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INTERTWINED COORDINATION MECHANISMS IN INTERORGANIZATIONAL RELATIONSHIPS WITH DOMINATED SUPPLIERS

Abstract

Contemporary business society shows many examples of industrial customers that manage their smaller, dependent suppliers by using bureaucratic mechanisms. The restrictions these control processes put on the suppliers' freedom to act have not been recognized in most studies within the field. The purpose of this article is to provide an understanding of how bureaucratic mechanisms interrelate with social mechanisms in coordinating interorganizational processes where the customer has a dominating role in the market. The article is based on observations with complementary interviews of relationships between an industrial customer and two of its suppliers.

Dominated suppliers in power-based business relations may see the role of bureaucratic mechanisms as primarily protecting the relationship. A strong argument for interorganizational coordination lies in the need for different capabilities to manage dissimilar activities. However, if the dominated actors prioritize protecting the relationship over striving for efficiency, the dominating organization will be alone in deciding on the agenda for interorganizational control. Social coordination mechanisms may to some extent create flexibility in rigid bureaucratic control mechanisms. However, although social mechanisms may have the potential to enable bureaucratic mechanisms to be shunned temporarily, they are less helpful in changing the agenda of bureaucratic control. Further research is suggested on how local concerns can be included in dominating actors' process of setting agendas for interorganizational control.

Key words: Interorganizational management control & accounting, intertwined coordination mechanisms, dominated supplier.

INTRODUCTION

Coordination processes between companies have attracted much attention in recent years, especially from customers engaged in controlling their suppliers to establish supply chains. The general idea is to manage the exchange with external suppliers as if they were a part of the company (Christopher, 1998; Chopra & Meidl, 2001). This implies more information sharing between companies than in the traditional market model, i.e. the use of both bureaucratic and social coordination mechanisms within a market setting.

This field has been considered of interest for management accounting and control (Shields, 1997; Hopwood, 1996; Scapens & Bromwich, 2001; Otley, 1994; Tomkins, 2001). Earlier studies on interorganizational relationships have shown that management control techniques can be used in interorganizational settings (Mouritsen et al, 2001; Carr & Ng, 1995; Dekker, 2004; Cooper & Slagmulder, 2004) and Dekker (2003, p. 20) states that management control in his case contributes to "... improved supply chain performance".

Empirical studies of accounting in interorganizational control have often had the perspective of the dominating partner (Carr & Ng, 1995; Frances & Garnsey, 1996; Dekker, 2003; Seal et al, 2004) or have studied situations where the partners are fairly equal (Håkansson & Lind, 2004; Dekker, 2004; Mouritsen & Thrane, 2006; Cooper & Slagmulder, 2004). However, there seems to be a lack of studies on interorganizational relationships that acknowledge the situation of the dominated partner in a relationship. A dominant customer who intends to manage their suppliers could regard the situation as similar to the managing of an internal unit, especially if dominated suppliers accept and act accordingly. However, to a dominated supplier, with objectives of their own, the control activities are seen within a different context, i.e. a complexity in balancing demands from different customers and from owners (or other stakeholders important to the specific organization). Interorganizational control may have implications for intra-organizational processes (Mouritsen et al, 2001; Håkansson & Lind, 2004) and within the supply chain management-literature, it has been noted that customers controlling suppliers may restrict the supply chain efficiency, in contrast to their intention (see short review in Harland, 1996). Seal et al (1999) state that supplying organizations in general have often been neglected in studies of interorganizational relationships. "Although paying lip service to the interests of the supplier, much of the literature looks at cost management through the eyes of the purchaser", the authors (op.cit. p. 310) add. It seems therefore worthwhile to broaden the scope of experience in accounting research by acknowledging the context and internal circumstances of dominated suppliers when studying interorganizational control.

Ouchi's (1979) coordination mechanisms are used to inform this study. Ouchi (1979) sees market, bureaucracy and informal social mechanisms as generic notions that interrelate in the coordination of actions. In this article, the interrelation between these mechanisms will be explored in an interorganizational setting, as has been suggested by Håkansson & Lind (2004) and Mouritsen & Thrane (2006). While coordination of intraorganizational relationships is done inside the formal structure of a hierarchy, interorganizational relationships are coordinated within the power-structure in a market. It is here suggested that this shift in background to coordination is relevant to the function of and interrelation between the coordination mechanisms. Bureaucratic mechanisms have been developed for hierarchies, where actors are accountable for their actions to a manager (Otley, 1994). Ouchi (1979) argues that employees accept that they are accountable because they are paid to be just that. Suppliers may also see bureaucratic mechanisms as a part of the business contract. However, suppliers must on a daily basis balance the implications of bureaucratic mechanisms within one contract with demands from other stakeholders (primarily owners and other customers). In this way, the interorganizational setting implies a different context for bureaucratic mechanisms than bureaucracies. Bureaucratic mechanisms never work in isolation, and especially not in an interorganizational context. To understand the role of bureaucratic mechanisms, they should be studied within the context they are used in (Roberts & Scapens, 1985).

The purpose of this article is to provide an understanding of the role of bureaucratic mechanisms and how they interrelate with social mechanisms in coordinating interorganizational processes where the buying partner has a dominating role in the market. Two interorganizational relationships between one assembler and two of its suppliers are studied with specific interest in how the suppliers handle the attempts by the assembler to impose bureaucratic control. The assembler is much larger than its suppliers and the suppliers act in a market under cost-pressure with the assembler as a highly important customer.

It is worthwhile commenting on the use of Ouchi's (1979) mechanisms of governance to analyze coordination processes. Ouchi's work has been further developed as a part of the widely used transaction cost theory, which tries to explain under what circumstances different coordination mechanisms could be expected to dominate the control pattern (Williamson, 1991; Ouchi, 1980)¹. However, in this article the focus is on how the three coordination mechanisms operate in relation to each other in a certain setting, i.e. a focus on the process of interaction and how the coordination mechanisms work (Mouritsen and Thrane, 2006). Different

¹ This line of research has been pursued in articles concerning interorganizational relations (van der Meer-Kooistra & Vosselman, 2000; Langfield-Smith & Smith, 2003)

authors (Ouchi, 1979; 1980; Williamson, 1991; Håkansson & Lind, 2004) have recognized that the three mechanisms of governance co-exist within organizations and that it is hard to find 'pure' organizational forms of market, bureaucracy or clan. As Ouchi (1979, p. 834) points out, "Although it might be helpful to treat them as conceptually distinct from each other, they in fact occur overlapping". Håkansson & Lind (2004, p. 68) identify hierarchical, market and cooperative coordination within the same interorganizational relationship and also suggest that there "might be good reasons to study how the forms of organizations can be combined" (see also Mouritsen & Thrane, 2006).

The next section discusses Ouchi's (1979) coordination mechanisms with respect to their relevance to this study, in the light of which research questions are drawn. The empirical setting and some methodological reflections are provided before the case study is presented and interpreted. Conclusions and theoretical contributions wrap up the article.

COORDINATION IN INTERORGANIZATIONAL SETTINGS

Ouchi (1979) is widely recognized for the suggestion of three generic coordination mechanisms: (1) market, (2) bureaucratic mechanisms and (3) social mechanisms. The potential role of these three coordination mechanisms in interorganizational settings will be outlined in the following, together with ideas for how they may interrelate.

Market mechanism

Market mechanism coordinates transactions since actors are autonomous and have the right to choose with which actor to carry through a transaction, with price as the principal carrier of information. The use of a pure market mechanism does not correspond with an interorganizational relationship, since the interorganizational relationship implies a continued interaction between two specific parties and the additional information than can be fitted into the price. Richardson (1972) provides an explanation of why economic rational actors may want to establish interorganizational relationships. He suggests that activities which are closely complementary however dissimilar may be organized in co-operation by organizations. Their dissimilarity means that different capabilities are needed to manage them, which may be found in different organizations. At the same time, the fact that activities are closely complementary to each other means that they cannot be coordinated through the market, since the price mechanism cannot include all the information needed

(see also Håkansson & Lind, 2004; Langfield-Smith & Smith, 2003). Additional information is often required both to enable the “mastery of events” and to “create trust and check on the state of the relationship” (Tomkins, 2001, p. 171; see also Dekker’s (2004, p. 27), “coordination of tasks” and “management of appropriation concern”. The cooperation between companies should enable them to create a higher value in their exchange, which they can share (Dekker, 2003).

With interorganizational relationships, market mechanism is to some extent restricted. However, it is still of high relevance to the coordination process. Firstly, and most obviously, market mechanism acts as a threat to a relationship, a threat that has to be avoided in negotiations for new contracts or when changes within a relationship are discussed. Secondly, market mechanism can also influence the coordination process through a more subtle mode. Actors may be influenced by the market setting that the interorganizational relationships are embedded in without openly referring to their role in the relationship as reason for action.

