Kock, 2000; Powell & Brantley, 1992), how firms find co-opetitive partners (Gimeno & Jeong, 2001), as well as the determinants of the relative proportions of competitive and cooperative behaviours between co-opetitive partners (Khanna, Gulati & Nohria, 1998). Competitive collaborations are sought for a variety of reasons that include learning (Hamel, 1991; Dussauge, Garrett, & Mitchell, 2000; Loebecke et al. 1999; Powell & Brantley, 1992), access to core technologies of other firms (Bengtsson & Kock, 2000; Gnyawali & Madhavan, 2001), and adaptation to rapid market shifts (Hamel et al., 1989) and are more likely to be established where firms share common suppliers or customers (Gimeno & Jeong, 2001).

Although it is contended that competitive collaborations may potentially inhibit competition by facilitating collusion or by shaping industry structure in anticompetitive ways (for example, Porter & Fuller, 1986) research demonstrates that participation in competitive collaborations can lead to improvements in firm value and other organisational outcomes of benefit (Evans, 2001; Lado et al. 1997). Brandenburger and Nalebuff (1996) employ a game theory framework to demonstrate how two players can use competitive and collaborative means to influence their relative values with respect to shared customers and suppliers, while Lado, Boyd and Hanlon (1997) argue that the combination of competitive and cooperative strategies will create a higher overall rent for a firm. Powell and Brantley (2001) demonstrate that co-opetition results in learning and Gnyawali and Madhavan (2001) find that firms derive valuable resources from their competitive collaborations and strengthen their competitive capabilities.

Despite a business landscape increasingly defined by collaborative explorations of commercial opportunities between competitors and the proliferation of research into these inter-organisational mechanisms in the fields of management and economics, the management accounting and control literature is absent in contributing to a systematic and comprehensive examination of competitive collaborations. The need to explore management accounting and control issues in interactions between competitors where problems of opportunism and moral hazard are more acute is recognised by Caglio and Ditillo (2008). That management control systems can influence dimensions of cooperation including information sharing, problem solving and willingness to adapt, and ultimately the performance of inter-organisational relations, is demonstrated by Mahama (2006). Mahama (2006) further shows that management control systems can indirectly encourage restraint from use of power between firms.

The Control of Competitive Collaborations

Extant research provides valuable insights into the role and use of accounting and controls in the management of many hybrid organisational forms (see for example: Chua & Mahama, 2007; Cooper & Slagmulder, 2004; Dekker, 2004; Hakansson & Lind, 2004; Mouritsen & Thrane, 2006; Seal, Berry & Cullen, 2004; Tomkins, 2001; van der Meer-Kooistra &

¹ A more complete review of this literature is provided in Chen (2008).

Vosselman, 2000). These studies demonstrate the role of accounting in developing and managing inter-firm relations and also consider the design of inter-firm controls to manage transaction-specific hazards and coordinate the exchange of activity across organisational boundaries. The findings indicate that a wide range of controls are used to manage inter-organisational relations (Caglio & Ditillo, 2008; Dekker, 2004; Groot & Merchant, 2000; Hakansson & Lind, 2004; van der Meer Kooistra & Vosselman, 2000). Control mechanisms play a crucial role in managing concerns relating to coordination, cooperation, and appropriation between organisations (Dekker, 2004; Mahama, 2006; Mouritsen & Thrane, 2006). More specifically, studies have shown how performance measurement and other accounting systems, trust and socialisation processes are used to facilitate network formation, information exchange, transparency, restraint of power, and problem solving (Cooper & Slagmulder, 2004; Dekker, 2004; 2007; Hakansson & Lind, 2004; Mouritsen et al. 2001; Mahama, 2006; Seal, Berry & Cullen, 2006).

Exploring issues relating to the management and control of inter-organisational relations is imperative to ensuring the efficient and effective governance of activities across traditional organisational boundaries. However, our current understanding of issues relating to the governance and control of inter-firm exchanges is still limited to a relatively small number of studies. As yet these studies have not explored management accounting and control issues in situations of collaboration between direct competitors. As each variant of inter-organisational relations imposes somewhat unique management control challenges it is difficult to infer from the extant literature a complete picture of the control complexities associated with competitive collaborations. Thus, excepting Hakansson & Lind (2004) and van der Meer-Kooistra & Scapens (2008) there is little basis on which to form *a priori* control system suppositions in regard to competitive collaborations. As such in this paper we endeavour to document the control mechanisms observed across a range of competitive collaborations and analyse the rationale for these control system choices.

In considering the control attributes of competitive collaborations we adopt a broad notion of control consistent with the depth and breadth demonstrated to be associated with this concept in the extant literature. We aim to reflect on both the type of controls evidently employed in competitive collaborations as well as the use of such controls in balancing the paradoxical pursuits of competition and cooperation (Simons, 1995). Furthermore our interpretation of control choices extends beyond the perspective of transaction cost economics to encompass other informing theories such as institutional theory, resource dependence theory and social network theory. Consistent with Ahrens and Chapman (2004) we intend not to dwell on individual controls in evidence *per se* but rather to contemplate their nature and how they interrelate in this particular context.

Caglio and Ditillo (2008), suggest that to date scholars have dedicated relatively less effort towards comprehensively understanding the nuances of particular inter-organisational forms than they have to determining control solutions. Furthermore, the literature contains far fewer studies of horizontal (lateral) relations between organisations than it does vertical inter-firm relations (van der Meer-Kooistra & Scapens, 2008). As such we devote considerable attention to appreciating the inherent tensions arising in the specific context of competitive collaborations. Our field investigations are designed to provide a rich description and in-depth appreciation of key issues arising from the simultaneous pursuit of competition and collaboration.

Finally recent calls in the literature have highlighted the importance of examining inter-firm exchanges from multiple perspectives and enhancing our understanding of the control of inter-organisational relations by moving beyond the study of simple dyadic relations (Caglio & Ditillo, 2008; Chua & Mahama, 2007; Gulati, 1998). In this study we not only examine broader networks of activity than the dyad but seek insights into the nature and control of this inter-firm activity from the perspective of all parties to the exchange. We recognise that firms are members of multiple, contemporaneous horizontal and vertical inter-organisational relations that create a nexus of inter-firm exchanges and associated complex accounting and control challenges (Barringer & Harrison, 2000; Hakansson & Lind, 2004; Chua & Mahama, 2007),

Our research question of interest in this study can be summarised as follows: *How are control systems implicated in managing the cooperative and competitive tensions in collaborations between competitors?*

Research Design

In response to calls in the inter-organisational relations literature we employ field-based research methods to collect qualitative evidence examining the management and control of competitive collaborations (Caglio & Ditillo, 2008; Hakansson & Lind, 2004). The study was conducted in the independent trade publishing sector in the United Kingdom. This sector comprises a large number of small firms that publish general fiction and non-fiction books. Individually and collectively they compete against the much larger corporate publishing firms that are part of multinational conglomerates. The independent publishing sector is an appropriate research site for several reasons. The firms are competitors but simultaneously collaborate in activities across various functions of the value chain (horizontal networks) and also collaborate when engaging in vertical networks with both suppliers and customers. This contemporaneous membership of both horizontal and vertical networks provides an interesting opportunity to explore the tensions arising in the pursuit of competitive collaborations and the use of controls to manage these tensions both within and between particular alliances.

