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Governance of Global Interorganizational Tourism Networks

Changing forms of co-ordination between the travel agency and aviation sector



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*Governance of Global Interorganizational Tourism Networks:
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*Coördinatie van mondiale interorganisatiele toerisme netwerken:
Veranderende vormen van coördinatie tussen reisagenten en de luchtvaart sector*

Proefschrift

**Ter verkrijging van de graad van doctor aan de
Erasmus Universiteit Rotterdam
op gezag van de
Rector Magnificus**

Prof.dr. S.W.J. Lamberts

**en volgens besluit van het College voor Promoties.
De openbare verdediging zal plaatsvinden op**

**vrijdag 19 maart 2004 om 13.30 uur
door**

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geboren te Velsen**

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Rotterdam School of Management / Rotterdam School of Economics

Erasmus University Rotterdam

Internet: <http://www.erim.eur.nl>

ERIM Electronic Series Portal: <http://hdl.handle.net/1765/1>

ERIM Ph.D. Series Research in Management 36

ISBN 90-5892-060-7

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Note on cover-picture

Networks are, essentially, nodes connected by lines. The image of a bedewed cobweb brings this marvelously to the fore. You can easily imagine, with your eyes almost closed, how the web represents route structures of airlines, a city your flying over or a screen at an air traffic control center. At the same time the web is not in perfect condition, there are gaps and this emphasizes the fragility of the structure. The gaps refer to changes the global distribution network for international airline tickets is undergoing as a consequence of policies of deregulation and the opportunities information technologies offer. It remains to be seen if the structure as a whole will survive. You might be wondering just the same about this cobweb.

Acknowledgements

Writing a thesis is during great stretches of time a solitary business, but these times are fortunately interspersed with periods of intense rounds of interviewing, group facilitation, presentations and interactions of a more general social nature. I do feel the sincere impulse to thank many people I have met and without whose time and support this project would have never been concluded. I cannot begin to thank all those people in the aviation and travel agency sector around the world enough for the time they have given on any of these occasions. I feel hugely indebted to Mike Hatton for all the time we spent discussing the subject of the relationship between travel agencies and airlines. He is one of the few persons I met that actually thinks global and he has been a driving force in many ways. Thanks mate, for never giving up and keeping in touch. On the aviation side I do want to thank Chris Gilbey for his staunch support and insightful comments in the first two years of the project. The members of the millennium task force produced a framework that would have ensured that customers can continue to switch easily seats between airlines if a seat is available. A service that is increasingly difficult to maintain because of deregulation and alliance formation in the aviation sector. Their agenda to maintain a global distribution system that is fair to consumers, airlines and travel agencies and the solutions they presented to achieve that goal have been the format for a five year round of negotiations, a big achievement in itself. I want to thank them most of all for trying to be as earnestly cooperative as they felt they could be and for their dedication to achieve a result based on mutual interests.

Furthermore, I would like to thank Berend Wierenga as head of the department for showing me how to achieve focus and excellence in a university department. All my colleagues at the department of Marketing Management for their kind support and the friendly atmosphere, they all create together. Frank Go for giving me the opportunity to take on the challenge of a PhD thesis and to shape and execute the intervention aimed to come up with solutions to the inertia present in the relational and organizational networks that surrounded the IATA controlled global distribution system. Bart Nooteboom for accepting to be a promotor as well, at a rather late stage in the project and being critical until the last minute, something I appreciated enormously. My new professor, Henk Sol, for giving me the time that I needed and my colleagues at the department of systems engineering for their understanding, especially during the last few weeks. Corné Versteegt for spending the final hours of writing this dissertation with me and Bob Briggs and Gert-Jan de Vreede for their e-mail harassment stories concerning PhD's that keep missing deadlines. My friends for being there at those scarce moments I realized how important you all really are. My parents, still the cornerstone of my existence, without whom I never would have been able to simultaneously write a thesis and witness the birth of two beautiful sons. Thanks for all the time you have given me and my family. Lineke, thank you for being patient and for hauling the kids in the car on yet another trip or rushing home from your own job during the times that I really needed to get some work done and, finally, for sharing the same thirst for knowledge.

TABLE OF CONTENTS

| | | |
|----------|---|-----------|
| 1 | INTRODUCTION AND METHODOLOGY..... | 11 |
| 1.1 | Background to the Research | 11 |
| 1.2 | Research questions | 12 |
| 1.2.1 | Relevance | 15 |
| 1.3 | Methodology and the research process..... | 17 |
| 1.3.1 | Research approach..... | 17 |
| 1.4 | Summary of thesis: an overview..... | 23 |
| | | |
| 2 | NETWORKS, CO-ORDINATION, CHANGE AND INNOVATION..... | 27 |
| 2.1 | Introduction | 27 |
| 2.2 | Networks | 28 |
| 2.3 | Resource based view and institutional views on the firm: introduction | 31 |
| 2.3.1 | Agency and structure | 31 |
| 2.3.2 | Agency and structure in management science | 32 |
| 2.4 | Multi level theory in management sciences..... | 34 |
| 2.4.1 | Scripts, competences and resources..... | 36 |
| 2.5 | Forms of co-ordination | 38 |
| 2.5.1 | Changing scripts and nodes: degrees of innovation and change..... | 44 |
| 2.5.2 | The cycle of discovery..... | 46 |
| 2.6 | Conclusions | 50 |
| | | |
| 3 | TOURISM AS A RADICAL INNOVATOR: THE CASE OF COOK..... | 52 |
| 3.1 | Introduction | 52 |
| 3.2 | Tourism and travel..... | 53 |
| 3.3 | The Industrial Revolution..... | 55 |
| 3.3.1 | Change and innovations..... | 57 |
| 3.3.2 | Tourism and Entrepreneurship | 57 |
| 3.4 | The production of travel: tourism and travel scripts..... | 58 |
| 3.4.1 | Pre-industrial travel | 58 |
| 3.4.2 | The ‘building-blocks’ of industrially organized travel | 59 |
| 3.4.3 | A history of Thomas Cook: a journey through innovations..... | 60 |
| 3.4.4 | Changing strategies: balancing exploration and exploitation | 67 |
| 3.4.5 | The cycle of discovery..... | 69 |
| 3.5 | Discussion and Conclusions | 70 |

| | | |
|----------|--|------------|
| 4 | CO-ORDINATION OF GLOBAL TRAVEL DISTRIBUTION: | |
| | A TRAVEL AGENCY AND AIRLINE CASE | 74 |
| 4.1 | Introduction | 74 |
| 4.2 | The economic organization of tourism: exchange relationships..... | 75 |
| 4.2.1 | The economic organization of tourism: exchange networks..... | 76 |
| 4.3 | Global networks: airline ticket distribution and travel agencies..... | 82 |
| 4.3.1 | Airline industry and distribution: the institutional environment..... | 82 |
| 4.3.2 | The Agency Program: The institutional arrangement..... | 84 |
| 4.3.3 | Changes to the distribution system: The IDS becomes IDFS..... | 87 |
| 4.4 | Trust generation and the role of go-betweens..... | 92 |
| 4.5 | Discussion and Conclusions | 99 |
| 4.5.1 | Forms of co-ordination | 100 |
| 5 | FACILITATING GLOBAL CHANGE: THE INTERPERSONAL LEVEL | 107 |
| 5.1 | Introduction | 107 |
| 5.2 | The evolution of tension..... | 110 |
| 5.3 | Intervention: Process description..... | 115 |
| 5.3.1 | Results of the Intervention..... | 117 |
| 5.3.2 | Negotiations continued: process and results | 123 |
| 5.4 | Three ways out of the impasse: A glimpse of the future?..... | 130 |
| 5.5 | Conclusions | 138 |
| 6 | LOCAL CHANGE: THE DUTCH TRAVEL SECTOR..... | 142 |
| 6.1 | Introduction | 142 |
| 6.2 | The Dutch Travel Sector..... | 142 |
| 6.3 | Clusters and innovation | 147 |
| 6.4 | Forms of co-ordination in a national context: The ‘Zwaan covenant’ | 151 |
| 6.5 | Discussion and conclusions | 155 |
| 7 | CONCLUSIONS..... | 159 |

| | |
|---|----------------|
| APPENDIXES | 167 |
| Appendix I: Sample Interview Questions..... | 167 |
| Appendix II: Example of agency member input into GCC for the redrafting of the Agency program and PSAA | 168 |
| Appendix III: Example of Airline member input into GCC for the redrafting of the Agencyprogram and PSAA | 175 |
| Appendix IV: Jointly agreed principles that should guide the redrafting of the PSAA.... | 176 |
| Appendix V: Event history negotiations Dutch Travel Sector after rescission of resolution O16a | 177 |
| Appendix VI: Roles and business strategies for travel agencies based on Sarkar et al. 1996..... | 181 |
| LIST OF FIGURES AND TABLES | 185 |
| REFERENCES | 186 |
| NEDERLANDSE SAMENVATTING | 201 |
| CURRICULUM VITAE | 206 |
| ERIM PH.D. SERIES: RESEARCH IN MANAGEMENT | 208 |

1 INTRODUCTION AND METHODOLOGY

1.1 Background to the Research

The global travel sector is changing. Innovations in the fields of information and communication technology, transport and organizational innovations have caused the world to 'shrink' considerably during a period of about 150 years (Dicken 1992; Giddens 1984). Up to the point that communication has become instantaneous from many places around the world and intercontinental travel is measured in hours. Consequently new forms of organizing production and consumption are being developed and tested. Time and space have been compressed and the world has become a 'global village'. During the industrial revolution tourism was one of the principal innovating sectors; that gave Victorian England such supremacy. Does the sector fulfil a similar role in the information revolution? The prominence given to mobility in our modern societies and the fact that tourism induces a great amount of mobility indicate that changes in tourism might show the times to come for other globally operating sectors.

Is it really one of the leading sectors in the sense that it imbeds technologies in social practices? What we can say now is that the tourism and travel industry are on the brink of a transformative path.¹ The sector seems to become more ordinary in the sense that leisure activities have become part of everyday life. It is increasingly difficult to separate them from other spheres of life or economic activities (Urry 2001).

These and other developments cause a need for process and product innovations and the restructuring of long-standing institutional arrangements that guide or direct economic action. In the more prosaic words of Poon (1993:3): "The industry is in metamorphosis - it is undergoing rapid and radical change. New technology, more experienced consumers, global economic restructuring and environmental limits to growth are only some of the challenges facing the industry." Go (1993) also supports this view in his book 'Organizational Structure and Strategy': "At present, a set of global industries,... is establishing links among travel related business, ... , and changing the structure of the travel industry in the process...". He argues that the structural shift in the creation of competitive advantages is towards conglomerates and complexes in transnational banking and communication technology. These are also globally operating network based industries.

On the face of it the sector does seem to fulfil its innovative role: ticket sales through the Internet continue to soar in the United States and other nations with a relatively high percentage of Internet users, bypassing traditional travel agencies. Travel is one of the few

1 The terms industry and sector are used interchangeably.

products that has shown consistent and impressive growth in the field of E-commerce². One could say that travel paves the way and provides a learning platform for other sectors using or developing the B-to-C e-commercial distribution channels. We assert that studying the travel sector and the way it is reorganising its service-delivery processes at the global level could deliver valuable insights for other (globally operating) service sectors. The central question was formulated accordingly and it runs as follows:

How does the travel sector, embedded in the tourism sector, change as a consequence of changes taking place within the sector and the environment of the sector and how do these changes affect the forms of co-ordination that enable exchange between the network based business systems of travel agencies and airlines at the global, interorganizational and firm level?

A governance or co-ordination view is taken and an answer is sought as to what forms of co-ordination at the global, inter-organizational and interpersonal level are most suitable to stimulate interorganizational co-operation in a changing institutional environment. New answers have to be formulated at the business as well as the institutional level because new technologies have changed the ways in which wealth is created. The manipulation of information: selection, ordering, access, controlling flows and repositories (data-bases and knowledge) have become more prominent in modern economies but we have to learn what are the best applications in terms of wealth-creation and how we can coordinate new organizational configurations that arise as a consequence of trying to find the right applications. Thus this thesis is concerned with innovations **and** the co-ordination of economic activities in and through interdependent networks of firms.

In this thesis we assess the value of a theory that we have labelled a generalized transaction cost theory. We will introduce this theory in chapter 2. Different elements of the theory will be used and it will be determined how well the theory enables an understanding and provides an explanation of the problems discussed in this thesis.

The rest of the chapter is structured in the following way: firstly, we detail the research questions followed by a brief overview of the relevance of this thesis. We continue with the research approach (methodology) and elaborate on the process of investigation. We end with a summary of the thesis.

1.2 Research questions

There are two major lines of enquiry. One is how exchange should be governed and the other is what the effects are of different forms of co-ordination on the innovative potential of the sector:

- How does the travel sector change as a consequence of the changes taking place within the sector and the environment of the sector and, how do these changes affect

² This observation is based on a review of electronic trade-journals see also section 1.3.

the relationships between sub-sectors and individual firms? The second question is formulated as follows

- What forms of co-ordination should be stimulated at what level to allow the travel agency sector and air transport sector to capitalize on the opportunities, in terms of innovations, that are generated by the altered and altering circumstances within the sector and the environment of both (interdependent) sectors.

The broad research questions are broken down per chapter into more specific enquiries. Chapter 2 introduces the reader to an ongoing debate in the social sciences about the question how action and structure relate to each other and how the concept of the duality of structures is needed to connect them. This introduction serves to make it plausible that seemingly opposed concepts as exploitation and exploration and competencies and resources on the one hand and institutional views on the other hand function as duality in the Management Sciences. We then present a theoretical framework that will enable us to view the tourism industry and particularly the travel sector as a multilevel system of scripts. Scripts consist of sequences of competently wielded resources and it is an analytical construct that, basically, enables us to view and analyse sequences of actions. It is also a theoretical construct and then it refers to the relative permanency of organizations and the way(-s) in which organization differ and produce value (Nooteboom 2000).

Chapter 3 is a 'historical' chapter in which we elucidate the interaction between different fields in society in order to explain the coming about of interrelated business systems that provide tourists with the experience they seek, and to explain the innovative propensity of the tourism sector in its early days. Chapter 3 will provide an answer to the following question:

- I. How are social, economic and technological factors implicated in the entrepreneurial process that has led to a dominant paradigm or meta-script for the service delivery processes facilitating the (co-) production of tourism experiences?

The entrepreneurial process refers to the history of Thomas Cook and the evolution of his businesses. By means of this process description we shed light on inertia and change or exploitation and exploration strategies are related and influenced by relationships and dependencies and how they mutually presuppose each other. We also introduce and apply the 'cycle of discovery' a model of industry evolution in this and other chapters. The model describes what kind of innovation strategies and organizational forms are most appropriate given the phase an industry is in.

The distribution network under study in the chapters 4 and 5 (and to a lesser extent 6) is an example of an inter-organizational network that arose because of the need to be able to sell tickets/seats on a global basis. The relationship between the supplier (airline) and buyer (or actually re-seller/travel agents) is a principal-agent relationship. Agency theory arose in the field economics to explain the emergence of hierarchies and organizations. If a group becomes too big, actors feel that their actions must be co-ordinated and monitored to mitigate the opportunism that every actor is assumed to possess and enact. If there would be no effort towards co-ordination an organization will not profit because the actions

performed by actors are not focussed. If an actor/agent submits to co-ordination and monitoring it means that they defer part of their autonomy. Agents relinquish part of their power to the principal and, in return, they receive other benefits, such as a fixed wage or remuneration for actions performed on behalf of the principal. At the inception of the relationship between airlines and travel agents a need for control was felt because the opportunities for opportunism were high. Concerning the way ticket distribution is organised, agencies and airlines have effectively locked themselves into a simulated organizational hierarchy (Stinchcombe 1985). In this case, we are talking about two linked networks that possess hierarchical properties, brought about by stipulations in contracts and, supported by institutional arrangements between states at the supranational level. Final decision-making power is firmly in the hand of the airline association IATA. The 'sales-force' was made a 'captive' of the airline industry. The question that we answer is how a network-based business system, that became highly inert, can be transformed or at least adapted to changes in the environment and the changing competitive strategies of the principal. To that effect we provide an answer to the following questions:

II. What mixture of forms of co-ordination would be most effective in governing a distribution system that serves two interdependent networks of travel agencies (agents) and airlines (principals).

III. How is the exchange relationship embedded, and how should it be embedded, to reduce the propensity to be opportunistic and best serve the stimulation of trust?

Trust, as a form of co-ordination, lies at the root of any sustainable form of co-operation. It is therefore important to take into account and be more precise about what form of trust needs to be generated at what level in reality.

The focus of chapter 4 is on the enabling and constraining characteristics of networked business systems and serves as a prelude to the question we answer in chapter 5:

IV. How do the different forms of co-ordination enable or constrain the possibility to develop process-based trust and stimulation of ownership of a problem in a process of negotiation between interest representatives?