How market mechanism influences an interorganizational relationship could be expected to be related to the market setting and the power-relations between the actors. For example, the market setting would be expected to affect the dividing of the jointly created value in the interorganizational relationship (Porter 1985). In a case study of supermarkets and suppliers in the UK, Frances & Garnsey (1996, p. 603) suggest that the presence of the global market can be used “... to put pressure on local suppliers. Global producers can provide substitutes for local producers who are not meeting the supermarkets requirements”. Referring to the alternatives and price-cuts on the market, they can claim a major part of the jointly created value by demanding a lower price. Frances & Garnsey (1996, p. 603) say that this situation has enabled their dominating organization to “... represent themselves as price takers on the global market, divesting themselves of responsibility for price-setting”, i.e. customers may claim that they have to put pressure on the suppliers’ margins to protect competitiveness in the market for the supply chain.

Organizations risk losing investments made in a relationship due to asset specificity. For example, Baiman & Rajan (2002) show how an increased information exchange enables actors to misappropriate information. Dominated suppliers may face a risk of losing investments made in the relationship if the dominating actor chooses to use its market position and turn elsewhere. The main part of (managerialist) literature views trust as the key issue in this situation (Bachman, 2001; Seal et al, 2004). In the area of accounting in interorganizational control, Dekker (2003) and Carr & Ng (1995) redirect attention to the possibility of trust as an important element to avoid cooperation being restricted by fear of dominating actors misappropriating their position within the relationship. For example, Dekker (2003) discusses pricing for

businesses within interorganizational relationships between profit-driven organizations. He claims that dominated actors need to trust that profits will be distributed fairly in order to involve themselves in interorganizational control. Dekker (2003) and Carr & Ng (1995) suggest that dominating customers consider their reputation in the market, and thereby refrain from taking short-term advantage of their position.

Bachmann (2001) and Seal et al (2004) question the actors' sole reliance on trust to engage in interorganizational relationships and in the process exposing themselves to risks of losing relation-specific investments. A dominated actor in a market where there are few alternative customers to approach might engage in interorganizational control despite the lack of trust. Asset specific investment can be made and information may be exchanged because the dominating actor requires this in order to establish or continue the interorganizational relationship. The dominating actor has the power to enforce interorganizational relationships, since the dominated actor is interested in keeping the business. Bachmann (2001, p 350) writes, "Trust works on the basis of *positive* assumptions about *alter ego's* willingness and ability to co-operate, while power is constitutively based on the selection of a *negative* hypothetical possibility regarding *alter ego's* (re-)actions". Both power and trust can enable dominated actors to know what to expect from their business partner. Based on these expectations they can choose whether to be in a relationship or not. Seal et al (2004) show that power, established by the market setting, can be seen as enabling interorganizational relationships. Their dominant actor takes on a managerial role in the supply chain based on power in their relationship with some of their small and local suppliers.

Power and trust are both worth exploring with respect to their potential to enable an interorganizational relationship. Trust may be preferred due to actors' unrestricted will to engage in cooperative and efficiency-seeking activities. Power-based relationship will be characterized by dominated actors doing what they need to do in order to keep the relationship. However, a power-based relationship may also enable dominated actors to gain knowledge and competitiveness.

The disadvantage of trust is that it is a more fragile base for a relationship than power (Mouritsen & Thrane, 2006; Bachmann, 2001). Mouritsen & Thrane (2006, p. 243) argue that the influence of trust has to be studied more critically when they discuss it as a moral obligation as "... people have to trust each other". Since trust is presumed, any lack of trust will be a problematising device. If a dominated supplier starts to suspect that a customer uses information for other purposes than they officially state, trust may be lost and the relationship will be in a crisis. With a power-based relationship, the supplier may from the beginning expect information given to the customer to be used for both cost-pressure and the seeking of efficiency-gains. The advantage of a

power-based relationship would be that there is no trust to be lost². This difference points at the importance of understanding what constitutes the base for a relationship (Mouritsen & Thrane, 2006). Trust and power could both be expected to be a part of every relationship, and need to be considered in order to understand interorganizational relationships.

To understand market mechanism influence on interorganizational relationships, it is important to study both the overall market setting, that is the alternatives for the actors involved, and the power/trust dimension within the relationship, i.e. what the dominant and dominated actors expect from each other or to what extent they allow themselves to act opportunistically. Few studies have recognized the situation of dominated organizations in power-based interorganizational relationships. The case study presented in the empirical part of this article enables us to explore the overarching research question of how the bureaucratic and social coordination mechanisms act upon and interact in an interorganizational relationship with power as the main force in creating expectancies between actors. This research question will be further specified at the end of this literature review.

Bureaucratic mechanisms

According to Ouchi (1979), the rules that bureaucratic mechanisms are based upon are mostly standards to which managed actors should conform. The standards concern either how activities should be carried out or the outcome of the activities. Coordination of interorganizational relationships is often of a horizontal type, with focus on how activities should be performed to enhance the flow of products between organizations. In earlier studies of management accounting and control in interorganizational relationships, where one of the parties is dominating the relationship, it has been evident that the stronger actor decides the agenda for the interorganizational relationship (Dekker, 2003; Carr & Ng, 1995; Seal et al, 2004); thereby deciding which kind of bureaucratic control should be employed.

Two main categories of arguments in the literature motivate this research for a managerial role in a supply chain. One is to help suppliers search for efficiency and the other is to exert cost pressure on suppliers. Munday (1992) explores the presence of open-book accounting in 27 UK companies. The majority of customers required cost-data and 21 of the suppliers experienced cost-pressure as a motive for information sharing. However, the suppliers responded that they also received different kinds of feedback about suggestions

² Power can also be lost due to changes in the market or that dominated actors stop fearing sanctions from dominant actors. However, Bachmann (2001) states that the loss of power probably would not harm a relationship as hard as the loss of trust. Trust has more emotional weight attached to it.

for cost-reductions. Case studies in accounting also show support for the dominating customer having either or both of these two reasons as motives to try to manage interorganizational relationships (Dekker, 2003; Carr & Ng, 1995; Seal et al, 2004; Frances & Garnsey, 1996).

Search for efficiency in a supply chain can be seen when two business partners consider each other's situation and search for the best solution to their joint performance. However, earlier studies on interorganizational control with one dominating partner have focused mainly on the direct interaction between organizations (for example Seal et al, 2004, and Dekker, 2003). In supply chain literature, there has been a strong emphasis on coordinating the whole chain as one single company, assuming that the company's own efforts to attain the highest possible profitability are best carried out by adopting administrative rules for their business relationships to enhance efficiency (Christopher, 1998; Chopra & Meidl, 2001). Focusing on the exchange process within a relationship is narrower than considering the involved organizations and their business context. Furthermore, the studies of Dekker (2003) and Carr & Ng (1995) are carried out from the perspective of the dominating partner. The influence of initiatives the dominating partner suggests on internal operations of a dominated supplier and second-tier suppliers or other business relationships are not analyzed in depth. Ford et al (1998) argue that this is a potential source of uncertainty about efficiency. In analyzing one interorganizational relationship, it can be expected that this relationship will have some kind of implication for other business relations which the actors have. Ford et al (1998, p. 13) state that "... whenever we examine a single buyer-seller relationship we must be aware of how it is intertwined with others held by both the buyer and the seller in a wider network".

Dominating customers may also manage relationships in order to enable cost-pressure. Frances & Garnsey (1996) maintain that a dominating buyer may search for information about cost structure and operational information to enable this cost pressure. The argument for information about cost structure is that since customers and suppliers often are interdependent in the short run, the former want low prices but not lower than what enable the latter to continue with deliveries. This may be achieved through tracking the cost structure and margin of profit of suppliers. Operational information, on the other hand, is supposed to reduce the interdependence. Frances & Garnsey (1996) say that a dominant buyer may partly be motivated to get involved in the operations in order to gain knowledge about the supplier. This may facilitate the buyer to turn elsewhere for business without substantial loss of knowledge. The cost of engaging in the suppliers' operation is partly motivated by this knowledge, (beside the intention to help the dominated actor and increase efficiency in the supply chain).

A dominating customer is therefore enforcing a strongly bureaucratic approach to management which, according to Vosselman (2002, p. 135), can be described as a situation where, “The emphasis will be on pre-action reviews and action accountability controls using detailed qualitative and quantitative information”. This is rather different from the role of traditional, financial accounting, which often attempts “... to consider the organization function by function in a hierarchical manner” (Otley, 1994, p. 294). The advantage of the traditional role of financial accounting is that it is simple. If performance can be captured in a single measure of return on investments, then there is a possibility to manage with a low amount of information processing (Merchant & Stede, 2003). This approach has been accused of being too concerned about the vertical perspective, i.e. evaluating unit by unit management for internal efficiency and failing to recognize the horizontal processes and need for coordination between them (Otley, 1994). However, we should bear in mind that a horizontal focus adds complexity and in consequence costs to the managing process. Considerable attention has been paid to the vertical perspective in management accounting during the last twenty years. Proponents of methods like the balanced scorecard (Kaplan & Norton, 1996), target costing (Tani et al, 1994) and activity based costing (Cooper & Kaplan, 1998) all have the common denominator aimed at broadening the scope of management accounting. This would be a step closer to the more strongly bureaucratic approach in terms of Vosselman (2002), requiring additional information processing in the managing of the organization.