It is important to consider and collect data on the viewpoints of all partners in a collaborative relationship, because this increases confidence that the opinions expressed represent all of the partners and not simply those of the dominant one (Caglio & Ditillo, 2008). Consequently, our study endeavours to capture the perspectives of five inter-related independent publishing houses, plus a number of their key suppliers and customers. Data analysed in this study were collected from a variety of sources, including semi-structured interviews and company and archival documents. Semi-structured interviews were undertaken with 18 participants that included the managing director of each publishing house and various other senior personnel within these organisations where required, as well as key suppliers of printing and warehousing and distribution services, two major customers of these organisations, and finally with the industry guild. A list of all participants interviewed in the study is included at Appendix 1. On average interviews were one hour in duration.

An interview guide was developed around the research themes of interest and used to ensure that all relevant themes were covered in each of the interviews and to help minimise the potential for interviewer induced bias (Brenner, 1985; Minichiello, Aroni, Timewell &

Alexander, 1995). The interviews were audio-taped and then transcribed verbatim and in full (McCracken, 1988).

The software package NVIVO was used to systematically code the interview data. Data were coded according to a schema that reflected the broad themes of interest in this study. Words, sentences or paragraphs from raw, non-summarised transcripts were associated with one or more of the broad themes of interest. Once the coding of transcripts was complete NVIVO provided a powerful means to access the data through its search and retrieval tools. These tools permitted the text in the transcripts to be reorganised and reported back under the various themes of interest identified in the coding schema. The reorganised transcripts were then systematically analysed. At this stage summaries of key themes were created for each interviewee that included quotations from the interview transcripts as well as memos created by the authors that reflected some data interpretation and analysis. The summaries of interviews were then compared to develop a multi-faceted perspective of each of the competitive collaborations investigated. These summaries also included information collected from documentary evidence. All documentary evidence was assessed for its consistency, of lack thereof, with interview data. These summaries of the alliances form the basis of the findings presented in this paper. In an attempt to further the reliability and validity of these results they were sent for comment to the managing directors of two of the five publishing houses, and also to the supplier of printing services.²

The remaining sections of this paper present the empirical findings of this research.

The Independent Publishing Sector

We consider our research questions of interest in the context of the independent publishing sector. Our findings with regard to the role of control in managing ‘co-opetition’ are drawn from careful observation and analysis of the myriad of collaborations that exist amongst five independent publishing houses and their associated activities with suppliers and customers. The competitive collaborations we consider are drawn from across the value chain of the publishing process and include the initiation and creation of books (products), the production process, and the sales and distribution functions. In the following sections we present an overview of the independent publishing sector and each of the publishing houses included in the study. We then explore and analyse how management controls are implicated in these competitive collaborations.

Trade publishing in the United Kingdom

Trade publishing in the United Kingdom is dominated by a number of well-known conglomerate publishing organisations, including HarperCollins, Random House, and Hachette. These organisations are responsible for the vast majority of the 200,000 new fiction and non-fiction book titles produced every year in the UK. Despite their small size, independent book publishers comprise a significant part of trade publishing in terms of their literary contributions.³ Both conglomerate and independent publishers face a very high level of uncertainty with respect to the performance of each book title released. The future

² The managing directors and suppliers confirmed that the descriptions of the alliances appeared complete and appropriate from their perspectives.

³ Despite the small proportion of the publishing sector constituted by the independent publishers, they win a disproportionate number of high-profile book prizes, including the Man Booker and the Costa (formerly Whitbread) Book Awards.

commercial success of each publisher is dependent on their ability to purchase or commission from authors book titles that will sell large volumes of books in the UK and which have additional potential for foreign translation and film rights across the globe. Book titles from previous years form the backlist for each publisher, and provide a steady stream of revenue through reprints.

The financial prosperity of publishing houses is further encumbered by the less than favourable conditions that prevail in the trade industry. Book publishers sell their books on a consignment basis to all booksellers, including several well-known high-street chains, independent book shops, online bookshops, and general supermarkets. The abolition of the Net Book Agreement in 1997 increased the purchasing power of the larger booksellers.⁴ This pressure on profit margins earned by publishers has been compounded by the perceived oversupply of book titles in the trade publishing sector, coupled with the high cost charged by the major booksellers for promotional activity. These factors have also impacted the sale of books from backlists such that they no longer offer a guaranteed buffer against the uncertainty of new book titles.

The art of being an independent

Despite facing comparable terms of trade, the conglomerate and independent publishing houses differ in several respects. In contrast to the organic growth of the newer independent houses, the conglomerate publishers are the result of successive merger or acquisitions of smaller firms over many years. This provides them with a substantial and highly varied backlist. Conglomerate publishers are commonly part of multinational and often diversified organisations that can provide additional investment during periods of financial difficulty. They have a highly commercial focus, seeking mass market appeal to provide the bulk of their revenue. This financial strength enables them to purchase popular book titles (such as ‘airport novels’ and celebrity autobiographies) that gain them vital shelf space in bookshops. This publication of mass market books offsets the risks associated with their investment in high-quality book titles. In addition, the sheer volume of books originating with conglomerate publishers affords them advantages not available to the independent publishers in their dealings with book sellers and suppliers.

In the independent publishing houses the attention and efforts of owners and managers are much more focused on the production of high-quality non-fiction and literary fiction books that have the potential for commercial success. Given the large number of new book titles published in the UK each year, the independent publishers must strive to attain prized space in bookshops by continually innovating to ensure booksellers purchase and promote their books. Much of the burden of acquiring exemplary titles falls on the publishing editor of an independent publishing house. Under pressure to keep overheads to a minimum, this individual is typically also the managing director⁵ and as such performs duties central to the continued prosperity of the organisation. As both publishing editor and managing director,

⁴ The nature of trade publishing changed fundamentally following the abolition of the Net Book Agreement (NBA). This was a price fixing agreement between publishers and booksellers which set the prices at which books were to be sold to the public. Established in 1900, its original intention was to enable publishers to use the revenues from best selling books to subsidise the publication of less commercial works considered important to the advancement of knowledge. In March 1997 the Restrictive Practices Court ruled that the NBA was not in the public interest and it was ruled illegal.

