

As organisations strive to deliver commerce-enabled service through integrated communication networks, the way they interact with one another, is changing. Retailers, for example, have begun to redefine their existing service offering through the construction of electronic stores. This presents some fundamental challenges as they attempt to transform the way in which they have traditionally created value. The evolving value proposition embraces service offerings, delivered via electronic commerce channels, that alter established concepts of how customer-based value is delivered.

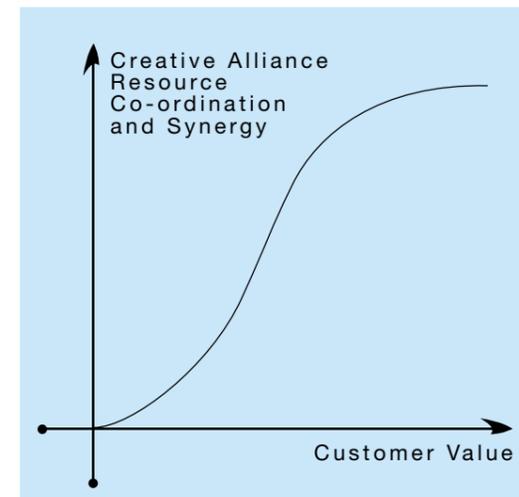
For example, the service experience for e-consumers – a key component of customer-based value – is being redefined. It's happening, not through refocusing the core capabilities and competencies of the business, but by constructing, joining and leveraging existing and new constellations of value. These new configurations are based upon business alliances that are, in turn, part of networks of complex business alliances that are constantly metamorphosing as the relationship parties attempt to keep pace with the rapidly evolving customer determinants of service value.

The emergence of these new service constellations and their continual state of flux has led to a rethinking of a fundamental question: How should these business alliance relationships be managed? We use Hamel and Prahalad's (1996) term 'managing out of bounds' to describe the challenges of competing in the new information-age economy. This is a pertinent question given that management has traditionally learnt to manage relationships internally within the firm rather than managing strategic alliances outside the organisation's boundaries.

Managers in this new environment are attempting to understand what approach should be adopted to create a positive business relationship and climate among various partners so that shared objectives can be achieved. These objectives include resource co-ordination, synergy and the development of customer value (see Figure 1). Such coherence is desirable

despite changing technologies, shifting markets, and competitive conditions. An important issue in this quest is how interactions among the various partners are managed.

FIGURE 1: THE GOAL OF ELECTRONIC COMMERCE STRATEGIC ALLIANCES



This paper presents a managerial enquiry into Hamel and Prahalad's (1996) question regarding 'managing out of bounds' in a business alliance.

The alliance we studied was developed to provide new service variants for consumer-focused electronic commerce. The setting is an interactive home-shopping supermarket and the project itself is a multi-partner commercial development aimed at expansion into the electronic shopping market sector.

Our investigation is based upon in-depth interviews with executives from the five service organisations that formed the business alliance. It includes the following organisations: the *systems integrator*, the *retailer*, the *courier*, the *Internet service provider* and the *bank*. Apart from the *systems integrator*, all the other service organisations have strong brand recognition in the traditional marketing environment. The identity of the organisations and executive case participants cannot be revealed for legally binding confidentiality and ethical reasons.

In each organisation senior executives and key team members were targeted and requested to participate. We did 27 case interviews.

“Our investigation is based upon in-depth interviews with executives from the five service organisations that formed the business alliance.”

- We explore this line of enquiry in the context of strategic alliances.
- We note the growing body of evidence that refutes traditional concepts of management.

THE IRON CAGE

The issue of how to manage a firm is a pivotal concept, permeating every function from finance to human resources. Management tools have arisen from classical organisation theory (Ezzamel and Willmott, 1998; Nohria and Berkley, 1994; Barker, 1993; Cleveland, 1989; Morgan, 1986) and the work of widely quoted management theorists such as Weber. Indeed, Weber's principles continue to serve as benchmarks for our understanding of the “contemporary work organisation” (Nohria and Berkley, 1994, p. 111), giving rise to the concept of the “iron cage” of rational management (Barker, 1993). Characteristics of this approach include functional areas of command, hierarchy, systems, defined roles and a system of learnable rules (Nohria and Berkley, 1994).