Jones (1999, p. 184) writes, “The availability of efficient reliable information is as necessary for network as for hierarchical functioning” and when dominating organizations seek a strongly bureaucratic approach to management, there will be tough demands on information systems. However, traditional accounting systems, which often are assumed to have a role in providing information for interorganizational control, have often been considered to be unsuitable for the purpose of managing interorganizational settings. According to Gietzman (1996, p. 613), “Traditional management accounting practices do not provide managers with necessary information to assess whether or how to work...” in interorganizational relationships. Gietzman (1996) focuses on the costs involved in not turning to the supplier with the lowest cost. He also raises the question of costs for suppliers in adjusting to customers.

So far, the role of bureaucratic mechanisms has been outlined as a tool supporting the management of an existing relationship. Mouritsen & Thrane (2006), based on the actor-network-theory, suggest another perspective. They propose that bureaucratic mechanisms are an active part of the ongoing activities within a network through which interactions between other actors can be understood. Rules about sharing of information and evaluation of performance may regulate how one actor perceives another. The attribution of

meaning to bureaucratic mechanisms by one actor may have implications for another actor. Mouritsen & Thrane (2006, p. 242) search for, "... *how* accounting is a 'force' – an actor – in establishing and developing inter-organizational relationships", and propose that accounting techniques may be seen as an actor who is decisive to the interaction between other actors. Bureaucratic mechanisms that are introduced by dominating organizations are likely to be interpreted by the dominated parts concerning their potential meaning to the relationship. This has a bearing on both the processes that are initiated by working with the bureaucratic mechanisms that are introduced, and the processes of trying to change or chose to disregard them. Mouritsen & Thrane (2006) claim that accounting can be seen as decisive regarding who is inside a network and who is not. To reject accounting can be to reject a relationship. This claim will be shown as important for a setting where a dominated actor tries to protect a position within a relationship.

To summarize, dominating customers often seek to engage in interorganizational control that requires in-depth information about multiple organizations, which may not always be available in contemporary accounting systems. It appears to be a highly complex task that a dominant actor seeks to perform. This functional reasoning about complexity may point at an incentive for organizations to avoid, or reduce interorganizational control. However, bureaucratic mechanisms viewed as active in upholding a relationship open a perspective that makes it possible to see bureaucratic mechanisms as something more than supporting cost-pressure or search for efficiency. For example, to disregard bureaucratic mechanisms is no longer just to miss out on a possible improvement of performance; to disregard bureaucratic mechanisms is either to request a 'renegotiation' of the relationship in itself or to leave the relationship. More light is to be shed on the role of these different perspectives on bureaucratic mechanisms in coordination with power-based interorganizational relationships in the following sections.

Social, informal mechanisms

Informal, social coordination mechanism occurs when managers trust individuals to take responsibility to carry out the tasks that are assigned to them (Ouchi, 1979). Numerous accounting studies paying attention to the coordination processes find that informal, social coordination may have an important role in 'getting things done'. Jönsson & Grönlund (1988) show how people take responsibility and are willing to account for others with whom they interact, actively seeking information in order to solve the task at hand. Information systems on operative levels are in the authors' case study informal and adjusted to the situation at hand. From an interorganizational setting, Håkansson & Lind (2004, p. 63) notice that people from different organizations "...

together develop a strategy to create the greatest impact on the technical units” within one of the organizations. Hedberg et al (1994), who studied virtual organizations, hold that information exchange is often informally made in such organizations. Generally, discussions about lateral accountability (Willmott, 1996) imply that people often do take responsibility for their action and have obligations toward others, with or without formal enforcement of this behavior.

Donada & Nogatchewsky’s (2006) is one of the few articles explicitly recognizing the interaction between coordination mechanisms in interorganizational relationships. Donada & Nogatchewsky (2006, p. 284) conclude that socially based control is “...exerted at the operational level in response to operational needs for flexibility and adaptability” in a relationship mainly characterized by market-based control where all three coordination mechanisms are evident. The conclusion is interesting as it signals a role for informal, social mechanisms in a power-based relationship. A relationship between two organizations often includes many connections between individuals and processes (Håkansson & Lind, 2004), which need to be studied to understand coordination. Donada & Nogatchewsky (2006) stress that different persons within the involved organizations perform different types of control (purchasers relying on market power when operative managers moderate this by relying on social, informal coordination). The possibilities for social coordination mechanisms to enable flexibility in coordination processes will be further explored in this article.

Focus of the study

The first research question to be explored in this article is how dominated suppliers may interpret bureaucratic mechanisms in an interorganizational relationship, with power as the main force in creating expectancy between actors. A relationship based on power may add complexity to the process of interorganizational control. In a trust-based relationship, actors assume that information can be exchanged openly without harming the relationship. In a power-based relationship, where there are negative expectations about the consequences of the dominant actor’s action, dominated actors may not be willing to share information or the dominant actor may disregard the actions they take. The market mechanism may be recognized by dominated actors as a reason to avoid disturbing the dominant actor by raising questions. This may enable a dominant actor to enforce bureaucratic control upon an interorganizational relationship. Furthermore, with accounting as a basis for constituting a relationship which dominated actors want to preserve, bureaucratic mechanisms may be experienced as positive in the sense of deepening a relationship, rather than enhancing the efficiency of exchange. Thus, the role of the bureaucratic mechanism may be seen

differently by dominant and dominated actors in an interorganizational relationship. Dominating actors may see the mechanisms employed as mainly a way to achieve efficiency and exert cost-pressure, while dominated actors may see the mechanisms as mainly a way to preserve the relationship.

The second research question is how social coordination mechanisms may give flexibility to an interorganizational relationship where a dominating customer enforces strong bureaucratic coordination. The very complex setting for bureaucratic mechanisms, together with the potential difference in expectations of bureaucratic mechanism by the different actors, creates a situation where flexibility outside bureaucratic mechanisms is needed 'to get things done'. At the same time, a market situation with one dominating organization may to some extent collide with the need for actors to collaborate. An interorganizational relationship with a dominating organization may create a dilemma for actors belonging to dominated organizations. Actors in dominated organizations may see advantages in acting in a straightforward manner by bringing problems to the dominating actors' attention and working towards change. However, they may also see advantages in not interfering with dominating actors' ideas about how to manage relationships. An intriguing aspect of this research question is the extent to which social coordination mechanisms are allowed to have a role in a relationship where one organization has the possibility to draw on power, and that organization enforces bureaucratic coordination mechanisms upon the relationship.

A qualitative case study of two interorganizational relationships will be used to develop our understanding of these research questions. Two aspects stand out as extra important in order to be able to grasp coordination in this complex setting. Firstly, as mentioned in the beginning, the processes of coordination are in focus in this study. To study how certain activities are coordinated as isolated events would probably not uncover how coordination mechanisms interact. To trace how actors see that a relationship has developed over time, and how earlier actions are seen as important for the actions coming, should improve the possibilities to understand how coordination mechanisms interact. Secondly, coordination between two organizations that are in a somewhat complicated exchange process is bound to involve many actors and require a number of different types of activities to be coordinated. To study everything in a relationship is probably impossible, but to follow how a certain action is related to other actions by different actors should improve the possibility to present a coherent interpretation of a coordination process between two organizations.

The next section starts with an in-depth overview of the setting of the case, followed by methodological considerations regarding the case study. Thereafter the case material is presented and interpreted. At first, the potential cost of interorganizational control, as perceived by the dominated suppliers, is discussed. This is to

show how suppliers develop arguments to question some of the control initiatives taken by the dominating customer. These arguments are not always brought to the attention of the customer, and the following section displays an interpretation of why the suppliers accept control initiatives which they do not see as contributing to efficiency in the way that is proposed by the customer. The empirical section ends by an exploration of how the social and informal mechanisms' interrelate with bureaucratic control and the market setting.

CASE STUDY OF TWO INTERORGANIZATIONAL RELATIONSHIPS

Three companies have been studied - a manufacturing company (here called The Customer) and two of the Customer's suppliers (called Supplier 1 and Supplier 2). The Customer is a producing unit with 3000 employees within a large, multinational corporation. The Customer supplies assembling units with technically advanced and complex products, mainly within the same corporation. The corporation acts in a highly competitive market, where new models of products are offered on the market every year and with an ongoing search for efficiency gains. The industry has been under cost-pressure for a long time, and massive efficiency improvements have been made during the last twenty years. The Customer, as with many other actors in the industry, has tried or has been working with different management models like JIT, TQM and outsourcing. At the time of the study, there was an ongoing search for capital rationalization within the whole corporation. The interviewees from The Customer considered it hard to get approval for new investments and there was a constant search for possibilities to reduce stock and time in different processes.

