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## Industrial Marketing Management



## The role of open book accounting in a supplier network: Creating and managing interdependencies across company boundaries

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## ABSTRACT

Open book accounting (OBA) is an accounting method that has been put forward as a tool for managing interdependencies across company boundaries. This paper investigates the role of OBA in creating and managing interdependencies in supplier relationships. In particular, consideration is given to how OBA deals with the embedded relationships in which interdependencies are both potentially aligning and conflicting with interdependencies in other relationships. An in-depth case study on the role of OBA within the retail industry in Sweden has been conducted. The study shows that the company used the OBA to create and manage interdependencies in different inter-organizational situations. The company used it in managing the interdependencies with the first tier supplier and down in the supply chain influencing second and third tier suppliers. However, OBA plays a key role in creating and managing the embedded supplier relationships. OBA was used to influence indirect relationships and their technical and organizational interfaces. It was also decisive in new resource combination and in the identification of new interfaces. Furthermore, OBA was used when actors defined the network boundaries and find new temporary solutions.

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### 1. Introduction

A large number of empirical studies of buyer–supplier relationships in industrial markets show that a company has a mixture of relationships including close to arm's length ones (Håkansson & Snehota, 1995; Håkansson et al., 2004). Close relationships are important for the company's short term financial performance, but they are even more significant for its long term development (Håkansson & Snehota, 1995). A close relationship is characterized by cooperation, mutual commitment and significant investments in physical and human resources (Gadde, Huemer, & Håkansson, 2003). The companies adapt their operations to each other in areas such as logistics, administrative routines, competences, products and production facilities, which create interdependencies between the companies (Araujo, Dubois, & Gadde, 1999; Håkansson & Waluszewski, 2002; McLoughlin & Horan, 2002). A company's interdependencies with other companies constrain the actions it can take, but also open up opportunities to draw on other companies' resources (Håkansson & Snehota, 1995; Halinen, Salmi, & Havila, 1999). Thus, interdependence is a key issue for companies operating in industrial markets.

Open book accounting (OBA) is an accounting method put forward for managing interdependencies across company boundaries (Agndal

& Nilsson, 2010; Kajüter & Kulmala, 2010). Mouritsen, Hansen, and Hansen (2001) show how one company outsourced its entire production, subsequently losing knowledge about and control of the production processes that had been critical. Suddenly the company recognized the importance of managing its new supplier relationships, and OBA made this possible. The implementation of OBA and the new information it generated allowed the company to co-ordinate its supplier relationships.

OBA is about a buyer and a supplier sharing information ranging from quantitative financial information to non-quantitative non-financial information (Carr & Ng, 1995; Mouritsen et al., 2001). Hoffjan and Kruse (2006, p 40) defined OBA as “the systematic disclosure of cost information between legally independent business partners beyond corporate borders”. Hence, the core of OBA is to share and disclose cost data with a counterpart (Kajüter & Kulmala, 2010). This paper applies a broad definition of OBA which includes systematic disclosure of financial and non-financial information. However, a key issue in our view of OBA is how cost data is shared across company boundaries.

Previous research on OBA has concentrated on managing the interdependencies between the direct supplier relationships and the buyer (Agndal & Nilsson, 2010; Axelsson, Laage-Hellman, & Nilsson, 2002; Kajüter & Kulmala, 2010; Windolph & Möller, 2012). The focus has been on the dyadic relationship between a buyer and its first tier suppliers. Some studies included how OBA is used for managing interdependencies down the supply chain (Dekker & Van Goor, 2000;

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Kajüter & Kulmala, 2005). In these studies, it was often one large buyer that dominated its first, second and third tier suppliers, and the buyer who designed the cost tables used within the OBA. Thus, OBA is studied in a closed supply chain with the end buyer as the coordinator and no embedded business relationships with conflicting interdependencies are included. However, as Dubois, Hulthén, and Pedersen (2004, p 8) states “the activities that are parts of a supply chain (regardless of how it is defined) are interdependent with other supply chains in that they share various common resources”. An adjustment in one relationship within a supply chain impacts on other direct and embedded relationships and these adjustments may provoke reactions (Baraldi, Gressetvold, & Harrison, 2012; Dubois et al., 2004). Hence, a supply chain needs to be studied in its broader context, therefore, in contrast to previous studies on OBA, this paper will investigate the role OBA plays in embedded business relationships where conflicting interdependencies and interests can be present. In this situation a critical issue for a company is to deal with interdependencies and not view them as problems that need to be reduced (Dubois et al., 2004). In this way, OBA becomes a more dynamic tool that companies use to create and manage interdependencies across company boundaries. Such a view of OBA differs from the previous research in which OBA is an orchestration tool within a closed supply chain.

The aim of this work is to extend the existing knowledge on the use of OBA in creating and managing interdependencies in supplier relationships using an in-depth case study on OBA within the retail industry in Sweden. In particular, the paper focuses on how OBA is used to deal with the embedded relationships in which interdependencies are both potentially aligning and conflicting with interdependencies in other relationships.

