The role of open book accounting in a supplier network:

Creating and managing interdependencies across company boundaries

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Extended abstract

The paper is about open book accounting in a retail context. Our qualitative case takes its starting point in the food grocery sector of the retailing industry. Our case company, Food Store is a large grocery retailer in northern Europe, with stores of different sizes from small groceries to large supermarkets. The company provides customers with a full range of products from well-known brands to small local producers and Food Store's own private label. The purchasing function at Food Store is centralized at the company head office and organized in several business areas, such as dairy, meat, fruit and vegetables. Each business area is divided into several product categories managed by category and purchase managers. Category managers have responsibility for the content, design and performance of categories and purchase managers have the task of negotiating profitable contracts with suppliers. Purchasing strategies vary from virtual real time auctions to long-term supplier collaborations. In addition to category managers and purchasing managers, Food Store has employed analysts, pricing specialists, store planners, and private label and global purchasers.

A large number of empirical studies of buyer-supplier relationships in industrial markets show that a company has a mixture of relationships including close to arm's length ones (Håkansson and Snehota, 1995; Håkansson et al, 2004). Close relationships are important for the company's short term financial performance, but they are even more significant for its long term development (Håkansson and Snehota, 1995). A close relationship is characterized by cooperation, mutual commitment and significant investments in physical and human resources (Gadde et al, 2003). The companies adapt their operations to each other in areas

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such as logistics, administrative routines, competences, products and production facilities, which create interdependencies between the companies (Araujo et al, 1999; Håkansson and Waluszewski, 2002; McLoughlin and Horan, 2002). A company's interdependencies with other companies constrain the actions it can take, but also open up opportunities to draw on other companies' resources (Halinen et al, 1999; Håkansson and Snehota, 1995). Thus, interdependence is a key issue for companies operating in industrial markets.

Open book accounting (OBA) is an accounting method put forward for managing interdependencies across company boundaries (Agndal and Nilsson, 2010; Kajüter and Kulmal a, 2010). Mouritsen et al (2001) show how one company outsourced its entire production, subsequently losing knowledge about and control of the production processes that had been critical. Suddenly the company recognized the importance of managing its new supplier relationships, and OBA made this possible. The implementation of OBA and the new information it generated allowed the company to co-ordinate its supplier relationships.

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

Previous research on OBA has concentrated on managing the interdependencies between the direct supplier relationships and the buyer (Agndal och Nilsson 2010; Axelsson et al 2002; Kajüter and Kulmala, 2010; Windolpha and Möller 2012). The focus has been on the dyadic relationship between a buyer and its first tier suppliers. Some studies included how OBA is used for managing interdependencies down the supply chain (Dekker and Van Goor, 2000; Kajüter and Kulmala, 2005). In these studies, it was often one large buyer that dominated its first, second and third tier suppliers, and the buyer who designed the cost tables used within the OBA. Thus, OBA is studied in a closed supply chain with the end buyer as the coordinator and no embedded business relationships with conflicting interdependencies are included. However, as Dubois et al (2004, p 8) states "the activities that are parts of a supply chain (regardless of how it is defined) are interdependent with other supply chains in that they share various common resources”. An adjustment in one relationship within a supply chain impacts on other direct and embedded relationships and these adjustments may provoke reactions (Baraldi et al, 2012; Dubois et al, 2004). Hence, a supply chain needs to be studied in its broader context, therefore, in contrast to previous studies on OBA, this paper will investigate the role OBA plays in embedded business relationships where conflicting interdependencies and interests can be present. In this situation a critical issue for a company is to deal with interdependencies and not view them as problems that need to be reduced (Dubois et al, 2004). In this way, OBA becomes a more dynamic tool that companies use to create and manage interdependencies across company boundaries. Such a view of OBA differs from the previous research in which OBA is an orchestration tool within a closed supply chain.

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