Supplier 1 & Supplier 2 are, in comparison, small organizations with approximately 100 employees each. They are both part of larger corporations (although not as large as the corporation The Customer belongs to), but run their businesses independently as far as operations are concerned. The percentage of production allocated to The Customer's products is 50% for Supplier 1 and 30% for Supplier 2. They are both under financial pressure from their corporations. Besides The Customer, Supplier 1 has two other customers and Supplier 2 has five (see figure 1 for an overview of business relationships). The number of customers has decreased over the last years, mainly as the number of actors on the market in general has fallen.

In the short run, Supplier 1 and Supplier 2 are considered important suppliers to The Customer, each supplying 20-30 products that are critical and customized. Most of the products are used on a daily basis by The Customer, implying that there is constant interaction on the operative level within the relationships. However, The Customer's representatives consider Supplier 1 and Supplier 2 replaceable. Their skills are not

considered unique in the long run. There are other actors, some of them within the geographical range of The Customer and others in Eastern Europe that could do what Supplier 1 and Supplier 2 are doing. The suppliers express concern for the possible loss of The Customer. The loss means huge volumes of surplus production, as they see no other actors on the market that could fill the demand for their products. Their other customers are not expected to increase their purchases and there are worries of a general over-capacity in the industry.

Seeing The Customer as the dominating part of the studied relationships is supported by the market setting. The fact that The Customer dominates can also be understood from the observations and interviews outlined in the following case description.

The Study

The empirical study of the two interorganizational relationships between The Customer and its two suppliers is mainly done through the lens of observations of a logistical change project aimed at outsourcing both The Customer's stock and the planning of deliveries within the exchange called Vendor Managed Inventory, [VMI³]. As mentioned, The Customer is in an industry where cost pressure is tough and new methods for increasing cost-efficiency are constantly put forward. VMI is one of these new methods. However, since The Customer has more than 200 suppliers, any general change in the interface towards suppliers, as VMI is supposed to be, demands a high degree of preparation and analysis. Therefore, senior management in The Customer decide to carry through a pilot-study, testing the VMI-method with two of their suppliers, Supplier 1 and Supplier 2. These suppliers are chosen because The Customer is important to them, and they are expected to cooperate. Furthermore, these two suppliers have good reputation with The Customer, which at the time of the study showed good ratings in quality and delivery precision. They are also considered to have many progressive ideas.

Taking part in the study are managers of logistics and logistics assistants (in charge of deliveries) from the two suppliers. A logistics developer from The Customer is in charge of the project and also the initiator of the project, together with his boss, the logistics manager from The Customer. However, the logistics manager from The Customer does not take part in the project meetings (see figure 1).

³ VMI is supposed to reduce employed capital and create possibilities to reduce costs throughout the supply chain. This implies moving responsibility for ordering and size of deliveries from The Customer to the suppliers. Inside a general agreement, the suppliers will be given full information about The Customer's need of products for production, in order for the suppliers to decide themselves when to deliver. The Customer should thereby be able to reduce costs by 1) reducing the number of people working with procurement and by 2) reducing stock. The suppliers shall through VMI have better information and thereby be able to enhance planning. The total level of stock and cycle time between suppliers and The Customer shall thereby be reduced, and so will the costs.

*** Insert figure 1 here ***

Method

As a researcher I was given full access to the pilot-study, which offered a good insight into the relationships between The Customer and its suppliers. Since VMI was supposed to change the relationship between the companies both operatively and financially, the pilot-study included an in-depth analysis of the exchange regarding both strategic and operative aspects. As a researcher, this opportunity gave me the chance to gather the views of the members of the project on the coordination between the involved actors, both regarding organizations and individuals, as well as formal and informal aspects.

The case study has a qualitative, interpretative approach to research. Even if costs and efficiency are much in focus, it is the respondents' perceptions of these notions and how these and other perceptions become meaningful in the coordination processes that are interpreted. The contributions of this article are theoretically informed experiences, that are supposed to support the interpretation of and thereby action in other situations (Jönsson & Macintosh, 1997). The role of the case study is to enable the theorizing of how things can be seen, and while doing so, new aspects are introduced to the theoretical world or added to our register of empirical examples. It is impossible to guarantee that all relevant aspects of the case have been seen and interpreted in the most relevant way. What we can do as researchers is to put together a coherent story out of the observations and stories we hear. If a case is trustworthy, this can be signaled through the logic of the story, how the different aspects of a case study interrelate and together create an interesting understanding about the studied question (Mouritsen, 1999).

The study aims at understanding an ongoing coordination process, for which observation has been suggested as a suitable method for data gathering (Kvale, 1996). The empirical data for the study include six days of observing meetings and an internal project review meeting at The Customer. Since the companies are located approximately 200 kilometers from each other, meetings were condensed into a few days. My role in these meetings was as a passive observer. Therefore, I could concentrate on taking notes.

During the observations, many leads to interesting themes came up but were not discussed to the extent that I needed for my study. This is a common problem with data gathering observations, since the researcher has limited possibilities to influence the observed process. Interviews were used to give a more in-depth interpretation of the meetings. I interviewed both logistics managers and the logistics assistants from the

suppliers and the logistics developer from The Customer. Besides the exploration of the themes which I found interesting for my study, I had the opportunity to talk in private to the respondents. Additional information has been sought from the documentation of the pilot study and informal contacts with the participants, for example when travelling by car together to the meetings, during breaks and through contacts via e-mail and phone.

Perceived costs for the suppliers of bureaucratic, interorganizational control

The Customer had for a number of years implemented new control methods that were supposed to enhance efficiency in the supply chains. They continuously evaluated their suppliers concerning quality and delivery precision. The suppliers were ranked according to these measures, and the variances that seemed to recur were investigated by The Customer. The Customer was also engaged directly in the operations of their suppliers. For example, engineers from The Customer had on some occasions been working in the plant of Supplier 1 for a number of weeks, trying to fix problems which had been detected by The Customer. There were many indications that The Customer had assumed a managing role in the supply chain, supporting with expertise and demanding different kinds of actions to ensure overall quality. The following looks into the suppliers' view that the exchange process created additional costs and inefficiency.

Cost of lost flexibility

The first example shows how the suppliers regard the bureaucratic mechanisms suggested by The Customer as restricting flexibility. One of the activities directly managed by The Customer is transportation from suppliers' plants. The Customer decides on when trucks should pick up the products from Supplier 2. The Logistics Manager of Supplier 2 sees problems with this:

“We have been forced to deliver at eight in the morning most of the time. Then everything must be ready the day before. The delivery need not reach The Customer until much later, but when the truck leaves, it leaves. If we are not ready, we will have to buy the service ourselves on short notice, and that is expensive” [Logistics Manager, Supplier 2].

The Customer's decision to plan transport has resulted in the loss of flexibility within Supplier 2's production. In this case, adaptation to The Customer is not considered to contribute to the overall efficiency. The Customer is a big buyer of transport services, which might justify lower prices. However, Supplier 2 buys

transportation for other parts of their operations, and they consider themselves to be good at this. By planning deliveries, The Customer is seen to be causing Supplier 2 extra costs in putting restrictions on Supplier 2's production planning.

Supplier 1 has the same experiences as Supplier 2, particularly from a period with huge delivery problems. They had been close to causing interruptions with the customer's production, but each time they would send their own vehicles to avoid bottlenecks. The Logistics Manager at Supplier 1 also suggests that they rather should buy their transports themselves.

Costs for extra transport are easy to track. However, the suppliers consider the centralized planning of transport as causing more indirect costs as well. The time the products spend on the road going back and forth between different suppliers on their way to The Customer could have been used by the suppliers to increase production flexibility. This time could for example be used to balance different orders from different customers. Further, there is no flexibility and coordination regarding arrival and departure of vehicles. If the suppliers are not ready, it is their problem.

Costs of missed transports should not occur if everything works according to plan. However, that things do not work according to plan is not unusual, according to Supplier 1 and Supplier 2. Even The Customer causes extra transport costs occasionally, by changing ordered quantity at the last minute. One of the parameters that the suppliers could have used to increase flexibility within their operations, to focus on time for production at The Customer instead of time for delivery, has not materialized due to The Customer's demand on planning the transports. For the suppliers the cost of this lost flexibility is difficult to calculate.

Another example of how The Customer's planning reduces flexibility for the suppliers occurs during the VMI-project. Supplier 1 has a supplier, which treats the surface of Supplier 1's products before delivery to The Customer. They used to have five days for this activity, which the Logistics Manager [The Customer] claims can be reduced to two days. The Logistics Manager of Supplier 1 admits this but in his opinion there is more to it:

"Five days are not good, and that makes our stock appear large. However, if we need it, they can reprioritize. Five days are our safety-stock. If we or our suppliers have problems we can manage anyway. Our deal with this specific supplier is that they shall be flexible if we need them to be – and then they can have these five days. Now tougher demands will make us lose some flexibility." [Logistics Manager, Supplier 1].

This informal arrangement has been appreciated by Supplier 1 for many years, and has helped them meet several deliveries to The Customer on time. However, this is not seen within any reports. This 'hidden stock' would become obvious during the WMI-project, with the Supplier 1 losing flexibility at a cost which is hard to see and thereby calculate.