Process-based trust is trust that develops between individual at the group or dyadic level. It is the cornerstone that needs to be laid for a group that wants to restore some trust in relationships between organizations and institutions.

Chapter 6 focuses on a national economy that seems to be in the fore-front of rejuvenating the relationship and forms of co-ordination between earlier mentioned interdependent sectors and is part of an economic region that is in the process of superimposing regional institutional arrangements over national ones. A trend that could become of increasing importance, the coming decades, if only as a response to the economic, political and cultural dominance of the EU and US. It is therefore that we study the national level and ask ourselves if the conclusions about the forms of coordination we drew at the global level also hold at a lower level. We especially want to find out if the global institutional

arrangements provide national actors enough room to come up with novel arrangements or mixes of co-ordination. If this is the case it would confirm our conclusions in chapter 4 that the distribution system should be co-ordinated differently but that the relationship can continue to be coordinated as it is. With the provision that the current forms of co-ordination especially the contracts need to be up-dated to take the effects of deregulation and the evolution of applications of information technology into account. Thus, the framework of forms of co-ordination will be used to describe the relational innovation (covenant) that came about in a specific national context (the Netherlands) as a response to the changes at the global and regional level. Combined with a further evidence on the innovative potential of the sector, we determine again, but this time at the national level:

V. What mixture of forms of co-ordination (governance mechanism or mode of governance) would be most effective, in terms of innovation, in governing a distribution system that serves two interdependent networks of travel agencies (agents) and airlines (principals).

VI. How is the exchange relationship embedded, and how should it be embedded, to reduce the propensity to be opportunistic and best serve the stimulation of trust?

In chapter 7 we return to the two central questions and provide an overview of the answers provided at different empirical levels in different chapters. Additionally the explanatory power of elements of the generalized transaction cost theory will be assessed.

1.2.1 Relevance

Organisational and Sectoral Relevance

Only a: “few studies have investigated the actual development, emergence or constitution of interorganizational trust” (Sydow 1998:8). Even fewer studies (I am not aware of any) have recorded processes of the breakdown of trust, which is one of the forms of co-ordination, or the institutionalisation of mistrust and opportunism as an unacknowledged or unintended consequence of the forms of co-ordination chosen and the ‘rippling-effects’ such a process has on the possibilities for change and innovations at different levels. The ultimate result will be to end such a relationship. Nevertheless, sometimes organisations need to keep on working together because they fulfil complementary functions. It is then very relevant to the stakeholders involved to find acceptable solutions for all. It therefore relevant to study trust as a form of co-ordination, because it needs to be generated at the interpersonal and group level that addresses forms of co-ordination for linked networks.

In chapter 5 we offer rather lengthy process accounts of attempts at collaboration that were in fact drawn-out negotiations. This leads to overlap and contributes to rather convoluted and repetitive sections. We feel that such a description is nevertheless relevant because it really shows the continuous iteration and backsliding that occurred, as a consequence of more structural factors in the environment. The more organisations develop blurred boundaries the more they need to align the perceptions of multiple internal and external constituencies toward common goals. The cyclical or iterative nature of processes of

communication are stimulated by the fact that, in network based businesses autonomous actors represent different sets of interests, competencies and resources and, networks of such businesses tend to consist of even more diverse sets of practices that need to be coordinated through time in space. Additionally, it is a known fact to most scholars that study businesses that the network form is gaining more prominence as an organizational form both in practice and as an object of study. Changes in the institutional environment change organizational forms and this in its turn has implications for the ways in which they are co-ordinated. It could well be that the travel and tourism sector are prone to be influenced rapidly by such developments.

If so, then this thesis has a relevance that supersedes the travel sector. The ways in which travel services are produced, as well as the ways in which individual businesses and network based business systems are embedded in institutional arrangements and the way in which relationships are structured (network-type), might reflect 'things to come for other sectors' that are increasingly becoming more global in their operations and, simultaneously, more dependent on information technology.

Theoretical relevance

In order to understand network based businesses better we propose that integration at the theoretical level between institutional and resource based views is important. The reasons are that:

- Competencies and resources are distinct constructs at the same level of analysis but when more than one level is researched resources can be building blocks for higher level competencies and vice-versa.
- The traditions have developed from seemingly incommensurable epistemological paradigms. If integration of these streams of research in the management sciences is possible, then this is an indication that integration of constructivist and objective views on knowledge creation (science) is possible, without the necessity for attacking either epistemological foundation.
- Integration holds the promise of being able to explain both process and structure and the interaction of actors between different levels of reality.

In other words, if both approaches can be successfully combined the expectation is that a dynamic multi-level theory that aims to explain/understand how and why institutional arrangements, such as the forms of co-ordination discussed, and organizational configurations like network-based businesses, could be formulated and applied. We do not claim to develop such a theory here. We apply different elements of a theory developed by Nooteboom (2000). Application serves the purpose to ascertain how useful parts of the theory are in practice. We try to support the theory by arguing that integration of resource based and competence-based approaches might shed more light on the question how organizations could manage the tension between the need for stability in order to exploit and the need for flexibility to explore, innovate and create value.

Mobility is central to modernity and the relatively frictionless functioning of a host of global business processes. The travel segment is part of the tourism sector and mainly supports corporeal (passengers) and material (cargo) transport practices. In modern society it is deemed important to be able to go anywhere we want. To accommodate this desire and to connect different distributed practices we need forms of co-ordination that govern parts of the tourism industry that benefit the travelling public, governments and businesses.

1.3 Methodology and the research process

An iterative cycle of planning, action, observation and reflection is used as a general research strategy (Argyris and Schön 1990). Given the complexity of the case, in which a multitude of stakeholders around the world wanted to see their interests represented and the fact that we had to do it as part of a commercial assignment we deemed an action research strategy an appropriate research approach for the central problem under investigation. (Yin 1984). Based on our findings we collected new material from other sources to investigate the problems we encountered in our central case study.

1.3.1 Research approach

Kurt Lewin (1958), to whom the term action research is often attributed, wrote: “If you want to know how things really are, just try to change them”. Participatory action research utilizes research and the knowledge it delivers to enhance the participants’ understanding of their communities. If carried out systematically and consistently, such research can contribute to a greater knowledge of conflict-solving methods that can be applied to a variety of concrete situations (Dickens and Watkins 1999). We employed such an approach because we wanted to maintain the ‘natural’ interwovenness of important factors because:

- of the complexity of the problem(-s) under study
- the phenomenon was hard to isolate from its environment and
- the number of units of research was small when compared to the number of factors to be researched and
- the results of the research aimed to inform practice.

Social practices: “...are not separated from the contexts they recursively produce and reproduce. Structures are re-created via the very means whereby they express themselves as actors. In and through their activities agents reproduce the conditions that make these activities possible”(Giddens in Sydow 1998:270). Interactions are then not discrete exchanges isolated from their environment but flows of path-dependent interactions. Institutions arise because people interact and agree to do certain things in certain ways. Once institutions are there they block certain paths of action and enable other ones. Systems or parts of systems can then be said to follow their own evolutionary path, but this path is dependent on other paths related to its own. In other words, events and actions are

bounded for a number of reasons. It is therefore that a qualitative researcher endeavours to construct a thick and detailed description so that others, who encounter this description, can determine its applicability to their setting and circumstances. The way in which this happens is by consulting as many different sources of information as possible, this is usually called triangulation. (See table 1) If a respondent mentions that an airline will go bankrupt and, the researcher hears other people mention the carrier as an example of bad management in an informal interview and he reads in a Trade-Journal that this airline is planning a draconian re-organization, then the conclusion is justified that this carrier is heading for bankruptcy.

The steps carried out in this action research are: Plan, Act, Observe and Reflect (Lewin 1958; Dickens and Watkins 1999; De Vreede and Dickson 2000). The steps can be applied at different levels. A literature study as part of the preparation of the intervention is an example of an act phase within the larger cycle of steps. It is allowed to peddle back and forth between the phases and in practice they tend to overlap. The Plan phase entails gathering information pertinent to the problem defined and based on that information the preparation of an intervention. See table 1.2 for a breakdown of the different steps. In a generic sense the Act-phase constitutes the actual intervention. The intervention can usually be broken down into different meetings. Each meeting follows the same four steps, within the larger cycle. Observe concerns the data collected to evaluate (phases of) the intervention. Reflection serves to generate and integrate information from the observe phase and convert it into knowledge that can serve as input for a new (round of) meeting(-s) or , as in this case, the compilation of a report to communicate the findings and results of the intervention (De Vreede and Dickson 2000).

Table 1.1: Research Tasks, activities and research phases in main case study

| Time | Tasks | Activities | Phases |
|--------------------------|--|---|---|
| May 1999 | Content analysis IATA documents and additional literature | Preparation background report. Constructing an (group-) interview method | Plan |
| June | Literature review and Content Analysis. Causal Loop Diagramming. Nominal Group Technique (NGT) | Preparation background report. Expert and team member interviews. Facilitation of group interviews | Plan |
| July | Literature review and Content Analysis. Causal Loop Diagramming. Nominal Group Technique (NGT) | Preparation background report. Expert and team member interviews. Facilitation of group interviews. Sending background report in the form of workbook I | Act |
| August | Content analysis workbooks | Analysis of returned workbooks. Preparation of GSS-session with facilitation team | Observe and Reflect and Plan' |
| September | GroupSystems TM -supported meetings | Process-Facilitation. Observation. Formulation of recommendations | Act' and Observe' |
| October | Analysis of GSS-material | Writing workbook II (Proto-report) Substantiating the recommendations and conclusions. | Reflect' |
| November | Evaluating final report and recommendations | Writing workbook II and Sending workbook II. Preparation Meeting | Reflect' and Plan'' |
| December | Policy Formation (no GSS used) | Facilitation of Meeting. Observation. Refinement of Recommendations | Act'' and Observe'' |
| January 2000 | | Re-writing report. Preparation Meeting | Reflect'' and Plan''' |
| February | Policy Formation (no GSS used) | Writing Appendices to report. Observation. Facilitation of Meeting Finalization of Recommendations | Act''' and Observe''' |
| March | | Re-writing report | Reflect''' |
| April | | Sending out and Reviewing final report by Team Members via e-mail | Plan'''' and Act'''' |
| May | | Editing and printing report. Preparing presentation results | Observe'''' and Reflect'''' |
| June | | Submission of report and presentation results to PAConf | Act'''' |
| July 2000 to August 2002 | Keeping track of progress in implementation, negotiation and collaboration efforts at global and national level. | Maintaining contacts with respondents (e-mail and interviews). Presentations to academic and practitioner for a | Triangulation of sources to corroborate findings or understand developments |

(source: Method memo 23-5-1999)

In order to capture contextualised views on the problem at hand use was made, during the research project, of different methods of research and data collection (Hutjes and van Buuren 1992; Wester 1987; Yin 1984). The following data collection methods and sources were used:

- Participatory observation
- Literature Study and collecting documentation
- News-groups and virtual trade journals (examples: NUA.com, E-TID.com, Travel Weekly.com, Technography.com)
- Interviews (in-depth, group and expert, semi-structured and informal).
- E-mail correspondence with experts and key-informants
- Knowledge elicitation and building via joint modelling exercises

This last activity needs some further elaboration, but before we elaborate on the subject of Group Model Building we provide an overview in the form of a table of the concepts that were uncovered in the exploratory phase of the research. Such concepts aim to make the researcher sensitive to what bodies of theory might be appropriate to peruse and link substantive concepts to formal concepts. Hence the label of sensitising concepts in one of the columns of the table (Wester 1987). The first column denotes the levels that the concepts referred to. This column served to make the researcher aware of the fact that certain phenomena occurred at different levels of aggregation. The final column shows what techniques were used. Many of the concepts that figure prominently throughout this thesis were already uncovered during this stage.

Table 1.2: Level of analysis, sensitising concepts and research techniques

| Levels | Sensitising concepts | Techniques |
|---|--|--|
| Global, society, business system, firm | Industrial revolution, IT-development, mobility, modernity dominant design, entrepreneurship, change, negotiation and collaboration, political and cultural embeddedness, innovation | Literature review, causal loop diagramming |
| Global, society, Firm, networks | Interaction between different societal fields that brought about a mass tourism sector. Globalisation, Internationalisation, concentration, privatisation change, negotiation, collaboration and competition, tension, dominant design, political and cultural embeddedness, innovation | Literature review |
| Firm, business system, networks, associations | Interaction, links and structure of business sectors such as: transport, travel agencies, information and communications, entertainment change, negotiation and collaboration, tension, power, dependence, political and cultural embeddedness , relational rents, innovation | Literature review, documents, causal loop diagramming, Nominal Group technique, formal and informal interviews with topic lists. |
| Distribution system, agency and air transport sectors, associations | Interfirm connectedness abundance or lack thereof learning, change and transformation, negotiation and collaboration, tension relationships and networks, political and cultural embeddedness, relational rents, innovation | Literature review, documents, causal loop diagrams, Nominal Group technique, formal and informal interviews with topic lists. |

(source: reflection memo1-2-2000(adapted))

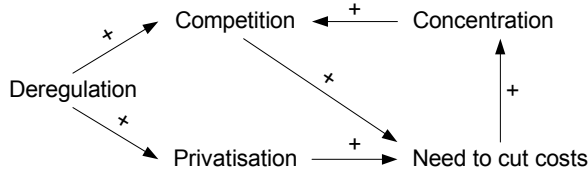
To return to the subject of Group Model Building, an interventionist is typically confronted with a situation in which the participants of a group all possess their own (limited) model of reality (Vennix 1998; Schutz 1962; Weick 1985). The exchange of and communication about these models should lead to learning that enables the group members to rise above the individual level where people tend to think in simple causal chains rather than networks of related factors. Once ‘elevated’ to such a position it is assumed that the intervention results in a true (as opposed to an espoused) consensus (Schein 1985). The emphasis on participation makes such approaches particularly compatible with action research approaches. In addition to modelling, the approach requires facilitation to ensure that all participants in the modelling process have a chance to voice their opinion. The assumption is that individual problem views need to be elicited and integrated to arrive at a more complete problem description (e.g. Andersen and Richardson 1997; Vennix 1998; Lane 1992; Wolstenholme 1992). The building of a system dynamics model of the problem is used to elicit, share and align mental models in teams. The mental models of individual actors are deemed sufficiently aligned when all agree with the constructed SD-model.

Figure 1.1: Example of a jointly developed qualitative SD-model

Strategic level

The two main drivers of change in the environment, from which all else follows, are deregulation and IT:

Politico-economic causes in the form of deregulation and privatisation initially led to an increase in competition between airlines. This was in itself no cause for tension but the increase in competition has had as a direct effect that the airlines felt the need to cut and control costs. This in turn fuelled concentration, increasing competition and thus again increasing the need to cut costs. Privatisation increased the already perceived need to cut costs. Both causes are intertwined in time and it is hard to say which was first. It depends on the particular market and political environment at the national level. The same argument goes for deregulation and anti-trust regulation. Suffice it to say that deregulation is the broader term encompassing more policy-measures. Cost-reduction was done in several ways and was enabled by the position airlines have within the distribution system, as we will see later on. Associated terms: liberalization and globalisation.



(source: workbook I)

It is further assumed that consensus about the model leads to the implementation of measures that aim to bring about desired consequences (Niederman et al. 1996; Dickson et al. 1996). However, the approach had one big drawback that came to the fore during, but especially at the end of the actual intervention. The drawback essentially boils down to the fact that most participative intervention and modelling techniques assume that actors involved in the process actually do want to cooperate once they see that their goals are congruent with those of other actors (Appelman et al. 2002).

People can agree to the model they jointly constructed and, at the same time, disagree about the solutions the model implies. What is more, people can say that they support the proposed implementation measures but act very differently. All in all, we found that implementation: "...appears to be more dependent on political activity within the [network of] organization[-s]; the change in power that may be brought about by the proposed change; and the risk, to both individuals and the organization, perceived by the stakeholders" (McGrath and Campbell 2001). The fact that we started out with a trust based and participative approach was a mistake. It can be said that it was naïve to think that the members in the group were willing to cooperate. On the other hand the members emphasised repeatedly that they wanted to get away from feelings of mistrust and wanted to come up with constructive solutions to the problems at hand and intervention theories supported by a GroupSupportSystem, a network of computers that allows for anonymous

parallel input, tend to assume that people are cooperative and trusting (Appelman et al. 2002).

Nevertheless, mistakes made led to insights that productively informed the evaluation and selection of theoretical (formal) concepts as is appropriate in a predominantly qualitative action-research approach. The failure of the intervention made it clear that we were facing not only a behavioural problem, but also a problem of co-ordination; the ways in which the different relationships were governed were not synchronised with developments within organizations and the environments that guide their actions.