⁵ In four of the publishing houses in our study the managing director was also the publishing editor for the organisation.

this individual must resolve the conundrum of publishing outstanding works of fiction and non-fiction in a financially tight environment.

In independent publishing houses the stringent profit margins facing the industry in general are compounded by their small operating volumes. Small volumes hinder the competitiveness of independents *vis a vis* their conglomerate counterparts because they are unable to attain economies of scale in printing, warehousing and distribution expenses. Increased costs in these areas preclude expensive marketing activities, with independent publishing houses primarily relying on in-house publicity managers to promote new book titles at low or no cost. Furthermore, the payment of significant upfront advances to authors necessitates the careful management of negative cashflows over extended periods of time. Combined with the large volume of book titles produced in the United Kingdom annually these stringent financial conditions increase the imperative for independent houses to produce commercially successful books.

Within the independent publishing sector the larger of the independent houses compete in the quest to produce books that will further their commercial and reputational success. Competitive advantage in this sector hinges on the perceived quality of books published, and this is considered to directly reflect the reputation and expertise of the publishing editor. As already noted their relatively small influence in the highly-competitive low-margin trade publishing industry means that the independent publishers can find themselves just several book titles away from financial failure.⁶ However, profit maximisation is not their sole, or even the most important, goal. Each publishing house defines itself in terms of a distinct ethos and approach to publishing. They have a strong desire to maintain their independence, and view collaboration with each other in various aspects of the publishing process as the means to ensure their continued survival. Their precarious financial position precludes equity-based alliances, but increases the significance of collaboration. The collaborations investigated in this study represent a network of relationships between the publishers. In other words, they cannot be independent by themselves.

In this study we follow the adventures and mis-adventures that ensue from the competitive collaboration of five independent publishing houses: King Books, Pacific Books, Contour Books, McCall Books and Sentinel Books.

King Books: The largest of the five houses this firm is now in its eighth decade. It has a substantial and high-quality backlist that provides some cushion against the uncertainties associated with new book titles. The market pressures on backlist revenue alluded to earlier have increased King Book's need to produce new, commercially successful book titles. King is the only independent to have its own salesforce, while the other houses contract this activity to a third party. Another recent strategy by King to reduce its dependence on the vagaries of book publishing has been to contract out the use of its sales function to other independent houses.

Pacific Books: A new entrant to book publishing, Pacific Books was established as an offshoot of its international parent. Consequently, it has a very small backlist. The managing director relies predominantly on his ability to generate his own book titles to avoid the need to pay literary agents for introducing him to new works. Pacific Books also has a third party

⁶ One award-winning book is usually sufficient to stave off the imminent threat of financial crisis for several years.

agreement to publish books commissioned by Sentinel, another independent publisher included in this study. This earns Pacific Books commission on each book sold and provides some revenue stability and insulation in a changeable industry.

Contour Books: Contour publishes a variety of book titles, but is best known for its quirky, general interest non-fiction titles. One such title was a surprise best-seller the year before this study was undertaken, delivering sufficient income to secure the continuation of the firm for several years. A major strand of Contour's publishing strategy, however, is an extensive third-party arrangement to produce books on behalf of a well-known media group.

McCall Books: This publishing house is renowned in the industry for its ability to innovatively rebrand and repackage celebrated works as well as commission authors to write non-literary works. In the year preceding this study, a book published by McCall won the prestigious Booker Prize, providing the company with a substantial increase in sales and a major boost to its reputation.

Sentinel Books: a very small publishing offshoot of a larger media group. Its main output is a series of annual directories but it has recently begun to expand into trade publishing. While Sentinel produces the directories itself, it outsources the publication process of its trade publishing to Pacific Books. This enables it to utilise Pacific Book's expertise and resources.

The managing directors of each of these independent organisations have previous experience in conglomerate trade publishing. They understand the trade publishing market and know how the conglomerate publishing houses are likely to respond to market conditions.

Exploring Control in Four Competitive Collaborations

In this section we investigate a range of activities in which the competitor firms collaborate. The immediate benefits of collaboration include reduced expenses *via* economies of scale, information, moral support, and learning. Tensions arise between the natural competitive relations between the independent publishers versus their need to share information in order to facilitate collaboration in various activities. We identify the control mechanisms that are used to balance the tensions inherent in co-opetition. These controls are considered in the light of the particular characteristics of the activities undertaken on a collaborative basis and against the intended objectives of each alliance.

The next sure thing

"We paid £15,000 for [Booker Prize winning novel], it was passed over by every major literary house in London. It was [author's] third book; he was going to stop writing if it didn't work. ...His previous two books hadn't been successful commercially, had average reviews, and nobody, nobody, knew what [this third book] was going to do. I guessed that it might win the booker prize, but I have guessed that about quite a few over the years!"

Managing Director, McCall Books

The process of identifying, acquiring and developing new book titles was acknowledged by all interviewees as the key to a successful publishing firm. We use the term 'book initiation' to encompass the process by which a new book title is conceived or purchased (acquired), and subsequently developed into a manuscript ready for printing. The financial pressures

faced by independent publishing houses demand that they purchase and develop high-quality book titles as economically as possible. This imperative can be achieved in a number of ways. For example, a common source of high-quality, but relatively inexpensive, fiction is *via* the purchase of the rights to publish foreign language book titles. The purchase of foreign language rights is a far cheaper means of acquiring fiction titles than purchasing fiction through a literary agent or *via* an open auction process, both of which incur additional fees. With regard to non-fiction works the commissioning of titles is another common way to avoid additional expenditure. The publishing firm either generates its own book titles and then seeks a suitable author to produce the manuscript, or finds a popular author and offers him or her a contract to write a specific book. Compounding the financial challenges in the book initiation process is the high level of uncertainty surrounding the book selection process. Each publishing editor interviewed stressed the importance of appreciating that expected successes can fail, while seemingly incongruous books may become best-sellers.

In the remainder of this section we consider a number of collaborations that exist between our focal firms and relate to the book initiation process. Specifically we consider collaborations relating to the acquisition of books *via* auctions and *via* commissions. We describe the nature of these collaborations in turn and explore the observed control mechanisms that manage the competitive tensions evident in these alliances.

Auctions: Acquiring a book title at auction is one of the least preferred acquisition methods of independent publishing houses.

“I do everything I can to avoid auctions...From an independent start-up’s point of view, if you sit and wait for what the glamorous literary agents send you, then you are instantly pitched in competition against the biggest publishing houses, who have the ability to, you know, put in the case of, say, Michael Crichton about thirty-five million dollars on the table, I mean a very large amount of money.”

Managing director, Pacific Books

“You never benefit by going to an auction and winning an auction.”