The suppliers see a structural problem behind the examples above: The interorganizational control is carried out on The Customer's terms. It implies standardization in the interface between The Customer and its suppliers, which demands adaptation from the suppliers. It implies less opportunity for efficient operations inside the suppliers' own plant and consequently less possibility to balance demands from other customers. The interviewees from the suppliers are convinced that efficiency in the supply chain would be higher if more attention was given to the situation of the suppliers. To The Customer, adjustment to individual suppliers would add extra complexity. The case signals a trade-off between standardization to The Customer and flexibility to each of the suppliers.

Cost of inefficient deployment of resources

According to the suppliers, the VMI-project in itself is an example of how the control proposed by The Customer causes resources to be deployed in an inefficient way from the perspective of the supply chain. The official intention with the VMI-project, according to The Customer, is to improve efficiency within their supply chain. The direct consequence is supposed to be improved efficiency between The Customer and first-tier suppliers. Indirect consequences are also supposed to be created. With the implementation of VMI, The Customer hopes to 'educate' their suppliers on how to create efficient interfaces between companies. This knowledge should later on permeate the supply chain, to the second-tier suppliers and so on. The Customer's intention is to influence the entire supply chain with the initiative to control interorganizational relationships with the first-tier suppliers.

However, the suppliers perceive the interface with The Customer to be efficient, relative to their interface with their own suppliers, the second-tier suppliers. Even if the now suggested VMI-project could contribute to making the interface with The Customer more efficient, the suppliers think that improving efficiency would have given better pay-off in the next step of the supply chain. Supplier 2's Logistics Manager says that the VMI-project is the third proposed change project from The Customer that year. She regards this as putting high demands on the Supplier 2's resources. Supplier 2's Logistics Manager manages all logistical

projects, and is also charged with the general responsibility for logistical questions. At The Customer, the logistics developer only works with change projects. Therefore, he has more time to allocate to this work. In fact, his work description requires The Customer to continuously work with how to change relationships with the suppliers – that is what motivates his position. But Supplier 1 and Supplier 2 are small companies and cannot justify employing additional staff for change activities. There is an imbalance in the amount of development resources The Customer and the suppliers can put in.

Since the existing staff are preoccupied with the recurring projects from The Customer, they do not find the time to work with their own suppliers - although they perceive that the interfaces towards second-tier suppliers are much less efficient than towards The Customer. The Logistic Managers of the two suppliers consider many of the methods they work with as potentially beneficial to implement in their interface with their own suppliers. Now, since they have not done that, the reduction in stock and increase in throughput speed in the interface with The Customer is replaced by an increase in their own incoming stock. With the perceived low level of skills in production and logistics with many of their own suppliers, they consider it necessary to have a high safety stock to compensate. From the supply chain point of view, there has been a reduction in the overall value of stock by moving it further back in the supply chain. However, the gains are not as big as they appear from looking solely at the interface between Supplier 1/Supplier 2 and The Customer. The suppliers think there is much to gain by moving knowledge further back in the chain. To summarize, the projects that The Customer initiates are regarded as a valuable source of new knowledge for the suppliers, which could be used to develop the relationships with their own suppliers – if they have the time to do so.

The interesting point here is that the projects to change the interorganizational processes between The Customer and their suppliers seem to have an unintended, direct opposite effect on the network. According to the Logistics Manager at The Customer, changes are intended to spread throughout the supply chain. According to the suppliers, they would have taken the responsibility to work with these changes if they just could only find the time between the projects which The Customer enforces upon them. Bureaucratic mechanisms might have a cost in misdirecting efforts from a supply chain perspective.

Further, every new project also places demands on changes to be made in the suppliers' internal operations. In VMI, the Logistics Manager of Supplier 2 is concerned about their ability to handle the information systems required:

“If The Customer is to have us use all these new systems, then we must adjust. We do not have that kind

of competence here; we must improve in this area.” [Logistics Manager, Supplier 2].

Once again, a supplier perceives a problem as being small. To hire new staff or pay for consultants would add to the absorption rates so that cost targets would be a problem – overhead costs are to be kept down, and at the same time there is a need to upgrade to be able to follow The Customer’s development. Further, Supplier 2’s geographical location also makes it hard for them to hire competent personnel.

The suppliers’ argument about decreased flexibility and ineffective deployment of resources opens a possibility to question the overall efficiency in the supply chain. The case study shows that interorganizational control may have intra-organizational implications (see Mouritsen et al, 2001; Håkansson & Lind, 2004; Seal et al, 1999). However, in the case study of this article, some of the effects are perceived by the dominated supplier as mainly restricting efficiency. Carr & Ng (1995) and Dekker (2003) show the potential of interorganizational control. This article shows it is important to acknowledge the perspective of a dominated supplier in order to be able to discuss efficiency of interorganizational control. The costs reside within the internal operations of the dominated supplier and in their interface to other actors, i.e. in the context of the focal supply chain. Therefore, it is necessary to consider interorganizational control as a part of a wider network (Ford et al, 1998).

However, the ambition of the paper is not to show that interorganizational control is inefficient. The case study contains no ambition to measure the profit or loss of interorganizational control. The suppliers’ perceptions of costs are instead interesting as evidence on how they partially accept procedures that to them appear to be inefficient. In the following, the various reasons for this will be displayed.

Market setting influencing bureaucratic control in interorganizational relationships

As shown above, the Customer dominates the involved actors. One example of the power within the relationships is related to the financial aspects of the VMI-project. The suppliers have no great expectations of any financial gains accruing from it, other than coverage of costs. The Customer is seen as having the power to claim the major part of any jointly created value. Even if the project is successful, the suppliers expect tough negotiations when setting new prices. The Logistics Manager of Supplier 2 explains:

“Then our positive attitude towards new projects and our good delivery precision is of less importance. Their demand for low prices is the most important.” [Logistics Manager, Supplier 2].

Not surprisingly, this also seems to be the intention of The Customer's Logistics Manager:

"It is up to them to take the opportunity or not. With a good implementation, VMI should cut costs substantially. Next time we negotiate we will demand cost-reductions. If by then they haven't taken the opportunity, it is their loss." [Logistics Manager, The Customer].

But how can then power motivate the suppliers to engage in interorganizational control, as Bachman (2001) suggests that it might? Although the suppliers perceive the project as questionable from a financial point of view, there is still only little discussion within the suppliers' organizations about whether to participate or not. Their opinion is that when such an important customer asks for your participation, then it must be accepted. The suppliers see no alternative than to let The Customer decide the agenda for the relationship, which includes accepting The Customer's suggestion for interorganizational control. What there is to gain in terms of short term increase in profits from this engagement is not evident. What there is to lose if the suppliers do not engage and take every opportunity to maintain the relationship is more evident – the survival of their company. The Customer is to be given no reason to question Supplier 1 and Supplier 2 as suppliers. The suppliers are convinced that it is positive for them to appear as active and friendly suppliers to The Customer. The argument is that the bureaucratic mechanisms, that The Customer suggests should be part of the interorganizational relationship, are a way to keep a close relationship with The Customer. To neglect the rules could appear to The Customer as if the suppliers are not cooperative and not engaged into creating an efficient supply chain. Therefore, the relationship in itself is a motivation to engage in interorganizational control, besides the importance attached to being part of an efficient supply chain. This two-sided motive for the suppliers to engage in the activities suggested by The Customer will be shown as relevant to how the suppliers choose to act within the relationship.

Trust is not a major concern during negotiations of new contracts between the organizations. The suppliers do trust The Customer to honor agreements. However, the prevalence of negative expectations suggesting that The Customer will use their power to claim financial gains and to expect obedience, dominate expectations of whether the suppliers will make any gains in the coming negotiations. Earlier studies on interorganizational control have emphasized trust as a main motivator to accept interorganizational control (Dekker, 2003; Carr & Ng, 1995). However, in this case, social coordination appears to be in accordance with what is demanded of a market mechanism to function, a norm of reciprocity (Ouchi, 1979). The following

elaborates on how the perceived importance to keep The Customer close, and to avoid giving reasons for The Customer to question the relationship partly explains why costs like the ones discussed in the previous section may arise.

Both suppliers have tried to convince The Customer to change their agenda for the interorganizational relationship, but with limited success. During their period with delivery problems, Supplier 1 suggested to The Customer that they should buy their own transports, since they so often have to fix transportation by themselves anyway. The argument is that this could be done cheaper, if planned ahead. However, this has not been met with enthusiasm:

“We were pretty tough when things were rough. We talked to their boss a number of times about organizing our own transport and also to place one of our employees at their plant, which could give us direct information about what was going on. But they did not dare to trust us with that. They did not want to give us a special treatment, compared to other suppliers.” [Logistics Manager, Supplier 1].

Supplier 2 has also had problems with getting The Customer to accept changes:

“We calculated that we should save a lot of money on changing type of pallet. We kept on trying to convince them for a while, but they did not really want to listen. Sure, it might create some problems to them to have another type of pallet from us but at least they could have looked into it.” [Logistics Manager, Supplier 2].