1.4 Summary of thesis: an overview

A brief overview is given to support the reader in framing the subject matter of this dissertation. The book contains seven chapters. The first chapter briefly sketches the background to the research, introduces and frames the research questions and concerns itself with methodological issues.

The second chapter introduces theoretical concepts and elaborates the notion that firms increasingly co-operate in and through networks while they also need to compete, endowed with different competencies and resources, with those very same firms in the same markets. This does not suggest that the firm as an object of research will become obsolete, but it is an acknowledgement that firms are embedded in, related to and co-constitutive of a diverse set of institutions that regulate social and cognitive exchange-processes. Forms of co-ordination that pertain to network based businesses stretch over organizations. Such forms of co-ordination connect and control fractured social practices and thus install some coherence and focus in such systems but as a result corporate boundaries become more blurred and permeable. We therefore need theories that support our understanding of connections between different organizational levels. One such an approach is the generalized transaction costs approach formulated by Nooteboom (2000) introduced in the second part of chapter 2.³ We label this approach Transaction Cost Theory (TCT) to emphasise the fact that the concept of transaction costs, developed in economic institutional theories, has a wider applicability than the field of economics. This more general theory integrates elements of transaction costs economics with social exchange theories and insights from the field of cybernetics and philosophy. Such a theory makes it possible to integrate the different chapters and to answer the questions posed in this dissertation. The balance between exploitation and exploration or inertia and change and the distinction between resources and competencies is investigated and it is concluded that they constitute a duality. The concepts that seem to be opposed actually presuppose each other to sustain business and innovation processes.

³ The name TCT sprung from necessity. The book in which the theory is presented bears the title: "Learning and innovation in organizations and economies" and was, understandably, hard to render into a catchy anagram. Continually repeating the title would not do either. We propose Transaction Cost Theory because the concept of the transaction costs is fundamental at all levels when trying to explain how humans, organizational structures and configurations come about and change.

Chapter 3 shows that the integration of three general-purpose technologies led to one of the first globally networked service sectors and a meta-script or paradigm of production that governs manufacturing and service sectors today. The tourism sector has evolved for about 150 years and is still exploiting the dominant paradigm of production that Thomas Cook's innovations brought about parallel to the unfolding of the effects of the industrial revolution. The conclusion presented in this chapter is that the current tourism industry is still exploiting the building blocks of the dominant paradigm Thomas Cook incrementally developed and this leads us to the observation that innovations in (tourism) service delivery processes usually predated great production/manufacturing innovations. It is also shown how the balance between exploitation and exploration strategies have changed over time and the early evolution of the firm Thomas Cook is compared with a generic model of firm and industry evolution. The model is derived from the TCT approach and it is called the cycle of discovery.

The main case study of the dissertation and contextualised in chapter 4 and an description is given how the distribution relationship of two autonomous but interdependent sectors: air transport and travel agencies evolved, is governed and institutionally embedded in a diverse set of institutional arrangements and environments. We will describe in section 4.2 the structure of exchange in tourism and elaborate on the fact that all tourism systems consist of multiple overlapping networks of independent organizations and natural resources. These networks are in their turn bounded and regulated in institutional environments and particular institutional arrangements. Different forms of co-ordination regulate the exchange in networks. Our focus in section 4.3 is on international ticket distribution and we provide a detailed overview of the different economic and political levels and relationships implicated in global ticket distribution and the organizations active on these different levels. Special attention will be paid to the ways in which the relationship between travel agencies and airlines is governed, which forms of co-ordination are employed. The forms of co-ordination are introduced in chapter 2. We highlight the consequences the forms of co-ordination chosen might have on the ability of the distribution system to adapt to changing circumstances in the form of different scenarios.

In chapter 5 we continue with a detailed account of the process of negotiation by representatives of travel agencies and airlines at the global level. In 1999, a task force was installed that, after two years, became part of the consultative structure that informs and prepares decisions to be made by the political governance mechanism of the distribution system. The negotiations lasted for four years in which considerable progress was made. The completely rewritten global contract, one of the main forms of co-ordination governing all associated airlines and accredited travel agencies around the world, was not accepted by the 2002 Passenger Agency Conference (PACConf) in Miami. We conclude that a small but powerful part of the airline industry is well served by the current stalemate. As long as the old institutional arrangements stay in place the changes wrought by deregulation and IT work in favour of big airlines and globally operating travel agencies.

In the sixth chapter we continue our focus on innovation, governance and the ways in which travel agencies and airlines interact. This sub sector is known in the Netherlands as the travel-segment that, together with various stakeholders at different levels and firms in

destination areas, make up a tourism system. (Leiper 1979; Tremblay 1998) We provide additional explanations as to why the travel sector is innovative and link it to the subject of coordination. Tourism firms and clusters at higher levels tend to be innovative because they are an intermediary. They therefore need to be competent in bridging cognitive distance. They need to be able to translate different categories of thought. They are in between 'worlds' and connect them. Such networks tend to have many structural holes. Those make it possible to have more information than your competitors and allow you to re-arrange your network in your favour. In the case of a travel agency, it might be that a supplier or consumer contact in a leisure setting might trigger a new sales-offer or destination.

The fourth subsection is devoted to the question how the distribution relationship should be co-ordinated. The conclusions were very similar to the ones drawn in chapter four and five. We concluded, in these chapters, that the simulation of a hierarchy to connect different but complementary networks by means of a contract is possible if compensation is given for services rendered on behalf of a principal, airlines in this case. Travel agencies surrender part of their autonomy, they cannot control the distribution system under anti-trust immunity, and then they feel that compensation is logical. At the global level such a form of coordination is important because it allows for standardization and unity in procedures that lead to stability. If the contract is accepted at the global level the conditions will also hold for all airlines associated to IATA and all nation states, such as The Netherlands. The stability that this form of co-ordination provides also contains inertial qualities that were mitigated by the possibilities to maintain close and frequent contact. Stability in the form of standardization has another advantage, it enables the rapid spread of innovations. If small and medium sized firms employ the same standards as big (inter-)nationally operating firms the innovations of these diffusoin would be easier there as well. International firms benefit from standardization but should be aware that this does not make them too rigid. It is beneficial to maintain and support networks of smaller firms that can experiment. If a practice or idea proves to be successfull it can be more easily integrated.

In chapter 7 the different threads are brought together and it will be shown that, most of the things we tend to perceive as dichotomies are in fact dualities. This opens up enormous possibilities to connect and understand seemingly unrelated phenomena and processes. The TCT approach can be fruitfully applied to analyse phenomena at different levels and, more importantly, can be used to connect diverse agencies at different levels. Tourism is a highly competitive industry because of the easy imitability of service product offerings (spill over can occur through mere observation), the easy replaceability of partners and low entry barriers in large parts of the tourism sector. Especially the agency sector can accommodate entrepreneurs operating without almost any financial capital in informal parts of economies. In the more formalized economies use of technology in the form of IT-applications is high and also exerts pressure on the sector. Customers and agencies operating on behalf of customers and airlines are enabled to compare prices. The easy comparison makes consumers price conscious and, taken together, they exert a downward push on prices. The result is a high sensitivity for opportunism between business partners

and, combined with the danger of spill over, a low inclination to engage in collaborative ventures.

For tourism and especially the travel sector this means that, if a high sensitivity for opportunism is a prevailing sentiment and actions must be coordinated towards productive ends then codification is necessary. Internalisation via the creation of a corporate culture is not possible. The sector is too diverse and fragmented. Law in the form of contracts must fulfil this purpose and, if the goal of the global distribution system is to survive in the long run, it must be coordinated by a board of governors. This board would need to instil trust in both travel agencies and airlines if it is to survive in an increasingly deregulated environment.

Tourism supports corporeal mobility, it is a sector that is intimately wound up with modernization and change and it seems that innovations in (tourism) service delivery processes tend to predate great production/manufacturing innovations. The tourism sector, which includes the travel sector, is prone to be innovative for the following reasons. Firstly, parts of the tourism industry are involved exploratory or emancipatory ventures. They explore the boundaries of what is possible. During the industrial revolution the emphasis was on mobility for the masses. Currently, mobility is a taken-for-granted right and the emphasis shifted to questions of sustainability. The variety of content that diversity of contacts implies is the second explanation for its innovative propensity. The third reason is the simultaneity of production and consumption. Producer and consumer meet during crucial parts of the service delivery process of (corporeal) mobility. The fact that tourism serves as an interlocutor between different spheres of work, leisure and home in modern society is the last reason that explains its innovativeness. We do many things now daily now that would have been labelled leisure pursuits in Cook's days.

The travel sector is changing and a move away from old forms of co-ordination in distribution is apparent. This move is caused by new web based applications of information technology and deregulatory policies. Old institutional arrangements seem to crumble slowly and are replaced by relationships and forms of co-ordination that befit a market such as has developed in the United States.

2 NETWORKS, CO-ORDINATION, CHANGE AND INNOVATION

2.1 Introduction

In this chapter we do two things. Firstly, we reflect on the distinction between institutional theories and resource-based theories. We show that they are not mutually exclusive but share similar assumptions that make them theoretically compatible. They mutually support and presuppose each other. We use the concepts of agency and structure to clarify how we view the concepts of competence and resource to explain changes in business systems. This serves as prelude and introduction to the second part, where we introduce elements of a theory that aims to broaden the scope of transaction cost economics and proved able to explain how change and innovations come about as well as frame the ways in which interorganizational relationships are coordinated. (Nooteboom 2000) We elucidate aspects relevant to this thesis and will not endeavour to convey the whole theoretical framework and its underpinnings. We introduce the main theoretical roots of the theory here.

The theoretical framework combines two different theoretical perspectives, a theory of knowledge and learning and a theory of inter-firm relations that integrates insights from Transaction Cost Economics (TCE) with a social exchange perspective. Such a combination of perspectives mitigates most of the critiques formulated against neo-classically inspired TCE without disregarding the explanatory power of concepts such as transaction costs and specific investments. More importantly, because the theory can handle multiple levels it allows for a dynamic view. Change can thus be studied fruitfully.

Before we go into parts of this theory we introduce networks in section 2.2 as separate organizational forms because it is expected that they will assume more importance in the future and the main case studied was a network-based business. (Khanna et al. 1998; Smelser and Swedberg 1994) Increasingly, organizations recognize that they are part of a network of stakeholders and actually function as a network-based business. Being part of a network or a networked based business has implications for the ways in which such business systems are coordinated and innovations and change unfold. Multiple operational, organizational and decision-making levels are involved. Decisions and measures taken at the global level are affected by and have an effect on lower levels such as the regional, national, or organizational level. Multilevel systems exist in reality and we need a theory that offers a framework that allows us to analyse more than one level of reality simultaneously.

In section 2.3 we will first introduce the distinction between resource based and institutional views in the Management Sciences. This highlights that competencies and resources are mutually supportive in sustaining business processes. We argue that a competence at one level can be a resource at another. The purpose of this exercise is also

to show that development of knowledge on change happens across different disciplines and this indicates that resource based and institutional views can be integrated. Section 2.4 elaborates on the distinction between resources, competences and scripts within the framework of the TCT approach. We detail the way in which innovations are (co-) produced by organizations and individuals and interorganizational relationships are coordinated in sections 2.5. In this last section the 'Cycle of discovery' is introduced to broaden the theoretical framework to the level of the institutional environment.

2.2 Networks

The number and variety of inter-firm relationships and networks such as strategic alliances have been growing during the last two decades. (Alter and Hage 1997:95) This process is also reflected in the proliferation of publications on aspects of interorganizational relationships (Burt 1997; Gulati 1998; Nohria and Eccles 1992; Powell and Smith-Doerr 1994; Uzzi 1996 and 1997; Zaheer 1998). The viability of firms increasingly depends on their (cap-)ability to enter into such horizontal relationships as networks, that are supposed to blend self-interest and social obligation to deliver individual and collective outcomes, that overcome some of the limits of private hierarchies and markets (Granovetter 1985). By maintaining a balance between competition (arms' length contracts) and cooperation (embedded ties) a firm is more resilient in bad times, can become more innovative through learning and improve its performance. In short be more competitive when compared with similar firms not managing their networks of contacts (Ring and Van de Ven 1994; Gulati 1995; Dyer 1996; Dyer and Singh 1998). However, a firm can also rely too much on its network of relationships. Within management sciences this is also known as core-rigidities (Leonard-Barton 1992). A core-rigidity with regard to the management of relationships and networks could be, for instance, blindly relying on a set of business partners with whom you have had an enduring relationship. A decrease in valuable information and contacts (social capital) is the net result when partners only focus on each other as a source for information and resources (Burt 1992). The networks of the partners will overlap more and more and new contacts are not sought nor encountered. In other words, institutionalisation of certain ways of acting and reacting by an organization or manager is a two-edged sword. Institutionalisation becomes detrimental to an organizations' economic performance or competitiveness when closed of from its external environment.

Organizations develop less vertically integrated relationships but are more concerned with pursuing strategic alliances and joint ventures for specific purposes. This leads Alter and Hage (1997:53-54) to conclude that: "The old but pervasive dichotomy between states and market has to be discarded, to be replaced by a broader array of institutional arrangements, which mix in varying degrees the pursuit of individual self-interest and social obligation, relationships among equals, and power a-symmetries." The implications of this view are that each type of institutional arrangement simultaneously exhibits strengths and weaknesses, its performance and viability depend on the precise context and configuration of interests within which it is embedded.

Alter and Hage do not seem to allow for the fact that actors are able to influence said institutional arrangements but they do state that they change. They allow for a dynamic view without explicating how change could come about. Any economy consists of a combination of institutional arrangements, which are complementary another and thus acquire some efficiency. Institutional arrangements also be contradictory and then the logical extension would be that they lead to inefficiencies and ultimately the failure of organizations. No institutional configuration can simply be borrowed and implemented in any given social setting. Institutional arrangements evolve according to a distinct logic in each society. The development of institutions is path-dependent and embedded. Change is possible but bounded. Institutions are not static entities defined once and for all, but they continuously respond to changing contexts and emerging structural crises. This is of special importance, given the present transformations occurring in social systems of production and the changing status of sub-national regions, nation-states and the world economy. The main case study of this thesis touches on these issues when trying to explain the inertia present in a global air-transport ticket distributions system. This system is an example of a global interorganizational network that has been functioning and evolving for more than half a century. It is governed through associations.

Associations, cartels or cooperatives are examples of 'classic' or old interorganizational networks. Associations have limited means of influencing the behaviour of their members because decision rights and ownership are dispersed (Nooteboom 1999). The form of associational governance is gradually 'hollowed out' in favour of other forms of governance or co-ordination that structure exchange in a global exchange network, as we will see in chapters 4 and 5. Most sources mentioned throughout this chapter maintain that when uncertainty is high, information strategic, and radical innovations expected, networking and trust building with competitors and suppliers is preferred to both vertical integration and outsourcing. This observation is consistent with the main characteristics of already existing network-based businesses. They deliver a significant portion of their value to their customers by transporting people, goods, or information from any entry point on a network to any exit point. Such network-based businesses take many forms: telecommunication carriers, transportation companies, financial institutions and even health maintenance organizations. Network based businesses are likely to increase because of globalisation and the possibilities the Internet and other information technological advances offer to work in distributed ways. Network based businesses share the following three main characteristics:

- I. they have been deregulated or in the process of doing so and face intense competition
- II. they operate within networks of interdependent relationships with suppliers, retailers, resellers and/or agents and
- III. their use of information and communication technologies to meet customer needs is embedded in practice (Coyne and Dye 1998).

The new types of interorganizational networks differ from the old ones in the following ways:

I. The nature of co-ordination has changed from relatively simple tasks to complex ones, from coordinating and pooling financial resources (e.g. cartels) to joint research and production of products and services. The joint development of competencies is seen as a more promising road to sustaining a competitive advantage than sharing of material resources or the distribution of rights.

II. The span of networks has increased, crossing industrial sectors rather than being limited to one sector. Maybe this is a recent phenomenon in parts of the manufacturing sector but financial services and travel sectors are characterized by crossing and linking diverse sectors and both sectors were already global in the 18th and 19th century respectively (Swedberg 1994:259-181). We will return to this observation in chapter 3.

III. The membership of networks has become more diverse, also crossing societal fields e.g. cooperative agreements between touristic firms and local or regional public organizations. Often a third party is included to ensure the enforcement of agreements. Again this is nothing new for the tourism sector. Tourism firms need to work in and through networks of public and private partners as we will see in chapters 3 and 4.

IV. Organizations are involved in an increasing number of networks, joint ventures as well as strategic alliances, competing with other joint ventures and strategic alliances. (Alter and Hage 1997:95)

V. Additionally, networks differ from hierarchical co-ordination because of the autonomy of each member and they differ from market co-ordination because there is an attempt to coordinate through elaborate decision making committees at multiple levels. It is not as if there is an visible hand, but rather visible hands. The last two points will figure prominently in chapters 4 through 6.