Managing director, Contour Books

This reluctance to enter the auction process exists largely because involvement in auctions typically means entering into direct competition with the far deeper pockets of the conglomerate publishing houses. The independent firms included in the current study share the belief that this commonly results in inflated final prices that cannot be commercially justified. These high prices arise because financial considerations are not always the overriding imperative for the purchase of a book title. A particular title may be purchased in order to sabotage the intentions of a competitor organisation, or for political reasons, or for reputational purposes.

On occasion, however, an independent publisher will wish to acquire a particular book title offered through the auction process. When this is the case the firm will discuss its intentions with the other independents, and is forthcoming with information that may influence the decision of the other firms with regard to entering the auction. Collaboration takes the form of information sharing *via* social and other more formal networks created by the managing directors. However, the sharing of information between competitor firms in such forums carries a high risk of imparting proprietary information, or of illegal collusion. This risk is in

part managed through the small number of representatives from each firm, usually only the managing directors, who are involved in the meetings. This reduces the likelihood that commercially sensitive information will be imparted to a competitor firm. The integrity of these collaborations is maintained *via* goodwill trust. That is, competitors will behave as they have indicated. Should a competitor involved in these collaborative forums change its mind and bid against one of the other houses, the final price paid for a title could potentially increase. The independents are motivated to adhere to their decisions through fear of future sanctions from their competitors, such as exclusion from discussions about future auctions and/or other forms of collaboration.

The Umbrella Group is one such discussion forum established within the independent trade sector for the purpose of sharing information. It is a fluid group whose attendees at (lunch) meetings are the managing directors of a number of independent publishers. Four of the five publishing houses in our study also comprise a ‘break-away’ sect from this larger grouping. It is this within this more intimate clan that significant information sharing occurs. The participating firms in our study regarded the break-away Umbrella group as a particularly significant outcome of their social alliances. It enabled them to discuss their views about the market for their products and to debate potential threats and opportunities. It provided them with a sense of camaraderie in their constant battle against conglomerate competition and the power of the booksellers.

“This group of people feel to me like people who can really, you know, disproportionately influence the industry, you know, we can really tackle it with ideas and learn from each other.”

Managing Director, King Books

Underpinning the continuance of this collaboration is a set of shared values and beliefs. First, these independent publishing houses are committed to the delivery of high-quality innovative fiction and a broad range of general-interest non-fiction that contributes to society’s cultural activities:

“One of the reasons why this is such an exciting thing to do is that, you know, there is just an outside chance that you might in your life produce one book that will endure for a hundred, five-hundred years... you’re doing it to participate in the culture.”

Managing Director, Pacific Books

Subscription to this philosophy instils a sense of solidarity between these organisations against the commercialism and mass-market approach that predominates in the conglomerate publishing houses. Second, each of the members of the break-away group thrives on the challenge of dealing with the uncertainties inherent in trade publishing and is confident in their own ability to understand and operate successfully in the high-quality trade publishing sector. Importantly, there is a mutual recognition of this ability in other independents, while simultaneously believing that their choices are often wrong.

“What we want is [MD of another independent house] telling me once every couple of months, you’re an idiot to publish it in this way, and I will say to him, well, I’ll prove you wrong.”

Managing Director, King Books

Finally, there is a strong shared belief that each of the ‘other’ independents in group has their own modus operandi, an overall identity that contributes significantly to the sector, and justifies their continued independence. In short, the price of maintaining independence is to support independence in others.

It is important to note that these values and beliefs, while underpinning firms collaborating in the break-away Umbrella Group, do not necessarily characterise the whole sector of independent publishers in the United Kingdom. Equally, these values are not exclusive to the nature of independent publishing but may also be shared by conglomerate publishing houses. In the context of this transient and self-selecting group, however, subscribing to these values and beliefs provided the firms with the assurance they required to enter into and continue in the collaboration. The strategic nature of the relations between the various independent houses and the focus on information sharing largely precludes the use of more formal controls. For example, it would not be possible to contract in advance for the flow, frequency, and use of information by each of the firms in relation to their own requirements and future market conditions. As such, the belief and values outlined above constitute a crucial control mechanism in the management of book auction collaborations.

Book commissioning: The acquisition of titles from ideas emanating within the organisation is a significant source of competitive advantage for many independent publishers. It provides the firm with commercial or reputational contributions. Thus, the process of thinking of new book titles and how to present and market them is closely guarded and usually resides with a key individual such as the managing director or publishing editor, specifically employed for their creative abilities in this area.

“The entrepreneur part of my remit was essentially to build on a reputation, a modest reputation, that I already had, which was for going out and inventing books. Most commissioning editors, particularly in the very large publishing groups wait for literary agents to submit material to them.

Managing director, Pacific Books

The managing directors aim to create a particular identity for their publishing house based on their own preferences and expertise.⁷ A successful book then enhances their ability to persuade a bookseller to purchase other new titles from their list.

While the independents have shared values about the nature of ‘high-quality’ trade publishing, there is no direct collaboration in the book commissioning process between independent publishing houses:

“You can outsource absolutely everything except the editorial side, which is your relationship with authors, because that is what determines the nature of a publishing house, because a publishing house is nothing but its authors. Strip out the authors and there is nothing left. So you cannot outsource that because that is what determines your character. And in my view, the most interesting and the best publishing houses are therefore, run by publishers, that’s to say editors, people who acquire books, because that is what determines the publishing character.”

Managing Director, Contour Books

⁷ A brief description of each publishing house has been provided previously in this study.

Collaboration between firms on book commissioning would involve two significant risks. First, it would necessitate editorial compromises that might jeopardise the unique identity of each firm. While the managing directors clearly have a high regard for each other and the publishing houses they represent, they also question and disagree with the choices made by their competitors. Second, it presents opportunities for misappropriation of information with regard to book titles. Whereas auctions are usually restricted to the sale of unique book titles, such as autobiographies, that cannot readily be replicated, this is not the case with the in-house generation of new ideas. Non-fiction book titles have no such unique quality. The underlying essence of the book can be easily replicated by a competitor under a different title and presented in an innovative way. The independent houses pride themselves on their ability to publish books quickly, thus they each represent a serious competitive threat to another firm that is in the process of generating a new book title for publication.

The innovative nature of the commissioning process is therefore not suited to the use of a contract between collaborating firms. Without the ability to contract against the misappropriation of information, there is little potential for sharing information in book commissioning. Even with the ever-present threat of financial failure, the strong desire to remain independent and retain a unique identity overrides any potential for collaboration in the commissioning process.

Freedom of the Press

The next major process in book publishing concerns the physical production of the finished product. In this section we consider production function issues, including printing and the outsourcing of production processes (third part production).