Without denying The Customer’s claim that their internal routines would be affected, the manager thinks that for the efficiency of the supply chain, this could be worth analyzing. Representatives from both suppliers claim that they have presented good ideas to The Customer without success. If the ideas do not fit into the ‘system’, according to The Customer, then they are of no use.

Representatives from Supplier 1 and Supplier 2 admit overlooking matters they foresee as not fitting the current operations or altering The Customer’s agenda – since they would most often not be considered anyway. The Customer thereby succeeds in ‘setting the agenda’ for the relationship. This agenda reduces information from the suppliers to the customer. The suppliers do see the motive to try to change the agenda for The Customer. Efficiency in itself is one reason, and The Customer’s appreciation of good ideas another (as

mentioned earlier, one of the reasons for the suppliers to be chosen for the project is The Customer's perception of them as having many good ideas). However, the counterforce is the importance of appearing cooperative. To drive issues and to try to force The Customer to change their agenda risks being seen as not cooperative and spending time on currently irrelevant matters. The VMI-project contained various suggestions the two suppliers had brought forward years ago. At that time the ideas were rejected. The suppliers were told then that they should perform their task according to contract, and not demand changes. However, now the suggestions are seen as relevant to The Customer. The suppliers have already addressed some of the issues raised in them in informal ways. One of them concerns information about the exact number or volume of products that are needed, an issue elaborated upon in the next section.

Further, the suppliers consider costs for reduced flexibility in operations and logistics and alternative costs for not working with the interface to their own suppliers as difficult to calculate. Both suppliers perceive that good cost estimates are one important part to convince The Customer to listen to their suggestion. These costs might be an example of Gietzman's (1996) discussion about the need to develop the accounting methods in order to identify costs of relationships. That the costs perceived by the suppliers are considered hard to calculate partly explains why they are not brought to the attention of The Customer.

Interorganizational control should contribute to enhancing the information flow (Christopher, 1998; Chopra & Meidl, 2001). Three interrelated aspects appear as important to why this is not fully realized in this case. First, the suppliers fear being perceived as obstinate. Secondly, The Customer does not signal a desire to be informed about suggestions that are off their agenda for the interorganizational control. Thirdly, the costs that the suppliers perceive are hard to calculate.

How can it then be understood that The Customer engages in interorganizational control that the supplier see as partly inefficient? First, the complexity of the task, attributed to the strong bureaucratic control (Vosselman, 2002), The Customer attempts to pursue, should be recognized. It may be unrealistic to grasp the full information relevant to the first-tier suppliers' internal operations and their interface to second-tier suppliers. What The Customer does - focusing on the direct relationship to the first-tier supplier and overlooking other aspects - might very well be better than no interorganizational control at all. The suppliers do see a need for interorganizational coordination. They also do see The Customer as the natural actor to enforce this. The only problem is that they think there is too much control and that their situation is not considered enough.

However, there are signs in the case showing that The Customer is satisfied with an agenda for interorganizational control that does not consider the perspective of the suppliers in every way. The official intention behind their engagement in interorganizational control is to search for overall efficiency. However, the following example shows that the Customer is to some extent more interested in their own, internal efficiency than the network, or even the interorganizational relationship.

The first meeting of the VMI-project, the importance of making a calculation about the financial effects, was in focus. This was also taken into the project plan. The main argument was that the calculation should be used when VMI was implemented by all The Customer's suppliers, to show financial gains from engaging in VMI. However, during the course of the project, the ambition to make calculations changed within the project group. Cost estimates for VMI seemed hard to outline. As soon as an initiative supposedly made to save costs in the supply chain was discussed, the representatives from the suppliers wanted to see how it would affect them first. These two suppliers had already described highly different expectations of what the changes would mean to them. For example, savings in stock area differed, since one of the suppliers was located in an area with low costs for storage-room, while the other was located in a more attractive/expensive area. Within the project group, there was an opinion that savings in the supply chain would not so much depend on VMI itself – but instead on the ability to use the potential of VMI and the present situation of every supplier. The question raised in the group was: If possible gains were so tightly connected to each supplier, how then could the pilot study produce results with universal application? More than 200 suppliers would have highly diverse situations. In the light of these reflections, the question about a calculation of the effects was put aside. The Logistics Developer believed that the project nevertheless could contribute with good examples of procedure and show the financial potential of VMI:

“I want to carry through this project and gather as much experience as possible before we decide if we are going to do this [VMI-implementation] or not.” [Logistics Developer, The Customer].

The question about VMI calculation was back on the table during the last meeting I attended, with only people from The Customer showing up. The Logistics Manager, who attended the meeting, was disappointed for the lack of a calculation:

“We must have a calculation which we can fairly justify to top management.” [Logistics Manager, The Customer].

This was seen as essential to have the Customer accept VMI internally. The problems of measuring the effects for the suppliers were considered relevant, on condition that they should not restrict calculations being made. The Customer’s top management was considered to be most interested in internal savings. Internal savings were believed to be measurable, and to show strong cost-reductions should be possible since the general idea with VMI was to move activities (storing, planning) from The Customer to the suppliers. This meeting was dominated by a strong opinion that VMI was necessary to pursue, and the presence of internal savings was the factor that persuaded senior management to decide about moving on with VMI. How VMI affects suppliers was in this respect a secondary concern.

The search for cost-information has been mainly proposed by The Customer’s Logistics Manager, and the foremost use is in internal decision-making within The Customer. To gain support for the VMI-project, the benefits must be motivated by figures. Financial information thereby appears more important to the internal decision process of The Customer than to the project itself.

This is further explained by the fact that VMI is possibly not dependent on *current suppliers* to become successful, as the Logistics Developer explains:

“What we are discussing at the same time (internally) is the potential of buying from Eastern Europe. This could probably result in lower costs. Such a solution would be facilitated by VMI, because if we import from the east, then we need premises for final preparation of the products for production.” [Logistics Developer, The Customer].

One way to consider the VMI-project is that it should facilitate the use of the market mechanism in the future. To suppliers 1 and 2, this could imply an increased risk of losing The Customer in the future (compare with Frances & Garnsey (1996), who suggest that interorganizational control could be used to decrease the dependence on certain relationships).

To summarize, the case study shows two main explanations to costs for interorganizational control. Firstly, the suppliers do not want to risk their relationship with The Customer by bringing costs to their attention (enforced by problems of measuring costs and their opinion about The Customer’s lack of interest).

Secondly, The Customer may to some extent lack interest in the costs for suppliers. The representatives from The Customer, who are involved in the interorganizational relationship, have more problems in getting their voice heard within The Customer than in the interorganizational relationship, i.e. the internal political processes are considered harder to handle than the dominated suppliers. The Customer's representatives in the VMI-project needed calculable costs, foremost about internal savings, to get approval from senior management. Furthermore, to The Customer it is possible to solve problems with current suppliers by changing suppliers, i.e. letting market forces decide. The market setting seems to make room for bureaucratic mechanisms. However, to the suppliers the bureaucratic mechanisms are more important to preserve the relationship than pursue efficiency. This situation gives incentive to restrict information sharing on the part of the dominated actor, and partly limits the incentive to search for it on the part of the dominating actor.

Social coordination within interorganizational relationships

It was earlier concluded that informal, social coordination and specifically the presence of trust were of minor importance when motivating the strategic aspects of the interorganizational relationships. However, on the operative level social mechanisms seem to be far more active in coordination, as the following examples demonstrate.

The suppliers' logistics assistants seem to know people and systems at The Customer fairly well, and they receive much information through their contacts - contacts which the suppliers perceive as valuable. These contacts are not regulated by contract. An example of this concerns information about 'real need'. There is a formal delivery plan, related to demand from The Customer. This delivery plan concerns weekly batches. If the suppliers have trouble filling this delivery requirement, they could contact The Customer and ask about the exact volume they are really in need of. Additional quantities can be delivered a day or two later. In situations of crisis, this is considered a valuable piece of information.

However, it is not enough to just avoid interrupting the Customer's production. As mentioned earlier the suppliers are evaluated in terms of delivery precision. Information on delivery precision is based on a formal system. The Logistics Assistant of Supplier 2 has her own way of solving this problem:

"If we do not send full delivery, but perhaps just half of it, and they manage anyway, then everything should be okay. However, if they do not change their system at the same time, it still looks like we have failed. To get them to change the order-size in the system, you have to be extra nice – that is complicated

for them. I feel like I have done my part when we avoid causing a stop in their production, but it is me they yell at when the figures do not look okay.” [Logistics Assistant, Supplier 2].

An aspect of the control system is set aside through cooperation between employees in the two companies.

As mentioned earlier, Supplier 1 occasionally had delivery problems. This, however, does not appear to have had any real negative effect on relationships at the operative level. Supplier 1’s Logistics Assistant explains:

“Since we have never stopped their production and since we have sorted out many tough situations, a mutual trust has developed. They trust that they get the products in time, and I trust that they will give us as much time as possible. We have talked so much, me and the girl up there. We are pretty social, both of us. She has spent an awful lot of time keeping a watchful eye on our products.” [Logistics Assistant, Supplier 1].