Consequently, management's main goal is to organise productive activity and create conditions so that strategic objectives are achieved despite changing technologies, markets, competitive conditions and environments. To fulfil this role the focus is on people, action and results through the use of systems as the primary tool of management. Similarly, Konsynski (1993) suggests that through such a focus, managers can support the understanding of change and influence actions both inside and outside the enterprise.

In the traditional approach a set of defined and/or ambiguous interventions is employed to promote the preferred behaviour of the organisational system being managed (Van Aken, 1978). These systems may include everything from technical systems through to human resources (Snell, 1992). To manage means to understand how to direct. Management is established by a continuously stable system of sequentially related and integrated decisions with classical feedback

Secondary documentation was triangulated with the interviews. Interviews were conducted over a three-month period using a semi-structured interview technique. The analysis employed traditional, researcher-based techniques (Miles and Huberman, 1994; Yin, 1994), with the aid of the computer-based tool QSR NUD.IST.

In the following section we examine how firms have traditionally managed out of bounds, focusing on existing concepts and their application within organisations and in business networks. We argue that existing practice represents a valuable but incomplete approach in this new environment of electronic commerce. We then describe our evidence from analysis of in-depth interviews with executives from the five organisations listed above. These findings are discussed and we draw a series of managerial implications.

IMPLOSION OF THE IRON CAGE

Our exploration of how firms have traditionally managed out of their organisational bounds has three main points of investigation:

- A broad review is carried out dealing with the traditions of business management.

loops. This ensures that the desired outcomes are being achieved (Van Aken, 1978).

As we start to dissect the organisation and expose its multi-dimensionality, the process of management manifests itself in three generic forms: (i) management control, (ii) strategic planning and (iii) task control. All three are bound within one system of rationality (Konsynski, 1993; Anthony, 1988). For example, functional disciplines, such as marketing, echo the system of rationality approach (see Walker, Boyd and Larrèchè, 1995; Kotler, 1991; Anand and Stern, 1985). Marketers believe that managing the marketing effort is a process that consists of setting standards of performance, specifying and obtaining feedback data, evaluating the data and taking corrective action. Commonly applied models such as the 4 P's and the Boston Consulting Group matrix are symptomatic of this type of function.

Therefore, in general, a firm's attempt to manage the development and implementation of the organisation's overall strategy is a system of rationality with the general purpose of creating a condition that uses a set of interventions to promote preferred behaviours and outcomes. Management plays a supporting role, through classical feedback loops, helping the firm to understand change and, consequently, to communicate, command, persuade or otherwise induce particular actions both inside and outside the enterprise.

OUT OF BOUNDS

Having established the rational approach to the management of the internal functioning of the organisation we now direct our attention to such mechanisms applied among firms in strategic alliances. In other words, we're looking at managing out of the bounds of the company's organisational chart. In essence, we find a continuance of the rational forms of organisation in the interactions among business allies.

Research of the theoretical dynamics of management among collaborating firms also draws on traditional management theory and organisational economics. For example, Stump

and Heide (1996) state that marketers are becoming increasingly interested in the economics of managing external relationships by focusing on the minimisation of governance costs.

In such studies little attention is given to the complexities of business alliances. As such, external relational interactions tend to be viewed within a Porter-esque competitive strategy framework (Lerner and Merges, 1998; Lassar and Kerr, 1996; Stump and Heide, 1996). This approach tends to view inter-organisational relationships as simplistic vertical categorisations of supplier, distributor etc., ignoring the rich dynamics of business alliances. Less defined, 'soft' relationship management issues such as trust tend to be ignored or are seen as being implicit (Das and Teng, 1998).

In addition, it has been observed that information technology (IT) plays an important role in the management of inter-firm co-ordination (Cash, 1994; Konsynski, 1993; Scott-Morton, 1991; Rockart and Short, 1991) and confirms that IT-enabled relationships fundamentally change an organisation and its interactions (Scott-Morton, 1991; Konsynski and McFarlan, 1991; Malone, Yates and Benjamin, 1987; Cash and Konsynski, 1985). For example, Konsynski (1993), in his exploration of the nature of management in the extended enterprise, argues that in such interactions, co-ordination and change pivot around the dimensions of process and knowledge.

Therefore, in managing out of bounds we find the manifestation of traditional organisation theory where the pure economics of strategic alliances tends to dominate the analysis and argument. Little attention is given to ambiguous relationship management concerns such as trust. This is most probably because even though researchers recognise their existence and importance, their indeterminate nature makes for difficult analysis within the process, feedback and control thinking.