The production process: The completed manuscript is sent to a printing firm, which is selected on the basis of the particular requirements of the book. The purchase of printing services offers scope for economies of scale, but non-financial considerations such as responsiveness, flexibility, quality, and reliability also determine the selection of a printer for each book title. These factors offer a further source of competitive advantage for the independent houses over the conglomerate publishers and prevent price being the major determinant of their choice of printing firm. In particular, responsiveness is an essential requirement for publishing houses, because re-runs or reprints may need to be conducted in a very short period of time. The publishers will pay printers for the privilege of receiving a fast service in order to avoid stock shortages in the book shops.

“The [conglomerates] are very slow on their feet. One of the things that we are, is we’re fast. You know, last year we did between five and six-, either five or six books were published in sixteen weeks or less. The [conglomerates], the big [publishing houses], can’t do that. They can’t publish anything in less than six months, unless their lives depended upon it.”

Managing Director, Pacific Books

“If you’ve got a best seller on your hands or the book is selling really fast you’ve got to get those turnarounds very rapidly and we choose to pay more for our printing for that service-price trade off.”

Managing Director, Contour Books

Each publisher has a group of three or four preferred suppliers that it uses for printing. At any one time, a number of books from each publisher are being printed by a range of printers. This variety in supplier selection is essential for several reasons. As the larger publishers are able to command priority in the event of major problems, the independent houses use a number of printers in order to spread the risk that their printing will not be completed on time:

“If HarperCollins wants something, [a printer] will drop us like a hot potato...”

Managing Director, Pacific Books

Publishing houses also require flexibility of printing services, such as the choice of a non-standard format for the finished book. They need to access a range of printers in order to obtain this flexibility, and this prevents them achieving economies of scale with any single printer. Flexibility in the production process is regarded as a potential source of innovation because it can give a book added prominence in the bookshops. For example, the managing director at King Books recounted a story of publishing a new title in a different format to the predominant format in the marketplace at the time.

“They fell around laughing in the boardroom, at us saying [Author A’s] new book and [Author B’s] new book will be royal hardbacks at £16.99. Dull, dull, dull. But when they arrived in the market, we were spot on. Everything else was a dinky little format, you know, and these books sold a hundred thousand copies each.”

Managing Director, King Books

The high number of organisational-specific variables involved in the print decision necessarily impacts the ability and willingness of competing independent publishers to collaborate in the printing process. The independent publishers must consider the relative benefits of reduced printing costs versus potential loss of flexibility and increased risk. Collaboration is thus hampered by the specific requirements and characteristics of each publisher, but is eased through the transactional nature of printing, and further encouraged given the proportion of overall costs expended on this highly-visible activity. Within this context, the production managers from King Books, McCall Books, and Contour Books have recently started to collaborate on their respective printing processes by sharing information about the printers they use, the volumes they purchase, and the prices they pay. Their aim is to achieve substantial savings for each individual firm by combining printing jobs across a few printers in order to obtain volume discounts. In an attempt to retain the important element of flexibility, the agreement between these three firms is informal, arrived through discussions between the respective production managers from each firm. Once they have reached an agreement to print a specific set of jobs together, the production managers negotiate as a group with the printer to obtain a price based on the larger volume of work offered. Each firm then enters into a normal individual contract with the printer, based on the reduced price negotiated jointly by the production managers.

While Pacific Books was a major force behind the original idea to start collaborating in the printing process, ultimately it chose not to join this collaborative venture. The production manager was unwilling to compromise on the choice of printer, and advised the managing director of Pacific not to go ahead. While there was no suggestion that this was a poor business decision for Pacific Books, we did not find any evidence indicating that Pacific’s printing requirements were unique among the independent houses. However, the personal

relationship between production manager and printing company is an important part of the service received by the publishing house, and may have been a factor in their decision not to collaborate.

So if you take [Corporate Publishing House], in one print run alone they do £26 million worth. ...We can't compete with that. So it is more important to get good relationships and I do that on a personal level with the sales guys and on a professional level with them as well of course. You need to get on with these people and then you get favours done.

Production Manager, Pacific Books

Third-party production: Two of the firms in this study, Pacific Books and Contour Books, undertake the production process on behalf of other independent houses. Pacific's agreement is with GNL, another independent firm included in this study. As competitors, there is an inherent tension in the relationship. Pacific has access to proprietary information regarding Sentinel's planned publications, as well as to Sentinel's intended format for each new title. However, Sentinel lacks the necessary resources and expertise in the production process and so is forced to purchase this service.

Sentinel's choice of Pacific Books reflects the underlying goodwill trust between the two houses, based on the shared values and beliefs outlined previously. This trust is apparent in the use of a semi-formal contract to facilitate the collaboration. A Heads of Agreement between the two firms sets out the nature of the relationship in a general and non-specific form. This agreement states that Sentinel will outsource its production to Pacific, based on an agreed plan and within set parameters (for example, Sentinel must give Pacific sufficient notice of a request for their production services). Furthermore, the agreement is not of an exclusive nature, which gives Sentinel the flexibility to outsource the production of any specific book title to another firm and minimises the risk of long-term misappropriation of information by Pacific Books. The semi-formal nature of the agreement is further underwritten by Sentinel's competence-based trust in Pacific's ability to undertake the work to their required standard. This collaboration brings clear benefits to both firms. Sentinel obtains access to resources and capabilities, while the agreement generates additional revenue for Pacific Books.

Getting your books out of the bag first

"You know, when we sell [title of book] by [author], it's coming out of the bag first, because if I'm a sales person and I've got call to make, I want them to feel bloody good about me before I've even begun."

Managing Director, King Books

In the United Kingdom, bookselling is dominated by a small number of book retailers (such as Waterstone's, Borders, WHSmith) and, increasingly, the major supermarket chains. In total, this group now sells the majority of all books sold in the United Kingdom, with the remainder sold through small independent bookshops and other outlets. Interviewees informed us that in any given month, the Head Office of a national bookseller receive an inordinate number of unsolicited new fiction books alone from publishing houses based across the United Kingdom, all of whom are trying to persuade the bookseller to purchase their book titles. The major booksellers employ in-house buyers with responsibility for different categories of books, such as general fiction, non-fiction, children's books, etc. He or

she decides which book titles to purchase, and how many to order for each retail outlet owned by the bookseller.

The sale of books to all booksellers is a crucial area of competition for book publishers because the buyers have a limited budget and a limited capacity to evaluate all the books they receive. Head Office accounts represent approximately 50-60% of total sales for the independent firms in our study. Because of their importance to the publishing houses, these accounts are handled directly by the managing director and the sales director. The Head Office buyers purchase books centrally on behalf of all stores, but give the stores some autonomy to purchase other titles. They attempt to identify bestsellers ahead of their rivals in other firms by meeting with senior staff from the publishing houses every few months. The relationship with the national booksellers is of such critical importance to the success of the publishing houses that it is handled personally by the managing director and sales director in our participating firms. They use these meetings to present new book titles that are currently in the production process, with the aim of persuading the buyers to place advance orders ahead of each publication date.