The Logistics Assistant at Supplier 1 has been in the same business for nearly a decade and sees an advantage in continuity:

“I have had contacts with people at The Customer for ten years. I have worked with most of them up there. It is not positive when they change people. You develop a relationship with someone - you know what people mean when they say something. It depends on people if cooperation between companies works. If someone sits up there and refuses to put rules aside now and then, then it is impossible to manage sometimes. If there is someone sitting there demanding 400 pieces although it will only be lying in stock, no one gains. We have to send a taxi. The only one to gain is the taxi-company. It is important who you talk to.” [Logistics Assistant, Supplier 1].

The Logistics Assistant of Supplier 1 has the same problems with the formal evaluation system as the Logistics Assistant of Supplier 2 – and the same kind of solution.

Supplier 1’s good contact with The Customer has also boosted the flow of information despite the absence of formal agreements regulating it. The Logistics Assistant seems proud to talk about this:

“They send the rate of production [for production during the next month] specifically to us; we get it directly on an excel-sheet. We see if they are going up or down in rate of different products. That is certainly something that comes out of the good relationship we have. This is something they do not send to all their suppliers after their planning meeting once a month. We just happened to see one of those sheets when we were visiting once and asked if we could get that. That is direct information. And it is highly sensitive; some of their rates of production are confidential.” [Logistics Assistant, Supplier 1].

Another example of how informal, social mechanisms are triggered in coordination comes from the VMI-project. One of the purposes with the pilot study is to identify possible obstacles when introducing VMI. The project-group sees the internal control system of the Customer’s procurement-function as such a problem. At the very first meeting, the project members decided to keep The Customer’s procurement department outside the project for as long as possible. Many of the changes proposed concerned suppliers taking over activities, for example storing. When suppliers carry out more of the activities, everybody in the project concludes that higher prices would be demanded. However, the procurement department would never accept this, since they are evaluated on piece-price basis. The Logistics Manager of Supplier 1 elaborates:

“Much of the problem is that their purchasers are evaluated on price only. Extra functionality is not worth anything to them. It is a terrible sub optimization. The procurement department is hard to negotiate with when we want to be compensated.” [Logistics Manager, Supplier 1]

Of course this is a normal market-based act – if suppliers could be squeezed they should be. However, The Customer’s Logistics Developer engaged himself in this question during one of the project meetings: “Then we of course have the problem with the purchasers. They will never accept higher piece-prices. We must handle this in some way.” [Logistics Developer, The Customer]. Supplier 1’s Logistics Manager replied: “We can always change the product identification numbers, and then it does not show in their statistics” [Logistics Manager, Supplier 1]. The Customer’s representatives regarded this as a good suggestion.

In a follow-up interview, Supplier 1’s Logistics Manager said:

“Yes, it might sound strange, but this is what we have done before. We have also checked another project, with another business unit in the corporate The Customer belongs to. There they sent separate bills for transportation and stocking, when these activities were shifted to a supplier.” [Logistics Manager, Supplier 1].

Here The Customer’s internal control system seems to have a role in the interorganizational coordination – a problematic role which must be set aside in some way. The focus on price per product by the procurement department in The Customer is perceived to be a restriction on the development of the relationship. The persons involved in the VMI-project spend time looking for a solution for how to bypass the influence of the procurement department. In the group, there is an ambition to leave The Customer’s procurement department outside the discussions as long as possible. Further, the project group jointly looks for ways in which they could bypass the evaluation system of the procurement department. The group’s task seems to be more important to The Customer’s representatives than to have their own procurement department fully informed.

To summarize, the individuals appear to be accountable for delivering in order to avoid stopping The Customer’s production. To make things work, the employees of the two suppliers rely on their personal relationships with The Customer. For information about what The Customer really needs on a day-to-day basis, which could not be found within the systems, they call their contacts and talk to them. For more long-term information (a month), one of the suppliers is sent an internal, classified planning report from The Customer. These are both examples of how information needed for operational task solving is searched for and obtained through informal channels (c.f. Jönsson & Grönlund, 1988; Hedberg et al, 1994). One way to understand social mechanisms of coordination is to focus on the will of the individual to solve his/her task (Jönsson & Grönlund, 1988; Hedberg et al, 1994). The project members have all accepted a task to be fulfilled, and their commitment is very much apparent in the case study. With this as a basis, a social mechanism springs into operation (Ouchi, 1979), resulting in joint cooperation between representatives of the two companies. There is an overlapping accountability between the task they are given by their respective manager and the individuals they interact with within the interorganizational relationship, i.e. intertwined hierarchical and lateral accountability (Willmott, 1996).

Furthermore, the formal system of evaluation also seems to be of significance to the actors. Concerning the evaluation of delivery performance, it is important that it does not show negative figures. However, this

could be arranged either through delivering according to the formal system, or by convincing their contacts in The Customer to alter the demand for delivery, so that it matches what is actually delivered – this is seen as acceptable as long it does not interrupt production. In this way, a reliance on contacts is used to bypass the control system. In the case of the performance control for The Customer's procurement department, it is important that its effects are not allowed to interfere with change processes at the wrong time. This could be arranged by mutually agreeing on changing product identification numbers. Concerning the formal report about production levels, every day operations could be made easier if this report finds its way to the supplier. This might be a delicate issue to decide on formally, since this would require the internal processes within The Customer to be bypassed. Therefore, it is being arranged informally instead.

In order to understand coordination in interorganizational relationships, these examples of socially based initiatives to bypass control systems are interesting. In this case study, the bureaucratic mechanisms are perceived as putting restrictions on actions which are mutually beneficial to both companies involved. To reach the long-term effects within the VMI-project, or to attain efficiency in deliveries, the control systems have to be temporarily put out of play, or bypassed.

The VMI-initiative is seen as a threat to these essential contacts. Many of the informal contacts that the suppliers mention as examples of cooperation on the operative level are supposed to be replaced by formal information exchange in the VMI-project. Of course, the suppliers' representatives see advantages in that they would get information via authorized channels they earlier had received through informal contacts. However, The Customer's plan to slash the number of employees working with goods reception is perceived as a threat to the relationships. Supplier 1's Logistics Assistant thinks that contacts like these are necessary for all situations which are not planned for:

“They must have some left at The Customer, even if they are not as many as today. We have learnt through the years that we should always have good relationships with whoever sits there.” [Logistics Assistant, Supplier 1].

On a purely technical basis, a part of the information they get today in an informal way could be put into systems. However, the experience of the Logistics Assistant is that no system could ever cover all situations that are likely to arise. The Logistics Assistant wants to make sure that if he would need informal help from The Customer, he should establish good contacts in the first place. From that perspective, the Logistics

Assistant in Supplier 1 prefers formal systems that do not dictate all types of information exchange, so that a need to contact The Customer is maintained, revitalizing the relationships. Supplier 1's Logistics Assistant has experienced promises like the ones made with the VMI-project before – a new system which would take care of everything. According to him, it had never worked before, so the question he poses is why it would work this time. When a system fails and a problem needs to be solved quickly, personal contacts are needed, particularly with people he could rely on. On the contrary, a system that is supposed to improve coordination will be a threat to it, if it fails to provide for personal contacts when they are really needed. The hesitation expressed here can be compared to the skepticism expressed towards replacing material work with virtual work (Robey et al, 2003) or a change from 'hands-on' to a 'paper' version of management control (Mouritsen, 1999). The results point at a hesitation in relying solely on systematized, bureaucratically regulated, information sharing. To summarize, social mechanisms seem to 'fill the holes' of bureaucratic mechanisms – sometimes even if it means setting the bureaucratic mechanisms aside.

The employees working in the project also assert that it is important to keep the good spirit in the relationship as long as possible. The general market situation, a constant threat to the interorganizational relationship, is left out of the discussions within the VMI-project as far as possible. Even if the problems relating to piece pricing within the procurement department could be solved, Supplier 2's Logistics Manager has no doubt that The Customer would take the main part of jointly created values. This is however something she kept to herself, particularly something does not discuss with The Customer's representatives. Also The Customer's representatives do not bring up other market-opportunities during the meetings with the suppliers. Earlier in the case description, it is mentioned that The Customer sees the VMI-project as enabling a future possibility of sourcing in Eastern Europe, which could be a threat to the suppliers involved in the project. However, the Logistics Developer [The Customer] does not want that to be discussed within the project meetings:

“However, that is something that we shall not discuss now with our suppliers. We of course do not want them to feel threatened when we discuss this project.” [Logistics Developer, The Customer].

Since the dominance of The Customer is so well acknowledged by all those who are part of the project, there is no reason to let this situation affect the overall cooperative spirit within the project group. The interpretation made of the situation is that market mechanism should not be allowed to interfere with the social mechanisms if it can be avoided, i.e. the explicit use of power should be avoided as far as possible.