IMPLOSION OF TRADITION

However, the key question that we address is whether or not we should adopt traditional

“Conventional wisdom about the use of traditional management structures and mechanisms of control no longer applies.”

approaches to the management of strategic alliances that are constructed to develop new service variants for consumer-focused electronic commerce. A number of authors are questioning these approaches because they are problematic in such business settings.

Konsynski (1993, p.111) would appear to support our call for investigation. He states that “the traditional view of organisation – with clear boundaries, limited relationships with other organisations and a focus on internal efficiency and effectiveness – is no longer adequate. Today's organisational boundaries are blurring, partnerships with clients and competitors are commonplace, and quality and efficiency issues extend well beyond the traditional enterprise.”

In addition, Cleveland (1989) suggests that today's organisation is a complex system that cannot be managed externally. The system has an inner logic and dynamic of its own where the process of managing resides in the pattern of relations within the organisation itself. In his view the organisation has a new systemic relational wisdom, rather than one based upon hierarchy, privileged knowledge and technology. In such a system the process of planning, for example, can no longer be bestowed on the chosen few at an isolated head-office (Jenner, 1994).

Support for this view comes from Krackhardt and Hanson (1993) and Ezzamel and Willmott (1998), who found that investment in formal mechanisms of management could be wasted because they commonly fail to recognise the existence of the informal political organisation and company behind the chart. Part of the problem in the modern organisation is a

revolution against traditional management process.

This explosive mix becomes more combustible in inter-firm co-ordination, particularly where there is aggressive influence and attempts to co-ordinate resources, such as when communication must occur between firms and across international borders (Johnson et al., 1990).

Finally, we see that the traditional approach to managing out of bounds is focused on internally driven dynamics of organisation, even between partners. Co-ordination has tended to be more concerned about resources. Being 'customer-led' – a term commonly contained within most statements of vision – is forgotten. This is particularly curious given that one of the important goals of electronic commerce systems is to enhance the value to customers through IT-enabled services.

Moreover, due to the rapid, almost daily change inherent in such e-service environments, logical systems and functional reality can never truly keep pace with customer service variables and inter-organisational shifts. If firms persist in trying to determine absolute processes and procedures, these will often act as impediments to the inter-organisational relationship, preventing it from achieving its shared strategic goals. As one case participant observed, when asked about the challenges of e-commerce projects, “the competitive advantage... on the Internet is 60 seconds... [The firm and competitive advantage] can just be wiped out in an instant.”

Consider the effects, for example, of Amazon.com on local booksellers. With more than 4.7 million books, CDs, audio books,

DVDs and computer games, many of which are difficult to source in New Zealand, Amazon.com may represent a significant threat to national book retailers.

The central premise of this paper, therefore, is to articulate how firms within strategic alliances manage out of their organisations' boundaries in the development and implementation of electronic commerce strategy. To do that we draw on the conventional wisdom of traditional management.

To be sure, the rigid traditions have strengths. They deal with logical, functional reality and form the basis of many organisations today. However, in the new world of electronic commerce, environments based on existing and new constellations of value (which are in turn, part of networks of networks) are in a continual state of flux because of the rapidly evolving customer determinants of service value. Our rigid traditions of management are themselves metamorphosing into new dimensions that require a new integration – or, as we term it, a strategic duality – of both these traditional, functional visible processes and the invisible, symbolic meaning of the service brand.

MANAGING OUT OF BOUNDS

In this section we present a discussion of the qualitative evidence that describes the approach of the case study business alliance to inter-organisational management. This approach is an integration of traditional, functional process and the symbolic meaning of the service brand.

There are two bodies of evidence. The first demonstrates the visible, traditional process approach which employs the conventional wisdom of management, planning, task control mechanisms and structures. Such an approach deals with logical and functional reality. The second body of evidence examines the invisible but dominant customer-focused approach employed by the same business alliance. This way of managing focuses upon the customer-based meaning of existing service brands and the newly created business alliance service brand construct.

PROCESS MANAGEMENT

Because the interactive home shopping supermarket existed in a constantly changing environment, an essential component of managing this environment was the way in which the partners co-ordinated and shared their joint resources. This began with the network partners understanding the shared business drivers. These were constantly reinforced.