Taking these points into account we define an interorganizational network as: an interorganizational configuration embedded in an institutional arrangement that in its turn is embedded in an institutional environment (adapted from Sydow 1998:33).

Interorganizational networks are therefore more complex organizational forms than a single organization studied in isolation. The problems of co-ordination are much more difficult because of (perceived) increases in volatility, member autonomy and the ensuing complexity in decision making processes. Networks are assumed to be flexible, co-operative rather than competitive and (relatively) stable over time. They are thought to be particularly apt for circumstances in which there is a need for efficiency, reliable information, the sharing of experience and the fostering of learning. The emphasis on complexity, the tension between stability and flexibility and co-operation and competition is something that most authors on networks share (see e.g. Miles and Snow 1992; Powell 1991; Sydow 1998). These authors do not explicitly envisage that particular mixes of forms of co-

ordination that govern networks can, just as contracts, become too tight and constraining because of a perceived need to reduce opportunism (Klein Woolthuis 1999; Nooteboom 2000). We need not only know how forms of co-ordination stimulate inertia or change, we also need a theory that is able to connect networks operative at different levels and with different purposes. This is what we focus on in the next section.

The study of the content or quality of interorganizational relationships, the structure of these relationships (networks) becomes important because they connect the internal environment with the external environment and they can become competitive advantages when managed properly. Now that we have established that we need to focus on the relationship between the firm and its environment we want to show that theoretical approaches increasingly posit the study of relationships and networks as a central concern to management science.

2.3 Resource based view and institutional views on the firm: introduction

In this section, we compare views of resource-based and institutional approaches on agency and structure. To allow for a comparison we need to have an idea how agency and structure are related. We will start, therefore, to describe our view on the relationship between agency and structure. Only if we are able to understand how individual agencies and structures mutually influence each other, we will be able to put forward explanations how organizations and networks could manage the tension between the need for stability to exploit and the need for flexibility to explore and innovate, create value and adapt to changing circumstances.

2.3.1 Agency and structure

This study aims to connect different levels of social reality to explain and describe the development of parts of the tourism sector, in particular the travel sector. Most theories focus on one level of study and explanation. They focus on either action (process) or structure. Agency denotes the capability to act while action refers to executing practices. Agency can therefore be said to be the structural definition of action and only in this way is it possible to elevate them to the same logical level. In day-to-day colloquial use and in science these concepts tend to be used as opposites. An advance was therefore made when the duality of structures was acknowledged and incorporated into theoretical models. The insight of the duality of structures was developed by Giddens (1984) and is embedded in his structuration theory. Agency and structure are complementary phenomena with a reciprocal relationship, together constituting and forming society, or parts thereof. Society, an organization or firm is both a product of agency as well as the structure through which agency is operative. In other words agency and structure are of the same logical order.

A common critique is that structuration theory negates the fact that social systems not only structure social behaviour, but also determine the positions that actors occupy within the system as a consequence of interrelated rules and resources at different levels of a system, over time. This is unavoidable because structuration theory is a formal theory that only tries to establish how social structure is (re-)produced. It does not claim to be readily transferable to a given empirical situation.

In order to transform a formal theory that aims to explain how society comes about into one that is amenable to use in a more prescriptive fashion, we have to acknowledge that structures and behaviours take shape over time. They become consolidated into power asymmetries or dependencies and these define positions, possibilities and constraints of actors that operate in and through structures. Social acts get consolidated into structures over time and, once recognized by individual actors, are perceived as acting as a separate entity in social reality (Archer 1988:141). In this way they develop their own form of agency, their capability to act. They guide action and give it a relative direction. Such a conceptualisation of constructs at higher levels is similar to the definition of an organization in the TCT-approach, as we will see in the next sections. Fractured social practices that together constitute society, as structuration theory would have it, are less fractured in practice than in theory. The question then becomes how do individuals and larger social entities interact and influence each other? We will focus on answering this question in the next section.

2.3.2 Agency and structure in management science

The strategy and organizational behaviour fields in management sciences abound with all kinds of approaches. The myriad of labels does not justify the conclusions that all these approaches depart from distinct theoretical frameworks. (Oliver 1997; Williamson 1999; Oliver and Ebers 1998) In this introductory section we will not concern ourselves too much with nuances. We provide an argumentation that posits that most of the approaches in management sciences can be subsumed under the two headings of institutional approaches and resource based approaches. Our aim is not an exegesis of the resource-based and institutional views on (economic) action and structure but to use them as theoretical opposites and show that they function in much the same way as structure and agency do in the social sciences. This serves to show that it is possible to integrate the two approaches in one theoretical framework.

Oliver (1997) stresses the need for firms to integrate elements of the resource-based view as well as the institutional perspective when trying to achieve a long run competitive advantage. They are not incompatible because they share the assumption of an atomistic actor (Granovetter 1985). Williamson concurs with this assertion he finds that: "...transaction cost economics and embeddedness reasoning are evidently complementary in many respects" (Williamson in Smelser and Swedberg 1994:85).

The resource-based and institutional views entertain different assumptions about individual and organizational behaviour. The resource-based view proposes that resource selection and accumulation are a function of both within-firm decision making and external strategic

factors. It assumes that individuals are motivated to optimise available economic choices. Within-firm managerial choices are supposed to be guided by a neo classically inspired economic rationality and thus by motives of effectiveness, efficiency, self-interest seeking and profitability. External strategic factors that impact the firm include buyer/supplier power, industry and product market structure and intensity of competition. No room is allowed for the structuring influence of law, politics or culture. Only indirectly, pressures from fields operative in society are assumed to be translated into external strategic factors. The resource based view postulates that rare difficult to copy or imitate resources and resource market imperfections lie at the root of causal explanations concerning firm heterogeneity. Successful firms are those firms that are able to acquire and maintain valuable idiosyncratic resources for competitive advantages. (Oliver 1997:700) However useful these concepts may be it should be made clear that the resource based view has a bias towards an inside-out view on the firm. The resource-based view is often blamed for not examining the social context and frameworks of values and norms within which decisions regarding factors of production (resources) are embedded. It has, however, incorporated the concept of capability, defined as the ability to skilfully influence the arrangement of resources, to explain how a firm is able to respond to changes to external strategic factors. The notion of capability is synonymous with competence when defined in such a way. Resources range from symbols that enhance the reputation of the firm to acquiring and influencing people and organizations. Resources are subject to a-b power, a competence is less easy to control because these are embodied.⁴ A great deal of such resources is located in or dependent on the environment of the firm. Think about oil or mining companies that have to deal with an array of environments to find and procure the raw material resources that lie at the root of their value creation processes (location) and intangible resources such as reputation, knowledge or culture (dependency). Additionally, The resource-based view has to formulate the pre-fix dynamic, to explain changes in the composition of a capability or set of capabilities or resources that express the relative competitive acumen of an organization or to introduce concepts that imply evolution e.g. sustainability or accumulation. (Grant 1996; Dierikx and Cool 1989)

The institutional view on the firm explicitly states that firms operate within and through a social framework of norms, values and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviour. The basic premise of institutional theory is that firms' tendencies toward conformity with dominant norms, traditions and social influences in their external and internal environments lead to homogeneity among firms in their structures and activities. Successful firms are those that gain support and legitimacy by conforming to social pressures. Economic choices are constrained not only by socially constructed limits like norms, habits and customs but also by technological, informational and legal limits. Although institutional theory is generally portrayed as referring to norms, values etc. as limiting or constraining choices it is just as true that they could enhance or expand the range of choices. This depends on two things

⁴ The concepts of competence and capability are considered synonymous. They both refer to action in the sense that actors perform behaviour skilfully. A to B power is similar to coercive power.

independent of each other. Firstly, there could be a norm or a functional unit like an R&D department within an organization that guides people into creating as many choices as possible. Secondly, people have the ability to reflect on their behaviour (reflexive monitoring). They are able to undertake actions aimed at superseding constraining norms once they recognize them as constraining and consider this an undesirable situation and feel they have the means to alter the situation in their favour (Dimaggio and Powell 1983). Again, this is a highly stylised account of an enormously complex body of theory.⁵ The main points here, however, are that institutional views posit that the acumen to change is based on externalisation of knowledge via the competence of reflection; the resource based view introduced the concepts of capability and the pre-fix dynamic to mitigate the critique that the approach was unable to integrate influences that develop and emanate in the environment of the firm. Strategic factors are not a fixed given but the importance and content of such factors changes over time. We conclude that competitive strength of firms does not solely reside in the particular arrangement of its resources (structure). The resource-based view incorporates the concept of capability (agency) to explain why and how firms can achieve or enhance their competitive advantages. A firm does so through the capable arrangements of resources. Nor is competitive strength the sole result of the competence to embed a firm in social and cultural frameworks that give it the legitimacy and support to establish a favourable position vis-à-vis its competitors. When we introduce the concept of duality we can see how resource and competence mutually presuppose the other. Competences guide the use of resources but can become resources at higher levels, as we will argue in the next section.

2.4 Multi level theory in management sciences

We said in section 2.3 that Resource Based Views (RBV) and institutional views can fruitfully reside under one epistemological roof without having to sacrifice the distinctive methodologies and empirical results.⁶ Such ‘pre-structuration’ theories did not recognize the duality of structure and could therefore not explain how change can happen, but we need insight into dynamics at different levels of reality to explain and understand complex problems. We propose that the central insight of structuration theory that structure is implicated in every social act can be readily transferred to the management sciences. We described one theory in the introduction of this chapter as a generalized transaction approach and labelled it the generalized Transaction Cost Theory (TCT). This theory integrated the concept of duality without explicit reference, but it embodied the concepts of resource or node, competence and script. To which we return later. Transaction Cost Theory suggests that the main reason why organizations exist is the need to provide its

⁵ For more balanced and nuanced views see for instance chapters 2, 8, 9, 11, 17 and 18 in: Smelser and Swedberg, 1994, *The Handbook of Economic Sociology* or Baum and Dobbin, 2000, *Economics meets Sociology in Strategic Management*.

⁶ The insight is not new but it was to me when I developed it in relative isolation during the PhD project. I now find it reiterated in different fashions in different disciplines. For an excellent expose on this matter within the realm of management sciences see, for instance, Beer and Nohria (2000).

actors with a common frame of reference or world and life-view. Shared focus lends direction to fractured social practices. This is reflected in the definition of what an organization is. Organizations are conceptualised as multilevel systems of scripts demarcated by the relative permanence and degree of integration of the different scripts into a coherent whole with a shared focus and goals (Nooteboom 2000). Fractured social disciplines become in this way not so fractured after all and different sub-systems can be analytically separated. This mitigates the critique Archer levelled against Giddens and here we see how management science informs sociology reciprocally.⁷

In other words, by tacitly guiding the behaviour of actors, a culture gives focus and a sense of direction to actors in and between organizations. Culture usually refers to internalised values, but it is also possible to achieve focus rationally by means of setting explicit goals that are endorsed by the members of an organization. The more an organization is able to align and focus the perceptions of its actors the better it will perform. Up to a point that is, because too much focus can lead to myopia and inertia. These diminish the acumen of an organization to respond to changing circumstances in the environment and the discovery of opportunities within and outside the firm if these opportunities arise outside the mental framework defined by the focus. (Nooteboom 2000) The emphasis on structures or processes that tacitly guide behaviour makes the theory also compatible with institutional approaches. We consider this an indication that it can live up to its promise to integrate diverse streams of research in the management sciences.

What is more important, however, is the fact that an attempt is made to formulate a theory of organizational behaviour that acknowledges that we need a theoretical framework that connects organizations to higher and lower level constructs. This means that such a theory has to link behaviour of individuals with behaviour of organizations and even institutions. The institutional environment and the way in which the interaction of organizations in the environment produces specific institutional arrangements can then be taken into account. The institutional environment is defined as the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. Institutional arrangements are: "...arrangements between economic units that govern the ways in which these units can cooperate and/or compete..." (Davis and North 1971:5). This is a workable definition that should be adjusted because we have to allow for the fact that economic behaviour is one particular field⁸ that also interacts and is influenced by other fields, as we will see in chapter 3.

⁷ Systems, bundles of scripts, get a relative direction through valorisation, meaning giving. It is this process of valorisation that determine to a large extent the permanency and goals of a firm, consisting of a bundle of scripts.

⁸ Field is used in the way Bourdieu has defined it: "Fields are networks of relations between agents or institutions with their own logic, which generates among actors beliefs about the things that are at stake." (Schoorman 1994:36) Habitus are the embodied or internalised beliefs that arise from interaction and position in a field. They are mental or cognitive routines that enable an actor to act in and through fields. Habitus is similar to agency and fields to structure.

In the next section we explore how resource and capability/competence can transform when viewed from a different level and come about through the actions individuals perform, similar to the concepts of agency and structure in many sociological theories.

2.4.1 Scripts, competences and resources

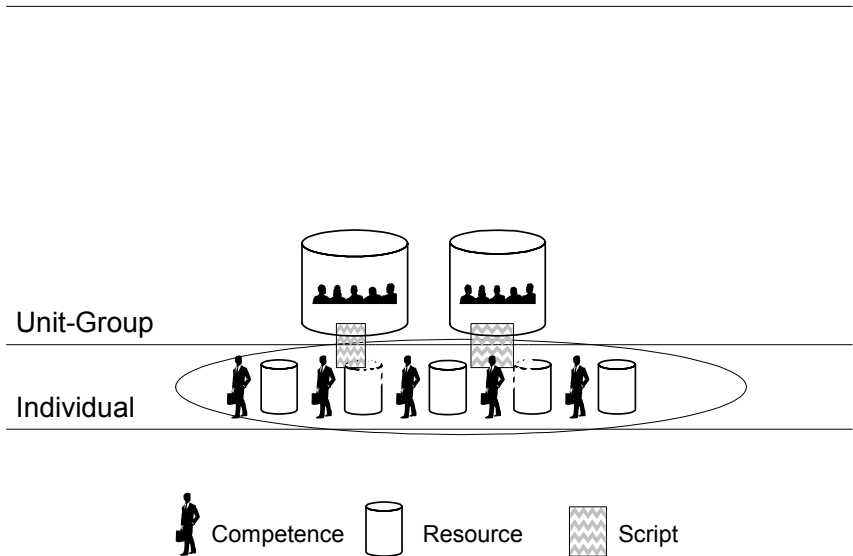
How do we connect competence and resource? Competencies function as scripts (of interactions) that provide organizations and individuals with the knowledge and ability to sequence the use of resources. Scripts are defined as sequences of activities that let resources interact guided by competencies. Using a script we connect resource and competence. A script is adaptable to the extent that it has different branches pertinent to different situations, the strength of the tie between the different nodes in a sequence, the possibility that different scripts can be applied to a similar situation and the recognition of the situatedness of action. A practice embedded in a script is partly dependent on the context in which it is performed and we should recognize the importance of feed-back loops to allow for the fact that human actors are reflexive, which leads to non-linearities in systems. (Nooteboom 2000:190-195) The particular arrangement of scripts and the relative permanence of these scripts define an organization, this can only be done in relation to other firms that deliver complementary nodes (resources) of scripts needed to provide a consumer with the service or product desired. This argument holds more forcefully in service industries.

When sets of activities, together constituting a script, become codified or internalised they transform into a potential resource. They move from being a competence to being a resource. When they become codified they become objectified and are open to standardization. This is one possible mean to become more efficient. When scripts are internalised they become embedded routines, that allow actors to perform sets of actions without having to go through the trouble of explicitly analysing a situation and specifying what sequence would be appropriate in a particular situation. You just know how to act and this is also a form of efficiency commonly referred to as an internalised skill. A person (body) can be co-ordinated as a resource at the level of an organization any sizable organization has a Human Resource Management department or function. Material objects can be considered a resource at any level and likewise with information. A good example is the way a detailed manual is used by a maintenance worker. In this example the manual prescribes the steps a worker has to perform to solve particular technical malfunctions. The worker has a resource in the form of a manual but needs to possess the competence of interpreting the manual and repairing the malfunction. The worker does not solely rely on the codified knowledge, on information. Practice and formal learning have generated over time, rules of thumb. The rules of thumb or tacit practices are internalised sequences of situated actions embedded in the body of the engineer that together deliver a problem-solving script. Cognition is the resource at the level of individuals that allows for the translation of information that leads to competent solving of malfunctions. The practice of solving malfunctions leads to competences that are particular to the worker. Put differently, tacit structured practices are internalised and broadly accepted behavioural routines of handling contingencies. They constitute a resource for the competence of

problem solving for the worker. Only when these fail or are not yet routinised an externalised resource, the manual is consulted. At the level of the organization workers are resources they can be displaced, a new node can be inserted into a production script. This is not always the case, we have to allow for the fact that certain competencies can be mission-critical to an organization. Treating such a worker as if it were a resource would seriously affect its motivation and the competent functioning of other actors or production processes. The moment a human resource cannot be subjected to a-to-b or coercive power it transforms into a competence at the organizational level.