The remainder of this paper is structured as follows. Section Two reviews the existing literature on OBA and considers how it has been used for managing and creating inter-organizational interdependencies. Section Three presents the research methods used. The fourth section reports the case study findings. The fifth section analysis the case findings in more detail and relates them to the literature and, finally, the last section presents the concluding discussions.

## 2. OBA and interdependencies

OBA entered the accounting literature in the early 1990s when accounting scholars started to recognize the increased importance of inter-organizational relationships (Kajüter & Kulmala, 2010; Seal, Cullen, Dunlop, Berry, & Ahmed, 1999). Two early contributions were Otley, Broadbent, and Berry (1995) and Hopwood (1996). Otley et al. (1995) emphasized the need for a control system that can coordinate production and delivery processes across company boundaries. Thus, the control system must handle the interdependencies between the different production and delivery processes within the companies involved. Hopwood (1996, p 589) put forward a similar argument stating that the new control systems need to show “a more explicit awareness of the interdependency of action and the role which joint action can play in organizational success”. Thus, both Otley et al. (1995) and Hopwood (1996) stressed the importance of managing interdependencies within inter-organizational relationships.

Interdependencies within embedded relationships are the focus of this paper and a large number of studies on various topics such as technical development, purchasing and accounting have used the industrial network approach since the 1980s (Håkansson & Snehota, 1995; Håkansson et al, 2010; McLoughlin & Horan, 2002). One framework proposed within the industrial network approach to understand the interdependencies within business relationships is the ARA-framework. This framework conceptualizes the substance in a relationship through three dimensions: activities, resources and actors (Håkansson & Snehota, 1995). The connection between activities in the companies in a supplier relationship reflects the need for coordination, and these connected activities form part of a larger pattern of activities involving

several companies. The ties between the resources link the resource structures within the supplier relationships and a high adaptation of the interfaces creates opportunities for new combinations of resources, but, in so doing, it constrains possible future action. The resource ties are part of broader resource constellations that cross several company boundaries. Bonds between actors emerge when the companies within a relationship interact with each other. The actors and their bonds are parts of a larger web of actors. The interaction between the actors affects the identity of a company and the commitment and trust between the companies involved.

This paper concentrates on the resource dimension of interdependencies in supplier relationships. According to Ford and Håkansson (2006, p 14) “Resources are at the heart of interdependence. The interdependencies between actors relate closely to the fact that their respective resources are not isolated but are related to each other.” A large number of studies have shown that the resource dimension captures key aspects of interdependencies within industrial markets (Dubois & Araujo, 2006; Gressetvold, 2004; Håkansson & Waluszewski, 2002; Wedin, 2001).

The interdependencies between resources take the form of technical interdependencies with some obvious physical properties and organizational interdependencies with more social properties (Dubois & Araujo, 2006). Product and production facilities are identified as two types of technical resources, and business units and business relationships as two types of organizational ones (Håkansson & Waluszewski, 2002). The technical and organizational interdependencies emerge when the interface of two linked resources within a business relationship become mutually adapted to each other (Araujo et al., 1999; Baraldi et al., 2012; Håkansson & Waluszewski, 2002). However, these two resources with their adaptations do not develop in isolation from other resources within and outside the business relationship. The focal interface between the two resources will be connected to other interfaces of other resources and even to interfaces of resources that affect the focal interfaces indirectly through other interfaces. Thus, the resources and their interfaces are embedded within a network structure of resource constellations that involves several companies (Wedin, 2001).

This paper views interdependence as adaptations of interfaces of technical and organizational resources. These adaptations can have their origin either from the two focal resources or from other embedded resources.

### 2.1. Review of the literature on OBA for managing interdependencies

Most papers investigating OBA focus on managing interdependencies in the direct supplier's relationships, although some extend their focus to second and third tier suppliers (Dekker & Van Goor, 2000; Kajüter & Kulmala, 2005; 2010). The papers range from analytical and empirical studies through to case studies and surveys in various industries (Axelsson et al., 2002; Baiman & Rajan, 2002; Carr & Ng, 1995; Möller et al, 2011; Munday, 1992; Tomkins, 2001). Agndal and Nilsson (2010) conducted three case studies on the use of OBA in supplier relationships with different degrees of technical and organizational adaptations. One company in the telecommunication industry had supplier relationships characterized by low technical and organizational interdependencies. Some minor adaptations were made to the network components that the telecommunication company bought from its suppliers, but normally it did not engage in the suppliers' operations and it strove to standardize the technical and organizational interfaces with its suppliers. In such a situation, OBA is not about managing interdependencies; rather it is focused on price control and cost reduction through supplier competition. Information from the OBA helps the company to standardize suppliers' products to promote market competition. The telecommunication company used the disclosed information from suppliers in its supplier selection process.

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