To create clarity and focus, as one executive argued:

“The focus of the project has been very much targeted towards the key business drivers that exist and are understood by... [the] parties.”

The business drivers were understood by all network partners to be quality of service, speed and profit, as well as the development of a system that was end-user friendly. Traditional project management techniques were put in place to support the business drivers and to create a workable interface among the partners:

“The first thing to accomplish was to establish what our tasks were,... to understand our project as a whole, and our requirement[s] and also to basically build a relationship with [the partner organisations].”

The systems integrator drove the project management, employing the following techniques:

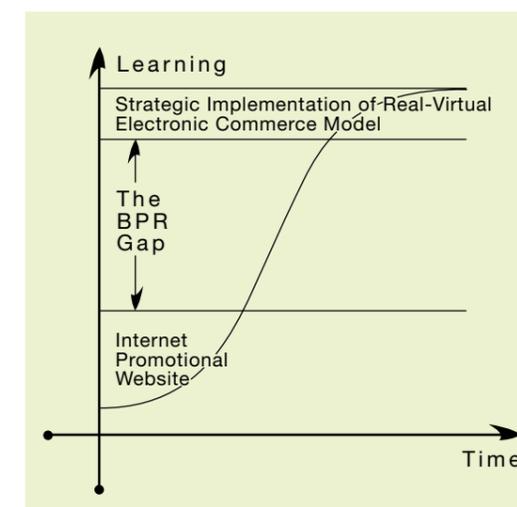
- being task oriented;
- having the ability to monitor, analyse, measure, and quantitatively model the process of implementation by linking tasks to logical and justified operational outcomes;
- creating regular opportunities for face-to-face communication through technical, project and steering committee meetings;
- creating organisational boundaries and barriers where required to enable protection, filtering, shielding and nurturing of the project;

- providing legal controls to protect intellectual property;
- allowing each partner's separate formal organisational processes to interact within the evolving business alliance;
- continually creating and re-engineering norms and commonalities; and,
- defining and scoping the project and tasks.

We found that the *systems integrator* also managed its partners through a system characterised by organisational and relational ambiguity. This enabled the systems integrator to be one step ahead of the other partners through its technical expertise and project management skills:

“We [the *systems integrator*] represent an opportunity to move into new or expanded business in new ways. As long as we continue to perform in a way that is acceptable to them [the partners], then we have life. We can set up processes that allow them to do that. They will be able to say this is what we want and we should be able to meet that in reasonable time frames... At the moment we are the driver of what they receive.”

FIGURE 2: THE ROAD TO ELECTRONIC COMMERCE: THE BPR GAP



“If [the retailer] was to decide this was not going to work, then the project would die there.”

The mandate to manage also seemed to be both perceived and actual. The actual side was related to the ability of a network partner to deliver value to the business relationships. This was commonly manifested in the retailer's ability to influence and leverage parties in the business alliance. The retailer had influence because it was willing to commit its organisation to going through the Business Process Re-engineering (BPR) gap, as well as continuing existing investment in its physical business and strengthening relationships with its retail customers and product suppliers (see Figure 2).

In the retailer's case, its mandate to manage was played out through its control of the back-end inter-organisational service integration to ensure that service quality gaps were minimised:

“[The *retailer*] probably has a fair amount of the power. If [the *retailer*] was to decide this was not going to work, then the project would die there... Position is determined with what is going to make the project successful. And I believe that a key part of that is what is happening at the back end [of the system].”

“In terms of position it is very much better that people perceive themselves to be in positions of power. And I think where it should be in this case is that [the *systems integrator*] should be in the top position and [the *retailer*] should be very much close in there; very much a merging of the two companies. I do not see a hierarchical structure here. There is no one at

“The consumer experience of shopping on-line is defined by the image of the experience in the consumer’s mind.”

the top, but they very much see [the *retailer*] and [the *systems integrator*] working together.”

Technical expertise, although creating short-term positions of power, is short-lived due to rapid technology change and the fact that e-companies are operating in a global market. Information-based products and services based around information technology are particularly vulnerable.

For example, the retailer could now conceivably access the IT expertise it formerly received from the systems integrator from global suppliers. It might have been assumed that the systems integrator would dominate the business alliance due to its technical expertise, its project management competency and its development of the front-end consumer interface. Initially, this was the case. But as the partners examined where the value lay in the network, the systems integrator – visible in its functional and logical skills – was perceived to diminish as ultimate value came to be seen residing in the symbolic entity of the corporate retail service brand. This removed the mandate to manage away from the systems integrator.