In contrast to the large volumes ordered centrally by the national booksellers, other booksellers around the country purchase much smaller amounts and therefore do not warrant personal visits by the senior managers from the publishing houses. These general booksellers are the responsibility of sales representatives from the publishers. Whereas the conglomerate publishing houses are sufficiently large to employ an in-house salesforce to present their books to the general booksellers based across the UK, the smaller independent publishers outsource this function to a third party sales force. The process is highly labour-intensive, because the sales people have to visit each bookseller in order to promote the books. In order to help the salespeople promote the book titles, the publishing houses produce an 'Advanced Information' (AI) sheet for each title to provide some information about the contents of the book and its likely market.

There are significant risks attached to outsourcing sales because poor performance by the sales company can result in short-term loss of revenue, as well as potentially more serious long-term problems such as reputational damage and loss of market position. Over the period of time we spent in the field we observed a switch in outsourced sales force by two of the independent publishing houses in our study, Pacific Books and McCall Books. Pacific had decided not to renew its contract with a specialised salesforce called Lantern Sales, and McCall Books was about to terminate its agreement with the same firm. Pacific's managing director expressed significant dissatisfaction with the level of service he received from Lantern across all activities of the sales function.

"Despite six months of accelerated and more intense meetings with [Lantern] at senior level, they've yet to deliver anything like the quality and quantity of information that we keep asking for...The director of that company doesn't know where his reps are at any given time...And he doesn't monitor their sales, which are crap, in fifty percent of the cases. And he doesn't drive them hard enough. So we finally dragged an itinerary out of him, for one of his staff, which was clearly constructed the day before. And that guy had ten rep calls in a week. Now we believe reps should work at least twenty-five calls a week. And the fact that the guy from [Lantern] showed this to us, showed that he didn't even begin to think that would be a problem."

Managing Director, Pacific Books

Although there was a formal contract between Lantern and the publishing houses in our study, we were surprised to discover that it was specified in general terms with little or no emphasis on specific performance measures.

“[It states] how much they get paid, what their obligations to us are, what our obligations to them are, what market they’re allowed to sell in, we restrict and control the key account market, the head office key account.”

Managing Director, McCall Books

The nature of sales as a business activity suggests that a contract could be written to include specific performance measures, such as number of sales visits made or books sold. In relation to the problem with Lantern, the managing director of McCall Books said that it was not normal practice to use contracts to manage relationships in the publishing business. This indicates a certain level of goodwill and competence-based trust that was traded against the costs of drawing up a detailed contract.

“I’ve never known anyone bring contractual points to bear on a business relationship. It never gets anywhere close. People will often halfway down the line scratch their head and go, ‘what did we say in the contract?’ We almost use it as a mutual reference point, as to how they should resolve the situation, but you know, publishing has a reputation of being gentlemanly, and it tends to be.”

Managing Director, McCall Books

Meanwhile, the sales function for Contour Books had previously been outsourced to the sales force of the largest independent in this study, King Books. Pacific Books and McCall Books were in the process of joining Contour Books at King Books, with the outcome that the sales function for all four houses would shortly be provided by King Books. King had a strategy of providing this service to others as a means of reducing their dependence on book sales.

The decision by Pacific Books and McCall Books to outsource their sales function specifically to King Books was motivated by several strategic issues surrounding the changing nature of the purchasing process in the major booksellers, coupled with their concern that Lantern would be unable to respond effectively.

“[The] sales reps are more and more responsible for checking compliance. So that Waterstone’s who are running ever-more elaborate promotions, that have ever-more unpredictable start and finish dates, but for which we pay a premium in terms of enhanced terms and in cash, marketing contributions - our reps need to be checking that those things are happening, and [King Books] have a very, very good set-up for monitoring compliance. And these people we’ve got [Lantern] can’t even tell us where they are on a Thursday afternoon.”

Managing Director, Pacific Books

These publishing houses have chosen to collaborate with King Books and with each other because collaboration will improve their access to book sellers. They believe that collaborating in the sales function will enhance their ability to gain access to general booksellers because they can offer an increased range of high-quality books.

“The calibre of their [King Books] staff I think is better, and more importantly than that, we are insulating ourselves against what I think will be the primary pressure on independents now, and will become more so in the coming years, and that is access...Last year we did an audit, and there were, out of two hundred stores, sixty that wouldn't see the Lantern rep. So nearly a third, just didn't want to know. You want to get to a scale where they may not want to know, but they can't ignore you. And [King Book's] access is unquestionably better.”

Managing Director, McCall Books

This collaboration will also enable them to offer increased flexibility and choice to the booksellers. For example, King Books has recently provided an ad hoc service to the buyer for a supermarket chain interested in purchasing a selection of high-quality popular books from a range of publishers at short notice. The new collaboration will allow them to offer this on a more systematic basis.

We speculate that it is no coincidence that Pacific Books and McCall Books have made the decision to terminate their agreements with Lantern at the same time. As members of the breakaway Umbrella group, they already have a social relationship based on shared problems, and regularly discuss their respective concerns about Lantern. King's managing director is also a member of this group and therefore well placed to take advantage of his personal relationships with the managing directors of the other firms.

The tension between competition and collaboration in the sales process is apparent from two perspectives. King Books face a natural conflict of interest in having their salespeople promote and sell the books of other companies. Equally, Pacific Books, McCall Books, and Contour Books have a concern about whether King Book's salespeople are able to operate at an arms-length basis. Pacific noted that its own book titles were among the best quality of those sold through the Lantern sales force, but that this might not be the case with King Books. This was an *ex ante* justification that weaker sales under King Books might be due to increased level of competition rather than gaming by their salespeople.

Collaboration prevails for a number of reasons. In order to attain their sales targets, the independents must get personal access to booksellers throughout the country at low cost. The risk associated with outsourcing the sales function to a third party is reduced by retaining the key head office accounts in-house. Pacific Books, McCall Books, and Contour Books draw on their shared belief in the innovative nature of their combined products to deal with the tensions generated by outsourcing the function to a close competitor. Furthermore, book titles are not substitutable. These three firms have sufficient confidence in the uniqueness of their books to believe that the King salespeople (commission-based) will not favour King books. Equally, King, despite being the oldest and largest of this group of independent publishers, recognises the benefits of association with the newer breed of publishers. Collaboration with these new and innovative firms offers King the potential for learning. The AI sheets produced by publishers in advance of a new book publication, together with the discussions between the salesforce and the publishing house about each new book title, provides King with the opportunity to gain greater knowledge about the innovation process undertaken by their competitors in commissioning books. This is a way of compensating for the inability to collaborate in the book commissioning process. In summary, their need to improve sales to the general booksellers overrides their concerns about unfavourable treatment of their books by the King salespeople.