Interorganizational control in the case can be characterized as heterogeneous, with the market setting dominating the strategic level of the organization while the informal, social mechanisms are far more active on the operative level. The market setting is influential also on the operative level by making room for the bureaucratic mechanisms, which must be handled. However, on the operative level, individuals could act and bypass these if they deem it necessary. The strategic aspects, which in the case are represented by deployment of development resources within the interorganizational relationship, and the degrees of freedom that the suppliers would be allowed, are questions open to influence from The Customer's internal control processes. The Customer's representatives, involved in the daily activities within the interorganizational relationship, do not have the possibility to decide on the agenda for interorganizational control. Their flexibility towards the suppliers are reduced by the decisions to centrally plan transports and to decrease the level of inventory in the exchange process. Thus, The Customer's internal decision processes are vital to interorganizational relationships.

An epilogue of the VMI-project demonstrates another example of how the interorganizational relationships are dependent on what happens to The Customer. As the project neared its end and members sensed that potential for possible success was there, all current external logistic projects within The Customer's organization came to a halt, including the VMI. The Customer received orders from the manager of the division it belonged to about prioritizing change projects regarding internal operations.

CONCLUSIONS

The research questions of this article are addressed through a case study of two interorganizational relationships in which the market situation enables the dominating customer to resort to power to manage their suppliers. The study shows how the market situation provides room for the use of bureaucratic mechanisms and how social mechanisms work to complement or bypass these bureaucratic mechanisms if they are considered problematic to coordination. Bureaucratic mechanisms can be more important to dominated suppliers as a means to preserve a business relationship rather than to enhance efficiency. Bureaucratic mechanisms may thereby be accepted although they are considered problematic and potentially costly to dominated organizations and supply chains. The study contributes to earlier research in the field by questioning of the hitherto mainly positive picture of bureaucratic mechanisms as a support in managing business relationships. The following provides a summary of the conclusions of the study.

The first research question to be explored in this article is how dominated suppliers may interpret

bureaucratic mechanisms in an interorganizational relationship with power as the main force in creating expectancies between actors. Mouritsen & Thrane (2006, p. 274) conclude that, "... , management technology is integral to developing an inside and an outside in the network". This conclusion is informative to the present study. In a market setting where dominated actors see no alternative than to try to preserve the relationship, bureaucratic mechanisms are turned into a possibility for the dominated actor to signal cooperativeness to the dominating actor. By accepting control initiatives and engaging in developing new bureaucratic mechanisms, dominated actors may avoid disturbing dominating actors in the hope of protecting the relationship.

In our case study, representatives of the dominated suppliers see this as more important than enhancing efficiency in every situation, in contrast to the (official) intentions of the dominating customer. Dominated suppliers' incentive to accept a bureaucratic mechanism in order to preserve the relationship is one way to understand the prevalence of bureaucratic mechanisms that are seen as costly, and a hindrance to efficiency. As argued in the theoretical section of this paper, the type of bureaucratic control that a dominating actor often pursues is of a highly complicated nature, with high demands on information sharing and information processing capability, i.e. operational information from multiple organizations. When a dominated supplier restricts information sharing, the task of managing the supply chain is further complicated for the dominating customer. Power does enable interorganizational relationships and bureaucratic control, but when it makes the relationship and the accounting techniques important in themselves to the dominated actors, a troubling aspect is inflicted on the control process.

This implies an interest in the process of how dominating actors decide on bureaucratic control of interorganizational relationships. When dominated actors hesitate to bring up matters that are off the agenda, the responsibility will be left to the dominating suppliers. Seal et al (2004) show how a dominating actor may have a role in implementing new practices in local contexts. However, due to the decisive role that the dominating actor may have, there is a potential risk that implementation of methods that are considered as best practices in general terms may dominate local, financially relevant, concerns. The dominating actor's ability to manage will be decisive to performance and development of the interorganizational relationships. This is in line with arguments Carr & Ng (1995) and Dekker (2003) make. However, their interpretation of this situation is positive. Due to the potential problems with interorganizational control for dominated suppliers, this positive effect of the dominating actors' influence may be questioned and should not be taken for granted. According to Richardson (1972), a potential benefit with interorganizational coordination resides in the need for dissimilar activities to be managed by actors with different capabilities. If dominated suppliers choose not to or are not

allowed to be active in setting the agenda for the management of interorganizational relationships, this potential benefit is lost.

The second research question is how social coordination mechanisms may give flexibility to an interorganizational relationship where a dominating customer enforces a strong bureaucratic coordination. Bureaucratic mechanisms that are considered problematic to coordination may be handled by informal social mechanisms. In addition, dominated suppliers that attach importance to the picture shown of them through formal systems may search for and get help to bypass formal systems based on personal contacts. Bureaucratic mechanisms can thereby be temporarily put out of play, and be corrected to show the picture that they should, by social mechanisms. Examples, from the case, include both bypassing the procurement department and adjustment of ordered volumes to equal deliveries.

However, the study shows that troubling bureaucratic rules can be bypassed by social, informal mechanisms but to change an agenda of interorganizational control seems to be harder. The case study shows that there is a significant difference between bypassing a rule based on mutual agreement between two (or more) individuals, and changing the rules. Large organizations with many suppliers may have good reasons to keep standardized interfaces in their ties with suppliers, in order to reduce complexity. To change rules requires the dominating actor to either accept adapted interfaces towards specific suppliers or change the standardized rules towards all the suppliers. Both these actions would add complexity to the management of the interface with suppliers for the dominating actor.

The study provides support for social mechanisms as necessary to complement rigid, bureaucratic rules that should be applied to multiple suppliers with differing preconditions. An important part in understanding how this can occur in the case is how the individuals taking part in the relationship choose to leave out the market setting when discussing practical issues. The power distribution in the relationships is so clear to everyone anyway, why should it then be allowed to destroy the good spirit that can be so helpful in solving problems and avoiding bottlenecks? Furthermore, dominated suppliers may see extensive bureaucracy-based coordination as a threat. Daily, routinized activities can perhaps be systematized, but it would decrease the need for continued contacts between individuals and consequently threaten the personal contacts that are valuable for solving situations that deviate from the plan (and such situations occur frequently, at least according to the actors in the present case).

The field of interorganizational control needs further research. The conclusion of this article highlights one special area, the processes by which agendas for interorganizational control are developed. Such studies

need to highlight internal processes with dominating customers and how local concerns for dominated suppliers may find a place in these processes. The dominating actor's central role in the development of interorganizational relationship is in the case complicated by internal matters. To develop interorganizational relationships intraorganizational support may be needed and it must bypass intraorganizational controls (Seal et al, 1999; Håkansson & Lind, 2004). In this work, there is a need to acknowledge that the dominating actor is often not homogeneous. Even if those involved in the interorganizational relationship have the best of intentions about overall efficiency, their ambition may be overruled by considerations of internal control or political agendas within the dominating organization. Bureaucratic mechanisms in interorganizational settings are probably here to stay, but a more critical stance may be required.

The limitations of conclusions from studies like the present one reside in how they can be put into action. Single case studies can provide us with experiences to theorize, in order to apply experiences to other situations. However, specific social situations (like the ones studied in this article) differ from others, and conclusions from studies like this cannot be taken as answers about how other situations should be understood. The conclusions are ideas and theories the potential of which is worth considering and exploring further.

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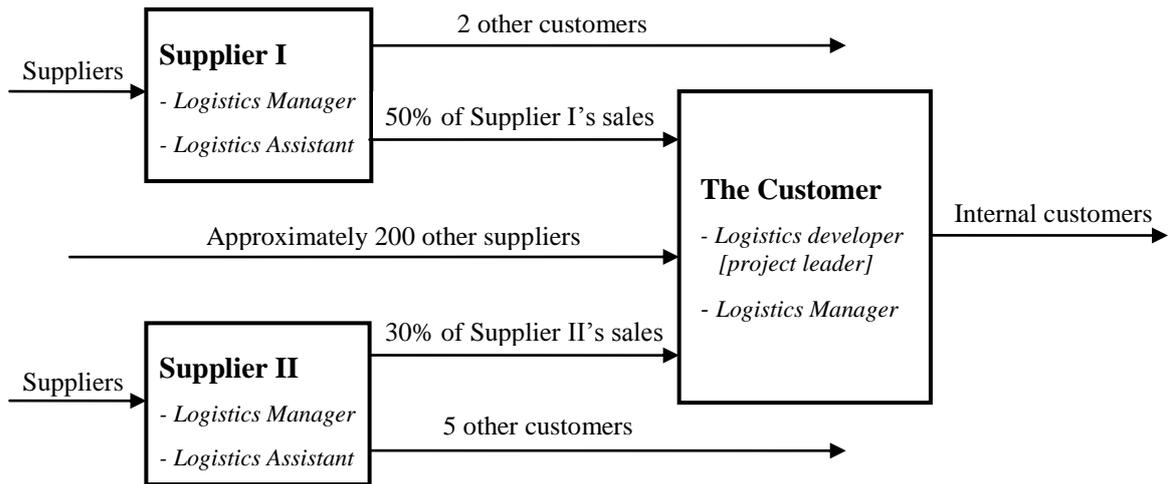


Figure 1: Outline of business relationships for the involved organizations [in bold] and the employees quoted in the paper [in italics]