Scripts define the sequence of the nodes in scripts and the content of each node, which can contain a lower level script. An example of lower a lying node that contains a lower level script are the ways in which tour-guides manage the expectations of a group of tourists as part of higher level travel script (the trip or journey) or the ways in which a receptionist handles complaints as part of a larger accommodation script.

Figure 2.1: Resource and Competence transformation



Resources are (in-)competently wielded in interactions and structure formal and informal relationships an organization entertains with its environment, the range of actions that an organization and its members can enact is bounded by institutions and rationality. The concept of competence at the organizational level is then defined as the extent to which a firm is able to arrange its resources effectively. This definition includes the (cap-) ability to develop new resources, in short learning and innovation, and insert them into resource arrangements. The competence to develop resources is important for exploratory strategies (innovation) while a stable arrangement of resources is amenable to developing and

maintaining the competencies associated with an exploitation-strategy (optimisation). Competence includes the efficient use of resources as well as the efficient development of new resources and the ability to arrange them into scripts. Efficiency must therefore be interpreted widely to allow for the inclusion of learning and dynamic efficiency. "...activities arise at different levels, with higher levels of activity utilizing resources that in turn entail activities using lower-level resources"(Nooteboom 2000:71).

The travel agent organizes the super script of a journey. Substitutions inserted into nodes are then resources. For instance, you can insert different excursions into a larger trip. Every node that is inserted by a travel agent in the super script potentially increases its profit. Another example is that consumer information obtained by travel agents (e.g. frequency of transactions, turn-over per transaction and kind of tickets/packages) can be pooled by the principal (airline or tour operator) and used in marketing activities to increase its market share or to focus on attracting better paying customers. The aggregated information of travel agents is the resource that through the application of the competencies of selection and ordering leads to more market share or a better margin for the airline. The competence at the level of the principal is the set of activities needed to pool the information and transform it into knowledge. The resource is the raw information delivered by the agent. The competence of acquiring this information is in the hands of the agent and the resource for an agent is, the raw information delivered by the consumer. Here we see at an aggregated level how a competence of agents is a resource for airlines.

We have explained, with the same set of concepts, how actions and structures at more than one level relate to each other. Competence wielding and resource-use are linked via a script metaphor. We needed the script concept to understand how organizations function but also to understand how they relate to each other. More importantly we showed that a competence at one level could become a resource at another. In this sense resource and competence mutually presuppose each other. In another sense they presuppose the other because competencies structure the use of resources, but the kind of resources that need to be structured put boundaries on the number of purposes that can be served. It is hard to dig a hole with a hammer.

Being part of a network or a networked based business has implications for the ways in which such business systems are coordinated and innovations and change unfolds. We will elaborate on governance issues in network-based businesses in the next section when we discuss the forms of co-ordination that govern (networks of) organizations determines what interests are taken at heart

2.5 Forms of co-ordination

Issues of governance refer to the question of how people can be motivated to take each other's and the organizations' interests at heart (Williamson 1999). In this section we introduce six forms of co-ordination and elaborate on the differences between a dyad and a triad, as part of one of the forms of co-ordination, because this will inform our analysis and conclusions in later chapters. Co-ordination usually concerns itself with two sets of problems. Firstly, technical problems are associated with the co-ordination of flows of

material objects and largely focuses on aligning competencies and resources of firms to improve performance through cost-reductions, new ways to add value to a product or the invention of completely new products (innovation).⁹ The second set of problems is agency problems and they relate to intentions. Here the focus is how people can be motivated to take the others' interests at heart. We focus in this thesis on intentions, agency problems. Remember that agency and action are not the same. Agency is the structural equivalent of action; it describes the (cap-) ability to act. We therefore do not describe only how through (inter-) action people can be motivated to take each others' interest at heart, we also look how we can re-design the organizational structures that enable the global distribution of airline tickets. The reason to focus on agency problems is twofold. Firstly, the main case study was solely aimed at changing the forms of co-ordination of a global distribution system in such a way that actors would be motivated to work together or at least not work against each other. Secondly, at the theoretical level, Nooteboom (2000:921) claims that: "Agency problems arise especially when relations entail dependence and power". This was clearly a major factor hindering a task force to come up with solutions to mitigate the inertia present in the global distribution network. Changing the ways in which the distribution system was governed/coordinated implied that they had to assess the relationship in terms of the values and risks the relationship brings along. "Relational risk has two dimensions: the size of loss one may incur due to accidents or opportunism by the partner and the probability that this loss will occur"(Nooteboom 1999:109). These dimensions had to be assessed in terms of the co-ordination of the current relationship and alternative mixtures of forms of co-ordination. Now, what forms of co-ordination exist and to what extent do they contribute to stability and or flexibility?¹⁰ The second part of the question on flexibility and stability refers to our attempt to determine how inertia and change are related and mutually influence the other. Later on, we will suggest how to alter the current forms of co-ordination of a global distribution network toward a more flexible less inert system. It is therefore that we like to know if the forms of co-ordination contribute to either construct.

There are six forms of co-ordination that together seem to describe and cover all possible organizational configurations that guide the behaviour of the actors acting in and through them.

The first form of co-ordination is *Evasion of risk*: the inclination not to yield sensitive information or engage in specific investments. By not sharing information or engaging in specific investments a firm evades the problems associated with relational risk such as spill

⁹ The TCT-approach distinguishes three levels of co-ordination. The one not mentioned is cognitive co-ordination. It refers to bridging cognitive distance, making sense of the other or phenomena that occur external of an actor. Learning features prominently in this form of co-ordination. We occasionally mention this form of co-ordination in chapter 5 when it serves to elucidate the tension that evolved in the relationship between airlines and travel agencies.

¹⁰ Stability and flexibility encompass the meanings of inertia and change and rigidity and adaptability. They all refer to the fact that any organization needs a stable base in the form of routines, procedures, cash flow, etc. from which to explore and to be resilient enough to allow for a degree of mistakes made during the course of action.

over of information and the possibility of hold-up if hostages, such as shares, are not returned (Williamson 1985). Travel agencies are, for instance, not inclined to share customer-marketing data with airlines. In theory, sharing this kind of information could yield relational rents. Analysis of the buying behaviour of tourists could result in discovering latent needs of consumers at the buying stage of relevance to travel agencies and airlines, and during the delivery of services during the transport component of the trip. That kind of information could improve service delivery scripts on board a plane. Evasion predominantly preserves flexibility because it keeps options open. This does not contribute directly to inertia but it can be imagined that in specific instances, where stakeholders need jointly to invest or collaborate, it can be wielded as a form of co-ordination that contributes to inertia in the sense that it postpones a flexible response.

Integration: is the second form and serves to bring two parties that have complementary competences under unified administrative control. The advantages of integration are an increase in control, monitoring and policing capabilities of the integrated firm. Integration is conducive to a decrease in transaction costs, opens up possibilities to economize on scale and, following the example discussed in the evasion section, an increase in customer understanding allowing for further mass-customisation. Integration usually serves the purpose of stability but in markets where there are few suppliers and buyers. Integration might lead to dominance by a few players and cause inertia at higher levels (collusion, cartelisation) and lower levels (less choice for consumers).

Contracting: contracting is usually a part of an inter-firm relationship and it serves different functions. Contracts can serve as a basis for technical co-operation (record-keeping) to prevent misunderstanding or as a 'ritual of agreement' to support the intention to collaborate (code of conduct), or it can be a legal document designed to constrain opportunism (Klein Woolthuis 1999). Detailed contracting to preclude the dangers of opportunism may frustrate the building of trust because it is assumed that partners will be opportunistic. The danger of a self-fulfilling prophecy lies just around the corner. Contracts stabilize as a general rule and can lead to very inert systems that have lost almost all of their adaptive acumen. The exception is when a contract is specifically designed to ensure that involved stakeholders have certain degrees of freedom to act.

Mutual interest balancing: the advantages of management by balancing mutual self-interest are that it is cheaper and more flexible than contracts. Potential partners have to, at least initially, interact frequently and it: "requires a judicious mix of mutual interests, shared ownership, hostages and reputation to achieve a balanced mutual dependence"(Nooteboom 2000:924). Additionally, this form of co-ordination can only be successful when partners communicate intensively about business but also other areas of interests. The more multiplex a relationship becomes the more the chances of success with this form of co-ordination. It is therefore likely that such a form of co-ordination is more in use between small to medium sized firms in a destination area because actors are physically proximate, the chances are higher that there are kinship or convivial ties. Actors in globally operating tourism networks, like airlines, are not geographically concentrated. People have to invest considerable amounts of time and effort to meet each other and kinship ties cannot be assumed. This form of co-ordination generally leads to more

stability, dependencies are created when interests are balanced furthering stability. It is unstable in the sense that benefits might change and thus the inclination to stay or adapt to changing circumstances. The instability of airline alliances serves as an example.

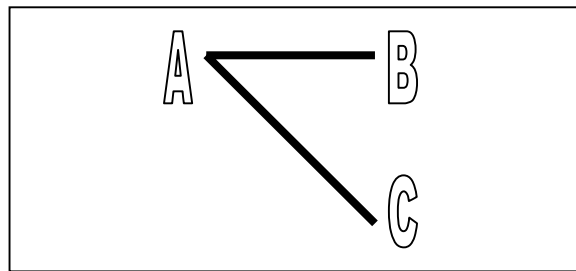
Trust: trust is cheap compared to contracting and it is generally assumed that trust lies at the root of any sustainable form of co-operation. Trust as a form of co-ordination is defined by Nooteboom (1999) in a narrow sense; it is the belief that a partner who has the opportunity and interest to damage the relationship will refrain from doing so, but it cannot function if there is not the subsidiary awareness of the possibility to be opportunistic. If there was no option to behave opportunistically what would be the point of trusting anyone? If opportunism is not around there is no need to trust, trusting would be a waste of cognitive resources. So trust and opportunism are quite closely related. Opportunism destroys the possibility to generate relational rents and when it is sufficiently high: "...considerable resources must be spent on control and monitoring." (Wathne and Heide 2000:36). Such resources could otherwise be used for more productive purposes. Opportunity costs are also produced in the form of "valuable deals that won't be done". (Calfée and Rubin in Wathne and Heide 2000). The more tense and conflictuous a relationship is the higher the likelihood that opportunism also plays a structuring role on the behaviour of actors. Relationships where trust levels are high, irrespective of the form of trust, tend to be stable and long lasting.

Network structure, and one's position in it. The structure of networks can also influence the competitive position of firms and serve as a form of co-ordination. We will expand on this particular issue because the tourism and travel sector are, because of the services they provide, highly networked sectors. We will now contrast two views on the effects of network structure on (competitive) behaviour. This serves to introduce the distinction between a dyad and triad that we use later on in our analysis of the global interorganizational network.

Departing from structural network analysis Burt has developed a theory about competition for the benefits of relationships (1992). The theory tries to determine the extent to which the social structure of a competitive arena creates entrepreneurial opportunities for certain actors that allows them to affect the terms of the relationship. The social structure of a competitive arena should be perceived as lying between the ideal type of perfect competition (free-market) and the totally controlled market by one player/actor that is a monopoly. In the words of Burt: "In the perfectly competitive arena, any party to a transaction has an unlimited choice of partners. Numerous alternatives exist and players are free to choose. ... The significance of any one player as an entrepreneur is zero. The structural image is one of relational chaos" (1992:6). The market for airline tickets resembles this type of competitive arena, airlines know each other's prices almost instantaneously and every agent that has access to this market is free to pick whichever flight he books at the request of a customer. "At the other extreme, choice is concentrated in the hands of a dominant player. The structural image is one of a completely and rigidly interconnected system of people and establishments within a market. High obligation relations...allow neither negotiation nor the strategic replacement of partners" (1992:6). Here a market transforms into a hierarchy. In reality most economies exhibit a mix of

markets and the ways in which they are regulated and within each market there are special relations through which, an actor can influence others to its advantage. There are always relations to be found that give special advantages. Consequently, “Competition is imperfect to the extent that any player can affect the terms of any relationship” (Burt 1992:7). A ‘relational’ entrepreneurial opportunity that has empirically been proven is that competitive advantage is a matter of access to structural holes. But what is a structural hole? A structural hole refers to the absence of a link between two actors. It is a relationship that is essential in obtaining control or information benefits (access, timing and referrals). It is a relationship of non-redundancy between two contacts. Whereby it is assumed that the other is a rational self-interest maximizing actor not hindered by moral qualms or social pressure that arises from more multiplex relationships and guides actors into socially acceptable behaviour. Consequently, actors that are in a position to profit from such benefits are motivated to do so, because both control and information benefits are extremely important for firms operating in and through a value-chain or a network of value-chains.

Figure 2.2: structural hole



Consider figure 2.2 actor A is connected to actors B and C, but actors B and C are not connected to each other. Actor A has the opportunity to control the flow of information from C to B and vice-versa. Being in the centre of a web of unconnected actors has distinct advantages. It is therefore that Burt argues that the strength of the tie is quite unimportant, contrary to Granovetters weak-tie arguments (1973). Whether or not a tie bridges that is what makes the difference. “... a person who acts as a bridge between others actors in the social system, will be able to negotiate better agreements, extract higher rents, and in general be more powerful and successful than an individual ho does not occupy such a bridging role.” (Krackhardt 1999:184) Bridging ties connect actors that do not have ties between them. Such relationships are less constraining in the structural hole approach because it is assumed that the two connected actors are not aware of each other goals and intentions. The bridging actor receives information from both sides, which gives it room to influence outcomes in its favour without the possibility that the two parties will find out that such a thing happens (*tertius gaudens, divide et impera*). Burt assumes that B and C are not aware of each other’s intentions. This make the relationship portrayed here in

essence a dyad because transitivity seems not to be assumed.¹¹ It basically means that when actor A is connected to actor C via actor B then we assume that A” is connected to C. This eliminates the possibility that actor B is able to withhold or divulge information that furthers its position vis-à-vis the other players in the network.

Krackhardt presents a slightly different view that complements dyadic reasoning, he takes transitivity into account and accordingly asserts that: “...it may be under some reasonable conditions that occupying a bridging role can be *more* constraining” (1999:184). Such a tie is labelled a Simmelian tie after the sociologist Simmel, who believed that the key to understanding how and why people behave and think are the ways in which social relationships are structured. A Simmelian tie is defined as a particular kind of strong tie that under some conditions can be more constraining than a dyad. Simmel made a distinction between triads and dyads because of the fundamental differences between those two types of relationships. This is of relevance because the difference sheds light on the question as to why the travel distribution network became inert and, in a later chapter, on the process of negotiations that aimed to make the distribution more agile and responsive. Simmel (1950:138) in Krackhardt (1999:186) maintains that including a third party to a dyad: “completely changes them, but...that the further expansion to four or more persons by no means correspondingly modifies the group any further”. So structural network research on triads can be extrapolated to networks.

Dyads differ from triads in three main respects. First, the individuality of actors in a dyad remains intact. In a triad, however, an individual or organization can be outvoted or normatively corrected and this constrains the individual options of that actor. The interest of the deviating actor is suppressed in favour of the rest of the group. For instance, if an airline member of the task force would be inclined to support an agency proposal, its reactions would be moderated by the expectation or opinion it has about how other airline members might react to its support. If it could veil his inclination because the agency proposal would be voted upon in anonymity it might vote in favour of the proposal. When anonymity is assured the airline member is liberated from the strong ties that influence its behaviour. Suppression of interests leads to decreases in satisfaction with the relationship. Loyalty is the expected response strategy but too much or enforced suppression will stimulate voice or neglect and in the ultimate case exit if an alternative in the environment is available (Ping 1999; Sako 1998; Hirschmann 1970).

Secondly, in a dyad the bargaining power of both actors is relatively bigger than of those in a triad. The threat to exit a relationship carries more weight in a dyad than a triad. If one of the actors in a dyad exits the relationship the benefits it brings disappear as well. Some benefits remain and communication is still possible if one member leaves a triad. In the case of a network if one travel agent stops its business others, operative in the same

¹¹ This is rather uncommon in Structural Network Analysis that has as its theoretical underpinning Graph-Theory. When I was a MA-student in my final year I followed a course on Social (structural) Network Analysis. One of the first lectures given dealt with graph theory and its three main assumptions: reflexivity, symmetry and transitivity.

segment, will cater to customers that cannot be served by the travel agent that exited the network. The demise of one player is a gain for other players. The actor that leaves isolates itself while the remaining actors can console and inform each other. A logical consequence would then be that parties resort to voice rather than exit. Additionally, exit is not an option when access to information and cheap transaction costs are foregone and the next best alternative is more expensive or might even be non-existent. If voice does not engender a change in attitude or practices then neglect will feature more prominently.