The collaboration is managed in several ways. Although the general non-specific nature of the contract with Lantern is similarly repeated in the formal relationship with King, knowledge of King's recent sales efforts on behalf of Contour Books brings a certain level of competence-based trust to the arrangement. Goodwill trust is also evident, based on the shared values developed in the breakaway Umbrella group, and a belief that King have a long-term strategic interest in building their sales function that would not be enhanced by poor service towards its new partners. These factors mitigate against the need to produce a formal contract that is 'complete'. That is, the partners do not contract for all contingencies, or by including specific performance measures. In fact, since the completion of this study, the firms in this study have been joined by a further five independent publishing houses to establish a large group whose sales are outsourced to King. The group collectively describes itself as a co-operative whose members "share a common vision of editorial excellence, original, diverse publishing, innovation in marketing and commercial success". The stated aim of this collaboration is to consolidate their UK sales through the King salesforce in order to compete more effectively with the conglomerates. While this group consists of independent houses that regard themselves as close competitors, the alliance acknowledges their shared strategic vision for the success of the independent publishing sector. Their concerns about the increased risk of being in the same 'bag' as their closest competitors is more than offset by the longer-term implications of reduced access to booksellers. The ability to combine their sales offers a unique opportunity for the members to strengthen their individual and collective positions in their incessant competition against the UK conglomerates.

Gone today, here tomorrow

Newly printed books are sent directly from the printing company to a warehousing company appointed by the publishing firm to store its books and distribute them to the booksellers based on orders received. As books are sold to booksellers on a consignment basis, the publishing houses retain the sale risk until the book is sold by the bookseller to a customer.

"...and because publishing is a sale or return business, our American [parent] describes it as 'gone today, here tomorrow', [the distributors] also process the avalanche of returns that we get."

Managing Director, Pacific Books

The warehousing firms charge each publishing house for the storage space taken by the books. They collate book orders from the various booksellers around the country, distribute them to each store, handle the payment process, and deal with returns that the retailers no longer require. In contrast to the specialist nature of printing described previously, warehousing and distribution are commodity services offered by a number of firms. The process is highly standardised and the various suppliers all offer similar services, because the warehousing and distribution requirements of all publishing houses are highly comparable. Each publisher has a formal contract with the warehousing and distribution firm, based on the costs and volumes associated with each part of the process, managed through key performance indicators. The pressures on profit margins necessitate that the independents carefully monitor and control the overall expense associated with warehousing and distribution.

"They charge us a commission on the rate on the books going out, on the value of the books going out, and they charge us another commission on the value of the books coming

back in which are returned, because processing returns is actually more labour-intensive. The rate is calculated as a function of the total value of the transactions going through the warehouse, divided by the total number of product lines in the warehouse. And because we ruthlessly control inventory, we pay a pretty good rate...The average rate is 10.25%, we pay 6.25% and so we're pretty controlled there."

Managing Director, Pacific Books

The standardised nature of the warehousing and distribution processes, together with the additional pressures caused by the consignment terms of trade, suggests the independent houses could easily collaborate in order to achieve economies of scale. They have the same requirements with regard to warehousing and distribution activities, and their relationships with these firms are constituted in very similar ways through standard and transparent formal contracts. In this aspect, warehousing and distribution appears to offer a more straightforward rationale for collaboration than the printing process described previously.

Despite the compelling advantages of cooperating with other independents to purchase warehousing and distribution services, there are fundamental competitive tensions that have the potential to preclude collaboration in these areas. Most important of these are the significant barriers to exit that prevent publishers readily changing distributors. In order to switch to another warehousing firm, the publishers would need to run down their existing stock of books or pay a substantial one-off charge to clear their (not inconsiderable) lines of stock from the warehouse. At the time of this study the independent publishers had not attempted to achieve any potential economies of scale that may arise from the consolidation of warehousing and distribution processes, although this was identified as a natural extension to their existing collaborative efforts.

In the absence of concrete data, we speculated at the time of this study that it was perhaps the longer-term nature of the warehousing and distribution contract that would be entered into that had precluded this collaboration to date. The manager of a warehousing company and several of the publishing managing directors indicated that it would be sensible for the independents to collaborate on warehousing and distribution in the near future in order to release the pressure on the profit margins.

"[Collaborating on warehousing and distribution], it is the stage beyond, we need to do that to survive I think, because we have to try and match the scale economies of our competitors, because they are driving the way the market is going, and what they are driving it towards is being able to buy a paperback in ASDA for £3.49, which used to be £7.99."

Managing Director, McCall Books

Interestingly, since the completion of our field work four of the five independent publishing houses who participated in this study have begun to collaborate in the purchase of warehousing and distribution activities. These services are now supplied by a single warehousing company combining the volumes and product lines of each member of the alliance in an attempt to generate savings for all the participating publishers. This suggests that the barriers to exit were regarded as a short-term cost that was more than offset by the pressing need to reduce their margins.

The Control Nexus

In this section we draw on the findings and discussion above to formulate insights into the issues that surround the management and control of competitive collaborations. In particular, we are concerned with the nature of the observed controls that are used to manage the tensions between two collaborating competitors, and explore how these compare with the controls that might otherwise be expected in such high-risk ventures. This discrepancy between the observed and expected controls arises to a greater or lesser extent in each of the collaborating activities we examined, and is considered in more detail below.

Book acquisition: The decision to collaborate in auctions in order to avoid paying too much is rational, given the financial constraints within which each independent publishing house operates. But collectively the publishing houses could sabotage a winning bid by a competitor by disclosing information regarding the intentions of the bidder that ultimately pushes up the final price. However, the collaboration based around the auction process is underpinned by an overriding set of shared beliefs and values about the nature and contribution of the independent publishing sector. A collective sense of solidarity against the conglomerates, coupled with the ever-present fear of financial failure, encourages these firms to support each other, despite their underlying competition. Goodwill trust facilitates the initial discussions around the bidding process, and reduces the risk of moral hazard presented by competing independent houses.

Production process: Viewed in isolation, a supply-chain view of the decision to collaborate in the printing process appears to be based on a cost-benefit decision for each independent house. It seems to be based on no more than a recognition that printing requirements and priorities might be sufficiently similar to be aggregated across firms. However, the printing collaboration is potentially a more complicated relationship than suggested by this view. As a group, the independent houses require a certain level of volume in order to achieve economies of scale for each collaborating partner. There is no formal contract between the firms because of the need to retain flexibility in their choice of printer. This increases the risk that a collaborating firm might pull out of the agreement at any time if, for example, its printing requirements changed. This could leave the remaining firms no better off, or even in a worse position, than previously. The collaborative effort discussed in the current study involves only a very small number of firms, all of whom are in the breakaway Umbrella group. This indicates the importance of their shared values in facilitating collaboration in the printing process. Furthermore, the production process offers a source of competitive advantage to the publisher, so there are valid reasons why a firm would not wish to collaborate with its close competitors. Knowledge of these competitive advantages may become apparent in opening discussions about future collaboration, and therefore is likely to occur only between firms who already enjoy close social relationships. We had no evidence that individual firms were under pressure to join the collaborative printing venture; on the contrary, Pacific's decision not to participate in this (while subsequently joining the sales collaboration) indicates the supportive nature of the breakaway Umbrella group and the goodwill trust that underpins this informal arrangement.