SYMBOLIC MANAGEMENT

The role of the service brand in the context of this research setting has already been established (Davis and Buchanan-Oliver, 1999; Davis, Buchanan-Oliver and Brodie, 1999). This research found that the consumer experience of shopping on-line is defined by the image of the experience in consumers’ minds which is created through their interaction with the business alliance service brand. This image represents a promise to the consumer.

In this section we build on this finding and explore the role of the service brand as a fulcrum of management in terms of this network of inter-firm relationships. It was found that being close to the customer in terms of brand and customer-based positioning provided the ability to leverage, as one executive argued:

“I always talk about it from a consumer’s point of view... I believe the power exists in the

position that brand occupies in the mind of the consumer, in that it shines bright and that there is a certain familiarity. And it’s that which will bring the comfort and confidence for people to use this system, or for them to want to be associated with that brand. The other aspect of power is within the relationship between those parties. The power gravitates to the most fundamental parties to the system.

“If there is going to be any dominance, it will be from those companies which are fundamental to this. I suppose in this case that is us [the systems integrator], because without us none of them would have it, unless it was for us. But from our point of view it is [the retailer] because it’s our anchor tenant and it would be very painful thing to have to replace that.”

The *systems integrator* also realised that the brand intimacy the *retailer* held with the consumer was going to be a factor in the overall management of the system and business alliance relationships:

“If [the *retailer*] is not able to control us sufficiently, it will do its own thing because it has to protect its brand and [its] position in the market.”

Because of the national brand prominence, each of the other partner companies all were close to the customer in one way or another,

mitigating the dominance of the retailer. This inter-dependence by all brands to deliver on brand attributes and service expectation was summarised by one retailer participant as follows:

“[The *retailer*] in particular... has the power by being close to the customer. [The *systems integrator*] basically runs the front end and how it looks if the customer is using [it], they are very close to it. If your direct debit gets stuffed up that will really upset you so [the *bank*] is really close to the customer. The delivery has to be on time and the goods in good condition and the guy who drives the van has got to be polite and helpful and all the rest of it and so he is close to the customer. So, really, all the major players are here.

“[The *Internet services provider*] if you are logging on and you can't get through because [the *Internet services provider*] system was down or overloaded – which is something we've had a bit of a problem with. I think all of the major players are close to the customer so it is not just us as being a traditional retailer who is close to the customer. It is all of the major players who are.”

The hierarchy of position and role in the relationship further determined its mandate. Although the *retailer* saw the *courier* as having significant power in the representation of its brand to the customer, this was not the *courier's* perception. The *courier*, not being an equity partner, perceived itself as merely a supplier of service who needed to accommodate the needs of its customers – the *systems integrator* and the *retailer*. This view was strongly supported by the *courier's* executive team:

“As a supplier we have to be able to accommodate our customer's needs. So whether you are talking about [the *retailer*] coming across and saying you must get chilly bins for all your vehicles, that's fine if they want to think that, but ultimately we have to decide if it's a commercially viable proposition to do that. If it's not, we will just walk away from it. Although they think they have the power to dictate to us,

if it is not worth us doing it then we have to say no... [The *systems integrator*] is trying to push me to talk directly to [the *retailer*] and assume that [the *retailer*] is the customer. It is two relationships.”

The *retailer* was also concerned about the distance it now perceived between itself and its customer. This was due to the interventionist and layering effect of the other partner brands and led to *retailer* concern that it had diminished authority to influence. However, as the case progressed we found that even if an organisation was physically close to the customer, such as the *courier* organisation, it was ultimately more powerful to be close to the customer from a brand perspective. The *courier* organisation had strong brand associations for business customers but to its new e-consumers its brand held no relevance or equity. Similarly, the *systems integrator* brand became invisible to the consumer, and the *retailer* brand became the dominant brand and source of inter-firm management direction:

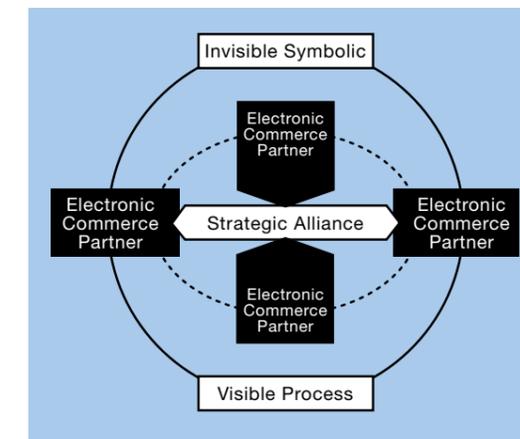
“[The *courier*] has a very overstated opinion of where it is and that is probably coming into perspective slowly as time goes on. I think [the *courier*] believes that it has much more pull in the project than what it really has. I think [the *retailer*] is quite used to this type of position of dominance or power... We are the people who interact directly with the customer and the customer is the key to everything... [These] people need to go through [the *retailer*] to get to the customer. So we have an element of leverage with that natural situation that occurs.”

MANAGERIAL IMPLICATIONS

As the evidence illustrates, we found an emerging dualism in the approach to the management out of bounds in electronic commerce business alliances (see Figure 3). In the first instance, it was found that the mandate to manage was a function of visible, logical process and that all three forms, as evidenced in the literature, were employed in this electronic commerce business alliance. The iron cage of

rational management was manifested in the establishment of shared business drivers, traditional management techniques, the leveraging of technical expertise and the ability to learn as an organisation.

FIGURE 3: MANAGING e-COMMERCE STRATEGY OUT OF BOUNDS



These practices were also evident across the boundary from internal organisational functions to the application in business alliances. The questioning of management that is being evidenced in e-commerce business alliances was manifested in the use of strategic ambiguity and in varying measures of organisational commitment.

Our research indicated that, with the emergence of these new e-service constellations, there has been a rethinking of the fundamental question of how these business alliances should be managed. However, with such a purely functional approach a problem was seen to emerge because such functional mechanisms, based upon internal organisational logic, were not consumer orientated.

Conventional wisdom would suggest that in IT-enabled environments the mandate to manage would be vested in Weberian inspired, traditionally constructed, functional mechanisms, and structures. We found that such functional and logical processes were being practised.

Indeed, at the beginning of the project the power to manage clearly resided with the

provider of technical expertise, the systems integrator, who also drove the project management process. However, for the development of a customer-led service, the formerly functionally oriented business alliance relinquished overall management to the symbolic and customer oriented entity of the service brand.

To create an environment of trust for consumers, an important systems integrator strategy was the selection of well-known brands that had established values associated with trust, security and comfort. This provided high levels of power to the systems integrator as the prime mover in the enterprise.

However, once this process of facilitation was in train, other claims to management became apparent. The retailer, given its proximity to the customer in terms of its traditional branding and customer relationships, assumed a dominant position in the business alliance. This was a factor that all organisational partners came to recognise.

In charting the establishment of this electronic network, we found that a shift in the loci of management had taken place. Initially, it was found that the systems integrator managed the business alliance due to its initiating role, its technical expertise, its project management

“At the beginning of the project the power to manage clearly resided with the provider of technical expertise.”

competency and its development of the front-end consumer interface. This was consonant with traditional management practice.

However, the functional and logical skills of the systems integrator were eventually subsumed by the symbolic power of the service brand. We found that, in this new environment of electronic commerce, it was the service quality and brand trust associations that customers traditionally held with four of the partner brands that assisted in consumer confidence with the newly created service brand and determined ultimate mandate.

The creation of a strategy of brand interlock was seen as a process of inter-firm co-ordination. And the dominant governor of the business alliance brand became the *retailer*, as it is the anchor tenant in the mall and holds prime position in the business alliance. This was acknowledged by all partners and was perceived as being due to the *retailer's* customer intimacy, its highly articulated brand trust relationship with the consumer and its overall input into the brand visioning of the enterprise.

Because of these findings, we propose that for the creation of future interactive home-shopping networks, marketers should adopt a dual approach to managing out of bounds. Such an approach requires a new integration or, as we term it, a strategic duality in the management of both traditional, functional processes and the symbolic power of the service brand.



Robert Davis

LECTURER IN MARKETING

University of Auckland Business School

Margo Buchanan-Oliver

SENIOR LECTURER IN
MARKETING

University of Auckland Business School

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CORRESPONDING AUTHOR:

Robert Davis

Electronic Commerce Development Director
Phoenix Research
Phone 64-9-623 9999
Email: r.davis@phoenix.ac.nz