Thirdly, conflict arises in any relationship but is more easily moderated in a triad. This is a characteristic of triads that contributes to the use of voice as a preferred response strategy. A third party can reformulate and present arguments in a more emotionally detached way, but only if we assume that the third party has no vested interests that favour one of the two other parties in the triad. In a dyad such an attempt is not possible because both actors are involved in the conflict. Krackhardt summarizes the consequences of these three differences in the following way: "...one would expect that individuals who are part of a three person (or more) informal group are less free, less independent, more constrained, than a person who is only party of a strong dyadic relationship" (1999:185). It would make networks a more stable organizational form than a bilateral partnership such as an alliance and highlights the important role of go-betweens.

This leads us to the following preliminary counter-intuitive conclusion; if actors in a triad and therefore a network are less free then it follows that networks under certain circumstances are likely to contribute to inertia. Actors will behave as if they were connected by simmelian ties, when they operate in an environment where the results and process of interaction will be made public to a larger community whose opinions they value. "If ... the behaviors being constrained by the norms are public behaviors, then ...engaging in such behaviors while maintaining embedded ties to different groups is more constraining" (Krackhardt 1999:207). We will see if we can substantiate this conclusion in the following chapters. Now we provide the necessary background to discuss the subject of innovation and change in chapter 3. First we introduce the concept of innovation and the different degrees of change it engenders in economic systems. Then we introduce the cycle of discovery; a theoretical model of organizational evolution that aims to link appropriate innovation strategies to phases of industry evolution.

2.5.1 Changing scripts and nodes: degrees of innovation and change

Innovations come about through a re-combination of existing practices or the development of new ones. These practices or activities can become institutionalised at the organizational level or internalised at the individual level and then they are open to standardisation.

Process-innovation is a change in a production script and a product-innovation entails a change in the consumer script. Such a demarcation feels, intuitively, right and is analytically justifiable for the manufacturing or industrial sector. Two things are radically different for the production of tourism services. Firstly, more than one producer is routinely involved in the production of a tourism experience. In tourism, networks of co-operating organizations work in and through sets of chains that produce service products.

Secondly, in a service product production and consumption scripts meet. In those parts of the tourism-experience where producer and consumer meet, where nodes in the script coincide, the producer and consumer are at the same moment in time able to influence the experience in interaction and thus the evaluation. The clear-cut distinction between process and product fades, because the process is the product. Now that doesn't mean that tourism or travel does not employ goods in the delivery process it is just that the sum total of experiences of tourist in interaction with a multitude of providers constitutes the 'tourism-product'. Many actors and interactions means that much information goes to and from consumers, and an attentive listener can glean new product propositions from such interactions, as we showed in chapter 3.

Now, not all innovations originate at the product level. In order to describe the level of change an innovation could potentially trigger a distinction is made between the following two degrees of innovation.

Radical change involves deep re-structuring comparable to Schumpeterian 'novel combinations'. It involves organization, sectors and nations. Different elements, which can also be activities, if they can be described as a script, from architectures that do not interact directly, are arranged in such a form and order that they are labelled as a new super-script or architecture "...it entails a reconfiguration of scripts, with nodes from previously separate scripts" (Nooteboom 2000:242). We emphasize the possibility that these elements need not necessarily be derived from economic fields operative in society. On the contrary, in line with the 'old institutionalists'¹², we show in chapter 3 that Thomas Cook abducted ideas and drew in fields of society that can be classified as non-economic.

The most superficial degree of innovation is labelled incremental change. The script and thus the order of the nodes remains the same but elements within the nodes may change. Changes to design of the menu would be an example of such an innovation. It does not change the steps contained within the node 'deciding what to order' that consists of three basic nodes in a lower level script: receiving a menu-reading it-selecting food and drinks.

A reordering of the existing nodes into a new configuration is less radical but the effects at the level of sector can be quite radical. An example is the reordering of consumer scripts in restaurants. The traditional sequence would be: enter-get/seat-decide-order-eat-pay-leave. In a self-service context the script employs the same nodes but the sequence is altered: enter-decide-order-pay-get/seat-eat-leave. If this innovation would not have come about and applied in other contexts such as in retailing we would not have supermarkets and self-service restaurants. If we did not have supermarkets and the self-service and the mobility we currently possess it is hard to imagine how the Mall-concept would have materialized. The second order effects of a script change might, in the end, result in a re-configuration of architectures to accommodate the changes to the script. The need to employ a standard national time in England during the unfolding of the industrial revolution to enable the

¹² For an interesting example in the field of leisure of old institutional thinking see Veblen "A theory of the Leisure Class" (1901).

planning of routes and frequencies of a national railway system fuelled innovations in watch-making and, sprung forth from the radial changes in scripts of production and transport of goods and services (see chapter 3).

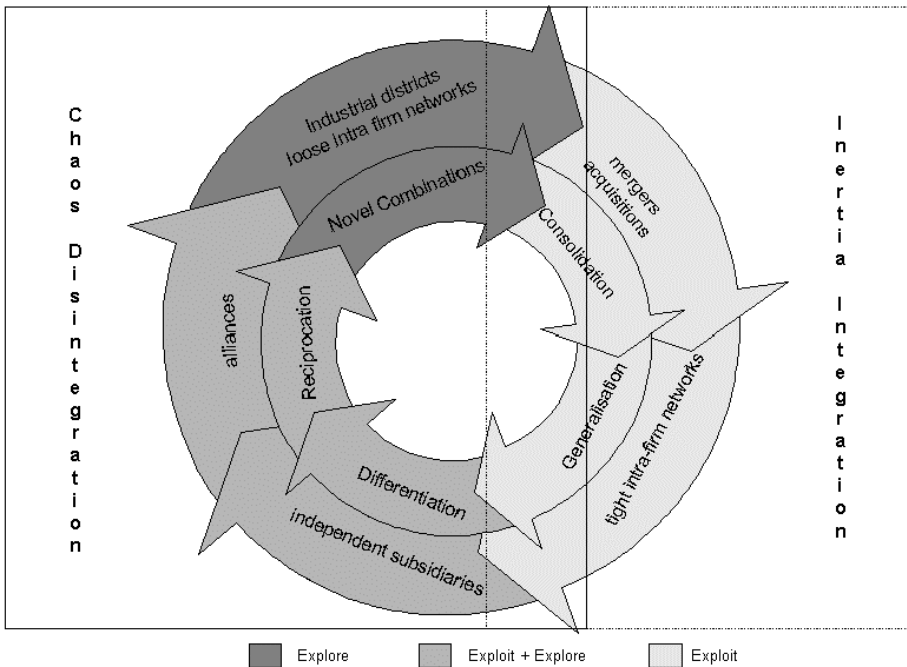
2.5.2 The cycle of discovery

We concluded in this chapter that change is possible but bounded because organizations are embedded in institutional arrangements that in their turn are embedded in an institutional environment. The TCT approach offers a tentative model that describes the institutional arrangements in terms of phases that define what kind innovation scripts organizations should excel in, to outperform their competitors.

The general argument of the TCT approach concerning innovations is this: novelty implies entrepreneurship. Changes in the contexts of businesses and people influence what kind of entrepreneurial activities are appropriate. Said in a different way it is proposed that different types of entrepreneurial activities can be linked to different stages in a cycle of discovery. In this way innovations are produced that influence the evolution of organizations. Some become obsolete others thrive. The cycle of discovery (innovation) is accompanied by a parallel cycle of organizational integration and disintegration because during the process of moving from one stage to another, organizations need to adjust the ways in which they coordinate their (inter-) actions. Entrepreneurship is embedded in distinct phases that add up to a cycle of discovery. The idea is that certain entrepreneurial styles should also be adapted on what stage of the cycle an organization is in. The theory does not expound a linear evolutionary path of discoveries and innovations and it even questions the validity of the concept of cycle itself. Regression and the existence of multiple phases of the cycle in a particular economy are acknowledged. For instance, an alliance may be dissolved and transformed into a merger or a franchisee may become part of a tight-intra form network. This constitutes a regression relative to the general evolutionary drift of the larger economy in which the organisation is embedded. Multiple phases are present because organizations come and go and develop relationships. It can therefore very well be that a start-up firm in the phase of consolidation enters into an alliance with a firm in the stage of reciprocation to obtain access to a network of independent subsidiaries that sell the product the start-up produces. For instance an e-commerce content-provider providing services for travel agents needs access to airlines or distribution systems that value this service and possess the power to make travel agencies use this service.

Nevertheless the different stages in a cycle can be considered archetypical constructions that need to be adjusted to a particular empirical space (place and time). We will therefore describe them as distinct stages.

Figure 2.3 Cycle of discovery and integration and disintegration combined



(source: adapted from Nooteboom 2000)

- Accommodation or novel combinations

Elements of diverse practices are connected and deliver a new architecture. When a new architecture arises within a large corporation this usually result in a spin-off. An example is the development of a central reservation system (CRS) by American Airlines. The CRS called SABRE was a direct result of the need to innovate distribution systems because of an increase in complexity and frequency of transactions. The incorporation of elements of information technology and the subsequent process of trial and error delivered in the end a new distribution and reservation information architecture. Loose intra- and inter-firm networks with departments, academics and business partners dominated at the beginning of this venture, later on selections were made and relationships with existing partners were consolidated. (Copeland and McKenney 1988) This prevents the risk of spill over of valuable information to competitors.

- Consolidation

In this stage novelty becomes consolidated in a standard practice, a dominant design. A dominant design enables the efficient exploitation or consolidation of the constitutive architectural innovation. The process of consolidation works through selection and improvement or incremental innovations. Improvement happens through first-order learning, you learn how to do an existing practice better, more efficient. Selection is the reduction of variety and selection lies at the root of the process of consolidation. The fact that consolidation leads to inertia is not contradictory, one needs a stable basis from which to explore. Or in the words of Nooteboom: “Inertia is not only needed for the sake of co-ordination and control” (2000:17). The occurrence and speed with which consolidation occurs is dependent on competitive pressure that is fuelled by the possibilities for standardization. More standardization leads to more competitive pressure because the possibilities to design and execute product or service delivery processes differently becomes smaller. It becomes easier to insert nodes into scripts. Once the new architecture proves to be successful it tends to be imitated and improved upon by other organizations. To stick with the CRS example, after SABRE was launched and its potential recognized many other airlines wanted to possess such a system. This led to other CRS’s based on the same principle. Examples are Galileo, Amadeus and Abacus. In large organizations innovations are usually developed in relative isolation to prevent an early destruction of the revenue generating processes based on earlier innovations. Smaller organizations tend to evolve into an organisation with more bureaucratic and hierarchical properties.

- Generalization

In the stage of generalization standardization proceeds apace and scale increases. Home markets do not offer enough expansion potential and internationalisation takes off. Hierarchies or professional bureaucracies have come about and the managerial function takes precedence over the entrepreneurial function. The entrepreneurial challenge lies in the adaptation of the product or service offered to different national or regional regulatory environments. The competence to co-ordinate such processes, international expertise and establishing and maintaining channels of communication with geographically separated operations are qualities that are of importance in this stage. However, travel and tourism firms are by definition internationally oriented. The competence of managing across boundaries must be present at every stage in the cycle.

- Differentiation

The next stage is defined as the re-arrangement of elements from an existing practice into novel versions for novel contexts. An example is the current strategy of airlines to open a direct marketing channel, drawing on older experiences from CRS’s, call-centres and travel agencies. Adaptation is even more prominent in this phase, but not in the sense of adapting to different boundaries imposed by institutional arrangements but adaptation refers here to matching demand and inputs. The basic elements of the service or production scripts remain the same, just as the organizational architecture that supports the script. CRS’s, for example, are currently not only used to reserve seats on planes, which was the

original goal underlying the development of such a system, but they have expanded the system to include offerings of other suppliers of services that support or add to the original service.

Figure 2.4 Differentiation in Tourism

| | |
|--|--|
| <p>Thomas Cook advertisements</p> <p>“...Kenya...where the pulsating rhythm of tribal drums and dances can still mystify and thrill; unbelievably, besides this scene from a Tarzan epic the glorious golden beaches shimmer in the sun and hotels afford the comforts from which to sunsoak and explore.”</p> | <p>Kuoni Travel Booklet</p> <p>“...Gambia...where the pulsating rhythm of tribal drums and dances can still mystify and thrill;... Unbelievably, besides this scene from a Tarzan epic the glorious golden beaches shimmer in the sun and hotels afford the comforts from which to sunsoak and explore.”</p> |
|--|--|

(source: Lea 1984)

It currently possible to rent cars or book hotel rooms via a CRS and in the process of doing so they have transformed into Global Distribution Systems (GDS) (Prideaux in Buhalis and Laws 2001). Another example is that a tour operator that assembles and sells packages to Venezuela will not need to alter the basic assembly and marketing script if it also starts to offer packages to Bali. An example that highlights the phase of differentiation are two advertisement from different tour operators serving two different destinations, one in East the other in West Africa (Lea 1984).

- Reciprocation

Reciprocation follows differentiation and is akin to metaphor in language, it entails the transferral of an element from one concept to another. At an incremental level the fact that you can buy pineapple juice in Thailand at a McDonalds is an innovation in the field of reciprocation because it entails the adoption of an element from a foreign practice or consumer script into the producer script of beverage assortment and delivery. The management of old and development of new networks of relationships tends to become crucial in this stage. For example, the current development of E-commercial applications like travel portals tends to be a joint endeavour of IT-companies and airlines together with other suppliers of services and products relevant to a travelling public.

2.6 Conclusions

This chapter served to introduce the reader to the main theoretical concepts employed in this study and to show that there is a need for theories that help to explain how change in and between organizations comes about. We used insights from sociology to argue that Competence and Resource are similar to the concepts of Agency and Structure. We conclude that they are not fundamentally opposed but complementary aspects of an organization that allow us to understand change.

The balance between exploitation and exploration or inertia and change was investigated and we concluded that the concepts also constitute a duality.

Networks of organizations as separate organizational forms were discussed because they are the subject of research in following chapters. Networks differ from hierarchical coordination because of the autonomy of each member and networks differ from market coordination and because there is an attempt to coordinate through elaborate decision-making committees at multiple levels. Interorganizational networks are more complex organizational forms than a single organization studied in isolation. The problems of coordination are therefore much more difficult because of (perceived) increases in volatility, member autonomy and the ensuing complexity in decision making processes.

We further concluded that the concept of competence represented institutional ways of thinking and the concept of resource represented resource based ways of thinking in the management sciences. We then argued that a competence transforms into a resource the moment it becomes codified or internalised. When a competence is internalised, when it is a skill or competence, it is subject to reflexivity. It becomes part of a person and different rules apply to a person. Its valued action, the application of skill, can therefore not be as easily coordinated as a machine, a resource. Rules regarding behaviour between manager and worker develop both formal and informal ones. Law provides formal codified rules while culture is internalised and therefore more tacit and cannot be influenced or coordinated in a straightforward manner.

This example of the differences and similarities between law and internalised rule serves to underscore our conclusion that institutional and resource based views mutually presuppose each other and that more than one level or reality is implicated when studying change. Rules are potential resources. Especially when they are codified/externalised when internalised they are more akin to competence. In their turn competencies can be wielded as resources at higher levels: e.g. HRM-management. The example also highlights another conclusion we drew: that change is possible but bounded. This has distinct implications for a theoretical framework that aims to understand change and inertia, in other words tries to make sense of the evolution of businesses. The existence of boundaries, be they material, institutional or cognitive implies that different forms and solutions to similar problems exist. There is no one best solution to a problem. Secondly, different layers exist in social and economic reality, they are instantiated, maintained and changed through interaction at multiple levels (individuals, businesses, nation states, associations, etc.) over time. Thirdly, because change is bounded we can assume that there are regular recurring patterns of

interaction. These can be modelled as scripts that are recurring sequences of resource use through competence wielding.

We then continued with the introduction of a theory that has incorporated these insights but first we detailed the different forms innovations may take because innovation, as a special form of change, will figure prominently in this thesis.

Framed in such a way we are able to view the tourism industry and particularly the travel sector as a multilevel system of scripts. Wielding resources competently in a sequence of actions is what makes a script and through this definition, we unite RBV and institutional views. Organizations are conceptualised as multilevel systems of scripts demarcated by the permanence and degree of integration of the different scripts. A generalized transaction based approach offers a tentative model that describes the institutional arrangements in terms of phases that define what kind innovation scripts organizations should excel to outperform their competitors: this approach was labelled the cycle of discovery.

The description of the evolution of a globally operating network based business system that evolved, as the industrial revolution unfolded in the United Kingdom will serve as an introduction into the tourism and travel sector and to elucidate the similarities and differences between the concepts of resource and competence. We will look at the evolution of an archetypical organization in the tourism and travel sector although we also highlight another entrepreneur to further our understanding of innovations. We will see what innovations were produced, how they influenced production-processes and if the process can be reconstructed in terms of the cycle of discovery.