Sales process: As above, a straightforward supply-chain view of the sales process described previously suggests that the relationship between a publishing house and their third-party sales force is loosely managed through the use of a semi-formal contract. Pacific's and McCall's unilateral decisions to seek a new supplier can be explained through Lantern's failure to provide a satisfactory level of service to both of these publishing houses. The

absence of a ‘complete’ contract that contains a set of measurable targets can be explained by the ‘gentlemanly’ nature of the publishing business. However, the subsequent decision of these and other publishing houses to outsource the sales function to King on similar terms of trade appears. Handing this important function to a competitor potentially place these independent publishers in a very vulnerable position. A formal contract would mitigate against the risk of serious consequences in the event of failure, but its absence in this collaboration is not explained within a supply-chain perspective.

In contrast to the supply-chain view presented above, a broader examination across the different network relationships provides an alternative perspective on the control mechanisms in place to manage the outsourced sales process. All four independent publishers initially in the King sales venture had an ongoing relationship through the breakaway Umbrella group. This was a forum in which a shared set of values and beliefs about the sector and about the role of their individual firms within it was an implicit part of acceptance into the group. It is therefore plausible to consider the move to King was based in a high level of goodwill trust that the sale force would operate at an arms-length basis, plus an element of competence-based trust in King’s salesforce.

Warehousing and distribution: The examples described above provide a clear rationale for the need to investigate a network of firms, rather than a dyadic relationship, and from a perspective that goes beyond that of a focal organisation.

Conclusions

This study sought to explore the role of controls in inter-organisational relations. In particular, it aimed to build on prior research into the use of controls in dyadic relationships by investigating a group of competing firms that simultaneously enjoy membership of several inter-related networks.

While a number of studies have examined the nature of controls used by competing firms that also collaborate in various activities – ‘co-opetition’, we extend this in several ways that contribute to the existing literature on inter-organisational relations. Co-opetition generates tensions that derive from the inherent competitive relationship between these firms versus the need to share information and resources in order to enhance their prospects for survival. Our findings support prior studies in both the management and the control bodies of literature suggesting that these tensions are associated with the risk that information provided by one partner may be misappropriated by a collaborating competitor (eg. Hamel et al, 1989; Hakansson & Lind, 2004). The very act of sharing information with competitors leads to an increase in the risk that such information will be misappropriated. We find that activities which generate unique competitive advantages are less likely to be considered as suitable for collaborative ventures between competing firms because the potential damage caused by any misappropriation of such information represents a significant increase in risk. As this risk cannot easily be contracted against, such activities do not offer themselves as suitable candidates for a collaborative venture.

Our study indicates that activities selected for collaboration between competing firms are likely to share a number of common features. Of particular interest to this study, collaborative alliances between competitors are more likely to be undertaken when misappropriation of information is either not a concern or can be minimised through the use of appropriate control mechanisms. However, while activities that are outsourced to a third party may be

appropriate for the use of contracts and other control mechanisms, our study sheds new light on the particular controls mechanisms that are observed. We find that observable control mechanisms do not always reflect fully the control problem that they are intended to manage, but that this does not necessarily signal either poor choice of controls or potential problems. In other words, the controls in place will sometimes be less complete than would be otherwise expected, and still operate effectively. The findings from this study indicate that co-opetition is conducted within a much broader context beyond the collaborating activity. Social relationships between competing firms have the potential to generate an underlying set of shared values and beliefs from which collaborative activities can develop. These shared beliefs provide the basis for entering into collaborations that benefit all participating parties, despite the competitive nature of the relationship. They also play a crucial role in the subsequent management and control of these and other collaborations in which competing firms engage.

While prior research into the control of inter-organisational relations has focused primarily on the control mechanisms used to manage specific governance concerns in either supply-chain or competitor networks (see Caglio & Ditillo, 2008 for a review of this literature), the findings from our study demonstrate how observable controls in dyadic relationships are given further significance when viewed within the context of inter-related alliances. The approach taken in this study facilitates a more holistic perspective of the issues surrounding the management and control of complex inter-firm relationships.

The study is subject to several potential limitations. The use of a case-study method and the use of qualitative data have facilitated the investigation of complex relations, but necessarily restrict the statistical generalisability of the research findings (Abernethy et al, 1999; Brownell, 1995; Miles & Huberman, 1994; Yin, 2003). Furthermore, the data were taken from a small (but reflective) sample that was purpose selected.

The findings from our study suggest avenues for further research. We examine the use of controls in small set of inter-organisational relations in a very specific industry sector because it represents an exemplar of co-opetition. The firms included in our study have financial and strategic motives to collaborate, but equally strong motivations to avoid sharing information with their competitors. Future studies could explore the nature of this relationship, and the associated controls, evident in other industries in which collaboration between competing firms offers a similar imperative for survival. Similarly, while we find that social relationships provide an underlying rationale for control choices, further research could consider more systematically the relation between these social relationships and subsequent control choices.

In summary, our study aimed to explore the nexus of controls that are used to manage collaborative relationships between competing firms. The control problem investigated in this study provides a timely contribution to the ongoing debate into the governance of inter-organisational relationships.

Appendix 1

	Position	Organisation	Duration
1	Managing Director and Publishing Editor	Pacific Books	1 hour
2	Managing Director and Publishing Editor	Pacific Books	1¼ hours
3	Sales Director	Pacific Books	1 hour
4	Publicity Director and Associate Publisher	Pacific Books	1 hour
5	Production Manager	Pacific Books	¾ hour
6	Art Director	Supplier (Design)	¾ hour
7	Rights Director	Pacific Books	¾ hour
8	Production Manager	Supplier (Warehousing and Distribution)	¾ hour
9	Managing Director and Publishing Editor	Contour Books	1 hour
10	Head Office Buyer	Key Customer # 1	¾ hour
11	Finance Director	Pacific Books	1 hour
12	Managing Director	Supplier (Sales Services)	1 hour
13	Managing Director	Supplier (Printing)	1 hour
14	Managing Director	McCall Books	1 hour
15	Relationship Manager, Publishing	Sentinel	1 hour
16	Managing Director	Independent Publishers Guild	1½ hours
17	Head Office Buyer	Key Customer # 2	¾ hour
18	Managing Director	King Books	1 hour

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