3 TOURISM AS A RADICAL INNOVATOR: THE CASE OF COOK

“Modern society is a society on the move.” (Lash and Urry 1994:252)

3.1 Introduction

Mobility and modernity are closely intertwined. The quotation emphasizes the change in perception about travel from something that is done to serve a purpose to being a purpose in itself. We hope to show that mobility, or the right to go anywhere, has become increasingly central to our developed economies as the effects of the industrial revolution unfolded.

We therefore aim to elucidate the interaction between different fields and actors in society that have led to the coming about of a set of related business systems that provide tourists with the experience they seek: the modern day tourism sector. The cycle of discovery will be used to interpret the development of the commercial endeavours of Thomas Cook and his son John Mason Cook during the period 1840-1870. The description of this process leads to the observation that innovations in (tourism) service delivery processes usually predated radical architectural innovations in manufacturing.

This chapter will answer the following questions: how are social, economic and technological factors implicated in the entrepreneurial process that led to a super-script for the production of service delivery processes facilitating the (co-) production of tourism experiences? Secondly we would like to know how elements in the environment of the firm and entrepreneur are implicated in a discovery process. This will enable us to formulate an answer to how innovations arise and how resources, competencies and the institutional environment are related.

The structure of this chapter is as follows: We start in section 3.2 with a further introduction of the economic sector of tourism and, more particularly, the travel sector. Then we continue in section 3.3 with a succinct description of the industrial revolution and highlight the fact that three main General Purpose Technologies (clock, telecommunication and steam) were combined in myriad ways to allow for the genesis of firms facilitating the mobility of persons solely for the purpose of leisure. One of the first international tourism firms that achieved global recognition and reach was Thomas Cook and Son. Many of the particular competences and resources, the nodes that deliver service scripts, had already been invented by other entrepreneurs but Cook can and should be credited with bringing them together into one coherent service delivery and organizational script. Then we briefly elucidate the relationship of Thomas Cook with his son John Mason Cook. This shows how the firm Cook went from a socially inspired, exploratory business strategy to one in which exploitation became more central. This account will be expanded with examples from another entrepreneur, George Pullman, which show that the way in which service

delivery processes were structured in trains operated by Pullman preceded the central tenet of Taylorism. The choice for these two entrepreneurs was made because their names have been immortalized in the English language. Withey (1997:175) emphasizes the importance of these entrepreneurs in a similar vein: "It is some small measure of their significance that Pullman's with Cook's has entered the language in generic forms: the 'Cook's tour', The 'Pullman' coach".

Throughout the chapter attention will be paid to the relationships tourism entrepreneurs entertain with their suppliers. This will set the stage for the next chapter, in which we describe how a global distribution network in which travel agencies and airline companies are linked is riddled with tension and has become inert over time.

3.2 Tourism and travel

Tourism moves people, signs, symbols and goods, it is a socio-economic phenomenon that acts both as an engine of economic progress and as a social force. It is much more than an industry. Tourism is a sector encompassing many activities and processes that impact a wide range of public and private organizations. The primary defining principle of being a tourist is travel and residing in a place at the same time. You cannot be a tourist in your own backyard. You have to go to a particular place, outside your community, stay there and then travel back to your place of residence. Travelling and mobility are broader terms and they can be said to weave our modern lives together. It is hard to imagine human life without travelling. Moving from place to place to drink, eat, sleep, work, care, and relax is an expression of freedom in modern times. In pre-industrial days, travel was motivated by trade, curiosity, war, religion, survival or a mixture of these motivations and only rarely for pleasure. Only elites in the Roman Empire or other highly developed civilizations travelled to other places solely for the purpose of leisure. To be confined to one place to work, care and relax would be regarded as restrictive and provokes associations with detention, anxiety, boredom and frustration in our modern societies. Modernity is increasingly equated with the right to be mobile, because we depend on it to accomplish our daily routines. Cora Kaplan, whose extended family is scattered around the globe wrote about this implicit right, she was: "...born into a culture that took the national benefits of travel for granted" and she presumed that "US citizens travel anywhere they pleased" (Kaplan in Urry 2002:5). Tourism and travel infrastructures do much more than transport people for leisure pursuits they are the conduits of modern society they transmit not only people but also cultures embedded in the persons that use such infrastructures, they also enable the maintenance of social relationships and tourism produces places and symbols of modern mobile societies such as airports, motels and leisure associated brands like Coca-Cola, Club-Med, etc.

While travel for leisure can be considered an escape from necessity and purpose, travel is equally concerned with the way in which humans express themselves and experience reality. Travel is the most common source of metaphors. We explicate transformations and transitions of all sorts with it. We describe death as a passage into another realm, life itself is a journey or pilgrimage through time and every culture discovered and researched thus far articulates changes of social and existential conditions in 'rites de passage'. Travel is a

source of reference, a well from which to draw symbols and metaphors and therewith a (re-)source of signification. Travel is the 'paradigmatic experience', the model of a direct and genuine experience, which transforms the person having it. That experience and travel are closely related can also be glimpsed from the roots of Indo-European languages. The Indo-European root of experience is *per¹³. The meaning of the word had connotations with the words 'to try', 'to test', 'to risk', reminding us of the meaning of the English word 'peril'. While the German word for experience, "erfahrung", is derived from the Old High German 'irfaran', meaning: 'to travel', 'to go out', 'to traverse' or 'to wander'. Travel was also seen as something laborious it involved a great amount of 'work'. The original English word for travel was 'travail' derived from the French 'travailler', which means 'to work'. The point we are making, through this rather impressionistic paragraph, is that in our modern-day society travel and thus tourism is normal, pervades all spheres of life and is a source of norms and therefore far more structuring the lives we live than we think.¹⁴ We consider it absolutely normal that our life is segmented into places of work, play and privacy that are connected to the transport networks of our modern urbanized areas; our extended cities with their sub-urban hinterlands. But the incessant amount of travel and the services and products related to it are recent phenomena that sprang up with the coming about of the Industrial Revolution, and are still gaining in importance.

Tourism, during the days of the industrial revolution, used to be concerned with our extraordinary routines but typical touristic activities are now part of our everyday life. Travel, the consumption of signs and symbols (buying designer clothes, buying a can of soda based on the brand not on the content, etc.) is done as matter of fact in developed economies. Hence, the conclusion by Lash and Urry that tourism is dead because 'tourismlike' activities are increasingly integrated in our daily activities. Automobiles are often used in leisure related activities like going to the mall to buy groceries. Which underscores the point just made. Tourism is dead but more part of our life than ever.

If tourism is far more structuring our daily lives and the organizational arrangements we live in and through: "Why then has there been so little investigation of mobility...?" (Lash and Urry 1994:254). Why have the diverse forms of transportation (goods, signs and symbols) and travel (persons) and the services that make mobility possible received limited attention compared to, for instance, the manufacturing sector? Firstly, Tourism studies within the academic world are generally seen as 'swimming trunk' studies. It has clear connotations with leisure and pleasure, not work. Work is something to be taken seriously in our society. Secondly, because of the wide range of firms and public institutions involved in the production of tourism experiences tourism studies generally approach the subject from a multi-disciplinary perspective. Besides concepts such as the demonstration effect, environmental bubble and relative deprivation, tourism studies have not contributed significantly to social or economic theory (Cohen 1988). Thirdly, certain academic biases

¹³ The asterisk indicates a retro construction from languages living and dead.

¹⁴ For this paragraph I have predominantly used the book: "The mind of the traveler: from Gilgamesh to global tourism" written by Leed (1991).

favour analysing manufacturing over services, of structure rather than mobility (process) and the concomitant bias that mobility is a spin-off of more substantial processes, like technological innovations (Lash and Urry 1994). While it is the use of technologies through the sense that people make of an artefact that determine its success. Fourthly, it is not only certain academic biases but the fact that something material, something solid appears to be more real to every human being (Lakoff and Johnson 1990 in Nooteboom, 2000). Services are intransient they only exist in a moment when people or people and machines interact and thus they seem of less importance.

In the remainder of the chapter we will show that tourism was the first sector to organize the production of a service in such a way that it could be standardized and this served as a template for all other production activities in modern and industrializing economies. Tourism delivered a dominant design of production comparable to a dominant paradigm in the production of science and therefore became as much an icon as well as an expression of modernity. This is what we hope to show in the next sections and is reflected in the quote that precedes the next section.

3.3 The Industrial Revolution

“For my part, I travel not to go anywhere, but to go. I travel for travel's sake. The great affair is to move.” (Robert Louis Stevenson, 1850-1894)¹⁵

About one hundred and fifty years ago work and production, the way in which they were organized and coordinated, began to experience a change much more profound than any since men started farming instead of hunting. The exclamation of Stevenson, who invented the locomotive based on the general-purpose technology of steam, reflects and summarizes this remarkable transition. Mobility is the expression of and the means to sustain and expand modernity. The massive change, that occupied England the greater part of the 19th century, is now referred to as the Industrial Revolution.

“Although the subject is still debated, the economic system that thereafter appeared was, in substantial measure, the offspring of technology.” (Galbraith 1995: 1). This quote might lead one to conclude that technology drives change that the industrial revolution was a technological revolution, but general-purpose technologies are malleable resources and they only become of value when they are presented in such a way or combination that actors recognize that it serves a need. “It is not technologies themselves that drive change but the way in which these technologies are organized to fit in the daily life of the consumer and worker that determine organizational success.” (Lash and Urry 1994: 254).

The Industrial Revolution widened the divide between leisure, work and care they became radically separated in a geographical and temporal sense, a factor that contributed to the

¹⁵ This quotation came from a letter written by the president of the United Federation of Travel Agency Associations the formal counterpart at the global level. It was posted at the following website: www.iata.org/agenthome

development of transport infrastructures and mobility. From an experience for the privileged few and professionals, travel became an experience for the upcoming middle class and, later on, the labourers in the new industrial sites. The introduction of the general-purpose technologies of steam and communication in the 18th and 19th centuries and the further development of the technology of time led to revolutions in transport and production sectors. The application of a combination of the general-purpose technologies of steam, electricity (telecommunication) and time to production made it possible to produce goods much more cheaply and of a consistent quality. Likewise, the application of the general-purpose technology of steam to means of transport led to innovations such as ships and trains driven by steam. Together with an accurate technology to measure time in discrete units this provided the conditions that enabled the movements of groups of people and goods over greater distances in shorter timeframes than ever before. Many authors have noticed this effect of the application of the general-purpose technologies of steam and time. The application of such technologies has profound effects on society and individuals they contribute to geographical concentration in the form of larger cities and units of production. These effects have received various labels such as space-time compression (Lash and Urry 1994), time-space distantiation and therewith the disembedding of social activities from place (Giddens 1984) or the death of distance (Harvey 1996). Entire new companies such as those catering for the expansion of railroads came about accompanied by service organizations catering for the transport of either goods or persons. Cities expanded and became motors of economic growth, which led to a flow of labourers from rural areas to the cities. In rural areas leisure, care and work were governed by seasonal and religious calendars and they were geographically concentrated around the market-square and church. The disembedding of social activities or the spatial separation of work, care and leisure increased demand for different forms of mobility of signs, goods and persons. Which in its turn created a need for more precise calendars and time measurements. The production of travel speed was accomplished by a reduction of waiting times and this could only be done when timetables were standardized. For this to happen the different times at the regional level in England had to be aligned. A national time standard had to be introduced. A national railway time table first appeared in 1841 trains could be planned to arrive and leave within the minute and a demand was created for precise and portable clocks. (Lash and Urry 1994:261) The compilation of such a table put a considerable burden on the resources and competencies of transport companies. After lobby from these companies the government adopted a standard national time in 1845.¹⁶ A positive feed back-loop between consumption and production via the institution of the state came about. At the product level we can say that the demand for watches was amplified by the desire of people to travel. Peters formulated this process as follows: "Reflections on the rise of the watch as part of the daily life of individuals show the interaction [of temporal and spatial orders, JA] beautifully: the clock created its own conditions for its distribution. As travel became more tightly organized in time a person without a good watch would

¹⁶ I came across this fact in the final phases of re-writing the 1st draft of this thesis on a Friday night in July when I was watching the BBC 2 programme 'What the Victorians did for us.'

surely miss the train” (1997:187). It was not the only positive feedback loop tourism created in national economic systems.

We conclude that the introduction of new technologies induces organizational transformations and, these transformations in their turn have repercussions for both work and leisure and the ways in which they are interwoven. This is not a technological deterministic account because we allow also for the reverse causal chain, where changes in labour and leisure and other relations influence the adoption and diffusion of new technologies and even determine the kind of technology that might be developed.

3.3.1 Change and innovations

Similarly, Rosenberg (1982) stressed the fact that actual use is necessary to generate knowledge required to improve a product. Schot and Bruhezel follow Leonard-Barton’s view: “ implementation of technical innovations is best viewed as a process of mutual adaptation...” and... “We will characterise this mediation process as a process of mutual articulation and alignment of product characteristics and user requirements. In the process of mutual articulation and alignment (or mediation), product characteristics, the use, the user and user demands become defined, constructed and linked up. Mediation as a process of mutual articulation and alignment is not only heavily influenced by the work of producers and users, but also by the work of mediators” (2001) [own underlining, JA]. Interorganizational networks and relationships with consumers become more prominent, because users need to become part of a technology nexus if a firm wants to improve its innovativeness and tourism presupposes such contacts. We will see in other chapters that there are also political and economic fields that exert their influence on these processes.

Actors, be they end-consumers or industrial consumers, only value technology in as far as they can make sense of it. If it fits, replaces, improves, alleviates daily routines or, in the case of tourism, provides a break away from daily routines. Routines are sequences of tacitly performed practices situated in time and place and are the ‘antipode’ of more explicit codified scripts. Madelein Akrich in Schot and Bruhezel (2001) also recognize the usefulness of the script concept and links it to design and innovations: “A large part of the work of innovators is that of ‘inscribing’ ...[a vision about]...the world in the technical content of the new object. I will call the end product [or service] of this work a ‘script’ or a ‘scenario’ ”. Notice how close this conceptualisation is to the script concept of the general transaction cost theory (see chapter 2).

3.3.2 Tourism and Entrepreneurship

An entrepreneur combines different technological applications (steamship, telegraph, print) of General Purpose Technologies into user scripts actors recognize as desirable. An entrepreneur therefore needs to tap into the structures of thought of the actor he wants to sell his new proposition too he needs to bridge cognitive distance. He needs to know what his customers desire to make propositions that could become a commercial success, but he does so within existing socio-economic, political and technological regimes (Boyer and Hollingsworth 1999). Tourism crosses borders, tourists take ideas with them and these

ideas can change or be reinforced while being abroad. The reinforced or changed ideas become part of social life once tourists return. New nodes are inserted in consumer or citizen's scripts. Changes in consumer and citizen's scripts lead, eventually, to changes in the dominant designs (like Fordism) and worker's scripts are accordingly affected by tourism in this way. We do not imply a reversed 'trickle down' effect the direction of causality is not known, nor inferred.

Summarizing, We take the point of view that technological innovations only become economically successful and culturally emblematic when corresponding organizational innovations are produced that integrate the technology into production and consumption processes. So, paradoxically, the more successful the integration of technology is the more it seems that technology drives change because they have become part of day-to-day processes, they have become tacit. The following section describes the development of a dominant design or meta-script in a service sector. We will first detail the technological pre-requisites that Cook linked to produce travel in the way we are currently familiar with. It will be shown that he stood at the cradle of the international mass tourism related economic infrastructures.

3.4 The production of travel: tourism and travel scripts

The question we try to answer in the remainder of this section is how did Cook succeed in formulating a meta-script (dominant design) of industrial production systems? To answer this question we first need to have an understanding of the way in which travel was organized before Thomas Cook started to make an impact.

3.4.1 Pre-industrial travel

Travelling was, at the beginning of the Industrial Revolution, still a hazardous, confusing and tiring occasion. Mark Twain wrote in a letter: "...travel in Europe had been made hateful and humiliating by the wanton difficulties, hindrances and vexations, put upon it by stupid and disobliging transportation officials...One could not buy a rail ticket in advance of the day of the intended journey, and, even then, had to wait until fifteen minutes before departure time. There was a weight limit on trunks and cases. All of which had to be weighed (and excess baggage paid for) in that same fifteen minutes. If there was not enough time one simply had to abandon such trunks as failed to pass the scales, for if you missed the train you could not travel on the next one on the same ticket.... It was not unusual for a long distance traveler to find himself with a ticket which suddenly became invalid along the way because it had not been correctly drawn at the departure point" (Hindley 1983:210). Knowing beforehand where you will arrive at what time and what service quality you can expect is the information needed by a tourist to plan a route and travel. Such information was only possible to obtain with rough estimates or not at all.

Thomas Cook was one of the first travel agents who organized travel without the cumbersome hassles just described. He was one of the first travel agents who was able to give accurate information to would-be travellers. Additionally, due to the way he organized travel all kinds of upsetting intercultural exchanges on foreign train stations, hotels and restaurants were ritualised/routinised and therewith less disturbing sometimes even adding to a 'true' touristic experience (MacCannel 1967). This is quite important because tourists can generally be segmented into groups along a continuum with the extreme poles of total submersion in a foreign culture at one extreme and firmly staying within the environmental bubble of the originating destination at the other end. (Cohen 1974; Elands and Lengkeek 2000) In general Cook made travel safe, easy and cheap.

How did Cook succeed in making travel safe, easy and cheap? We argue that he was successful because he invented 'avant-la-lettre' the fordist way of producing. The changes to the organization of production that made assembly line production possible were almost identical. Lash and Urry (1994:261) state it in a different way but essentially claim the same when they write that: "There is some justification for suggesting that twentieth-century organized capitalism might better be described as 'Cookism' rather than 'Fordism'." The way in which Cook organized travel reflected the sequence of production (production script) for which Henry Ford became famous.

3.4.2 The 'building-blocks' of industrially organized travel

To substantiate this claim I draw upon the arguments of Hans Magnus Enzensberger (1964) who asserts that three elements are of essential importance when characterizing the production of tourism services as industrial: standardization, assembly and mass production. One of the most well known examples of a dominant paradigm in manufacturing is the invention of assembly line production by Henry Ford. What did Henry Ford do that was so revolutionary in terms of manufacturing? Simply put he wanted to produce cars with pre-defined elements and therewith make them easy to assemble. In this way the cost of producing a car could be drastically reduced. Norms prescribed the properties of different parts of a car. Norms are a way to **standardize**, think about ISO-norms for instance. The different parts should have the same gauges to allow for easy **assembly**. This in itself delivers far cheaper production costs per unit, because the time to assemble a car and the input of labour needed were reduced tremendously. But to profit from economies of scale and scope they need to be **mass-produced**. These three elements are of essential importance when characterizing the manufacturing innovation of Henry Ford. The principle innovation, underlying Fordist production and the three step process just described, is defined by Womack, Jones and Roos (1990) as: "...the complete and consistent interchangeability of parts and the simplicity of attaching them to each other". Standardization paves the way for the two other main elements of the meta-script of service production: assembly and mass-production, but it should be born in mind that standardization, assembly and mass production are interrelated processes that do not necessarily follow each other in time. We will therefore pay most attention to the innovations that enabled Cook to break down a journey into standardized elements, but we start with a short introduction into the motives of Thomas Cook to become a travel agent

and tourism entrepreneur. A focus on motivations elucidates how the interaction between different fields in society and individual action are interwoven and mutually influence each other.

3.4.3 A history of Thomas Cook: a journey through innovations

Cook's motivations connecting politics, religion and business

Thomas Cook born on 22 November 1808: "...entered two worlds, one ceasing to exist, one struggling to be born" (Brendon 1991:21). Cook was motivated by philanthropic goals (the teetotal cause) but he was not adverse to 'philanthropy plus five per cent' (Eldridge in Brendon 1991:36). Teetotalism was a response to one of the great social problems that accompanied the industrial revolution. Gin became available in great and cheap quantities aggravating an already apparent tendency to drink. "Of course inebriation was a sold as Noah and, as Sydney Smith observed, beer had always been inseparable from Britannia. But in the 1830's many people came to see strong drink as the most serious of social ills" (Brendon 1991:25). Drinking was seen as disruptive of social and economic life. Cook used tourism as counter-attraction for drinking. The following quote is exemplary in this regard: "It must have been clear to him that as a cure for drink, exhortations were less effective than counter-attractions. He was not alone in coming to this conclusion.... It (the Teetotal movement) was in the vanguard of a broad based campaign to woo workers away from the pub by providing them with wholesome and enjoyable alternatives.... The aim of teetotallers was to compete with the tavern..." (Brendon 1991:31) [own underlining]. But Cook was not only motivated by the ideals of the Temperance movement. "Cook's political views were more liberal than radical. He loathed war, slavery, capital punishment and corruption. Above all, he felt compassion for the poor, the deprived the downtrodden" (Brendon 1991:24). In his early years he became an evangelist and explored in this function the countryside, encountering people and places. Giving him intimate knowledge of the preferences of the people and of the places he visited. Moreover he learned how to deal with groups of people and how to enthuse them for a cause. Things a good tour-guide must be able to do. The time spent in the countryside and with workers also helped him in establishing a reputation as a trustworthy individual. He was religiously inspired entrepreneur and social activist. Religion provided him with the knowledge to set up excursions and to find a market for it. He went into publishing and produced numerous publications and journals all aimed at improving the conditions of the new working classes. Above all his last source of motivation was the belief that corporeal mobility for other reasons than necessity was needed to emancipate the masses employed by new industries. He believed in the egalitarian and emancipatory power of tourism. "Educational enthusiasm combined with commercial self-interest to convince Cook that travel was as much a duty as a pleasure: 'To remain stationary in these times of change, when all the world is on the move, would be a crime. Hurrah for the Trip – the cheap, cheap Trip!'" (The Excursionist 1854 in Brendon 1991:65) Cook started to arrange short inexpensive teetotal excursions as a form of rational recreation, a counter-attraction to drinking. He was not the only one doing so, in July 1841 James Day a publican also arranged an excursion for his customers (Brendon 1991:31). Cook experimented with adding services to a group

tour in the form of providing food and entertainment. Gaining valuable experience in the process. This is how he started his business and ensured that a market for his propositions was there. His structures of thought were highly compatible with the temperance movement and he was therefore able to transport groups of teetotallers to manifestations and events. He tapped into a need and started to become a travel agent because he saw, maybe in retrospect, that he could use tourism to make a profit in business to sustain unprofitable social and religious activities

Going commercial

The first commercial project of Cook after the experience he gained with the teetotal excursions was a trip to Liverpool with a possible extension to Caernarvon and Snowdon in 1845. This first trip already contained many elements that would characterize the way in which Thomas Cook organised and executed group travel and contained the elements that would allow for standardization and provide explanations for the innovative potential of the travel sector.

I. Negotiate with the suppliers (railways)

The excursions were one-day trips accommodation did not need to be arranged. Cook negotiated reduced fares and the itinerary. So people could board in different places and pay a fare according to mileage. Railways paid a commission to compensate Cook for the work he had done and customers he delivered and the preferred form of governance of the relationship was contracting. It was not uncommon to have to negotiate with a number of suppliers, co-ordination became much more difficult as a result. It should be noted that all these services are still performed by modern travel agencies.

II. Explore, plan and conduct the excursion personally.

During the exploration and planning phase Cook would run into difficulties and unsuspected opportunities. He personally experienced the excursions he organised and could therefore anticipate much of his customers' reactions and demands. Cook therefore attributed a large part of the success of the excursions to his 'own superintendence' (Brendon 1991:37). The close supervision, meticulous planning and his participation in excursions made him very much aware of how his service propositions could be improved. It is exactly the participation in many trips thereafter that delivered him with ideas that turned out to be important innovations still in use today in the tourism industry. Currently, it is rare for an owner of a tourism organisation to be directly involved in the delivery of touristic services.

III. Publish a handbook

The handbook contained a detailed itinerary, description of sights and topical tips. Not unlike many tourist brochures being published today that also tell us what is worthwhile to see and which neighbourhoods should be avoided, for instance. Cook explained that his handbooks "...possess threefold advantage they excite interest in anticipation: they are highly useful on the spot; and they help to refresh the memory in the after days"

(Brendon 1991: 37). The handbook directed the gaze and structures of thought of the participants. Excursionists were persuaded to do and see things in a particular order. "Advertising is to trade what steam is to machinery" (Cook in Brendon 1991:33). If persuasion was successful excursionists would display behaviour during the excursion that would ensure a smooth journey and they would gaze upon the edifices or natural attractions described in the guide.

But what is it that produces a tourist gaze? Diversion from daily routines embedded in processes or work or care become of central importance: "...potential objects of the tourist gaze must be different...They must be out of the ordinary"(Urry 1990:11). Tourism implies a break away from daily routines and surroundings. The environment must be different in varying degrees depending on the motivation of the tourists (Cohen 1974; Elands and Lengkeek 2000). The division between the ordinary and extraordinary can be enhanced and sustained in a multitude of ways. Firstly, an object can be unique in itself. Pyramids, the millennium dome, the Guggenheim museum in Bilbao or even something mundane like the geographical centre of a nation-state, like the Uluru rock are examples. Secondly there is the mode of gazing upon particular signs. A typical Dutch windmill, French chateau in other words sights that can be deemed emblematic for certain attraction. Thirdly there is the seeing of unfamiliar aspects of things that are normal in day-to-day life but by gazing upon them show unfamiliar aspects. This is not a trivial category; it can be highly successful because it feeds nostalgia and can convert ordinary edifices or things in something extraordinary. A good and successful example is the sightseeing of normal houses in which people actually live from different periods, in Rotterdam. Routes were provided, during the time Rotterdam was the cultural capital of Europe, in guides that led to and through a number of houses in which people lived. Especially their interiors and the view from the windows on the city became desirable gazes. Fourthly, gazing at people doing ordinary things in an extra-ordinary context. One of the most sordid examples is a trip, as part of a larger package, organized to refugee camps to see how refugees live their day-to-day lives. More familiar examples are gazing at a farmer ploughing a rice-field. Extra-ordinary for western tourists and for the extremely well to do and extremely impoverished urban dwellers in developing countries. Fifthly, doing ordinary things in extraordinary visual environments. Dining is something everybody normally does every evening, but if dining takes place in an airship floating over Paris by night the visual experience greatly enhances, maybe even supersedes for a while, all other experiences. Finally, gazing at particular **signs** that **indicate** that what you see constitutes the last resource from which to produce sights. The moon rock is one of the most quintessential examples. As a rock it is wholly unremarkable. The fact that there is a sign that says that comes from the moon marks it as distinctive and extraordinary. Something similar happens in museums, two paintings from the same period done in the same style can be gazed upon in completely different ways. If the first painting is a Van Gogh and the other one from a rather illustrious painter, most of the gazes will be drawn to the Van Gogh. The gaze, what you are supposed to have seen structures the journey. This does not mitigate the fact that other senses are involved in a tourism-experience but in our western society the visual is the dominant sense. What you have seen is real while taste and smell, for instance, are considered less objective and distancing senses and therewith less valid sources of

information. The visual can be stored and shared and therewith confirm that you have been there as a tourists, a tape from a concert you visited is not as straightforward. It can be shared but music is not tied to a place while a gaze is and a gaze allows for standardization, it is even supportive of it.

Standardization

As we wrote in the beginning of this section, before Cook innovated the organization of travel, travellers still decided for themselves how they travelled, where they stayed, how long they wanted to stay, if they wanted to see a particular museum etc. etc. They had to arrange all these things themselves via local intermediaries. There was, nevertheless, a certain structure to the routes travellers followed. The structure of the route was conditioned because of a number of causes amongst which: the arts, literature, poetry and paintings, class-consciousness (imitation, keeping up with the Jones's). Travellers were thus already partly mentally conditioned in following routes structured through sights (Urry 1990). Their needs and desires or preferences were embedded in societal fields. These fields served as (re-)sources of signification. Wells, from which to draw symbols that allowed individual (would-be) travellers to make sense of the world. The arts especially literature and painting stimulated the desire to travel while: class, associated income and availability of leisure time defined the boundaries to the fulfilment of the desires. The informal (tacit) standardization of routes and destinations began with the appearance of travel guides. One of the most famous is Murray's Red Book. This book and many others, like the still published Baedeker's guides', suggested routes that led to streams of tourists throughout Europe going from one 'must-see' to another. Cook started to codify and formalize certain well-trodden popular routes. He started to define the nodes in a travel script using the competencies and knowledge gained when organizing and participating in excursions with more emancipatory goals. He offered to organize the transport of groups of people to sights and places. Places and sights are consumed through the gaze of the tourist. A sight is what you should have seen and preferably 'immortalized' through a photograph or buying a souvenir that testifies that you have been there. It was, for instance, a custom to buy an Alpenstock in Switzerland when on a walking tour organized by Cook.¹⁷ Sights (gazes) structure travel scripts, food and accommodation are taken as a given they rarely become an attraction in and of themselves in tourism, although there are culinary niche markets and food and drinks are distinct nodes in a larger tourism script. Trips to a wine cellar or chocolate factory are examples in this respect.

Guides did not only focus the gaze of the tourists but they also structured the movement and behaviour of tourists in service-encounters and the 'spontaneous' interaction with local people. Just as modern day travel guides, they also gave advice on how to behave. The host-guest encounter became therewith standardized albeit quite tacitly and the guide served as a cognitive bridge between two cultures both as a person, the "man from

¹⁷ The Alpenstock, basically a walking stick, would be branded with the name of the owner. Every peak reached and glacier crossed would also be branded in the Alpenstock. Thus serving as proof and as a symbol of prestige.

Cook's", as well as on paper. Just as the modern day 'Lonely Planet Guides' do for backpackers. The use of this guide by tourists also led to informal but standardized routes that developed enough volume to allow for an exploitation strategy next to an exploration strategy. Lonely Planet uses the Internet as a search and booking engine to increase the ease of travel for tourists. They are facilitated in their desire to assemble their own trip, just as Cook did when he developed his trips to Scotland where he went from being an agent to being a tourism organizer.

Assembly

Cook was already assembling trips during the time of the excursions. It was during his activities in Scotland that the different parts of the trip became standardized in such a way that customers could assemble the different parts themselves. Up until now Cook provided packages that were all-in. To have only standardized elements defined as sights as in a guide is insufficient. The sights need to be assembled into a string connecting different places through travel. The difference with the production of goods is that the consumer is the one who connects the different parts, while it is usually the workers at the assembly line who do this, but the logic remains the same. The way Cook dealt with the opportunism of the transport suppliers he contracted will shed light on the relationship between travel agencies and airlines in later chapters and also contributed to innovations. It is therefore that we elaborate on this part of his career. Cook wrote that the excursions he organised to Scotland: "...almost imperceptibly, transformed me from a cheap Excursion conductor to a Tourist Organiser and Manager" (Brendon 1991:38). He went from organizing excursions in which people were taken by the hand much in the same way as in a modern-day package tour to become an entrepreneur that formulated the conditions under which travel should be organized to allow tourists maximum freedom of movement. The transformation of Cook will be the second point of attention in this subsection.

The first trip to Scotland in 1846 was not a big success almost everything that could go wrong did so. In the same year he could no longer sustain his publishing-branch (Brendon 1991:39-41). Brendon suggests that he averted a total bankruptcy because of his social capital into the Teetotal-community, sympathetic friends and some enlightened aristocrats (Brendon 1991:41-42). Support from different non-economic fields for non-economic reasons helped to continue his economic actions. By 1848 he had recovered he owned a prosperous hotel and a book selling and news agency close to the station in Leicester, his place of residence. The year 1848 was economically disastrous and railways tried, for the first time, to cut out the middlemen and organize the excursions themselves, similar to the current airline strategies in the areas of direct marketing and e-commerce. Cook adapted rapidly and formulated a strategy based on nostalgic sentiments. He hired old forms of transportation and..."capitalised on a Dickensian nostalgia for the old coaching days...". Although he was careful not to insult the railways because he understood the necessity of co-operating with them once they were willing to re-negotiate (Brendon 1991:43). A crisis fuels innovations. By 1860 he had introduced more than 50.000 tourists to Scotland. "Railway companies, which had expected to haul freight, were overwhelmed by the flood of passengers" (Brendon 1991:15). One of the most important innovations in this period

was the further standardisation of elements of the trip, sights. Tourists were allowed to change their itinerary during the trip, to change the number and order of the sites they wanted to visit. They could do so without incurring a loss. This innovation is comparable to the interlining agreements between airlines, because railways allowed tourists to change their itinerary without costs. Although he succeeded in negotiating such arrangements with the railway companies, he was acutely aware that rivalry (competition) between railway companies or resentment about his entrepreneurial position made him vulnerable. For instance, in 1862 the Scottish railways refused again to let him issue any more tourist tickets (Brendon 1991:54-55). "At a stroke, the companies destroyed most of Cook's livelihood..."(Brendon 1991:55). He was, again, in dire financial straits but the crises contained the seed of further expansion because it forced Cook to look beyond the borders of the United Kingdom, to Switzerland. He had time on his side because at this moment in history early communication technology, the rise in incomes and the Pax Britannica (the empire at its peak) enabled the development of (mass-) tourism on an international scale.

He lost money on his first tours to Switzerland, just as he did on most early trips. On the one hand because he was extremely flexible in catering to the needs that arose in the travelling groups during a trip on the other hand because he still devoted lots of time, energy and resources into emancipatory or charity related projects. But the trips delivered him just as other trips he participated in, invaluable knowledge to make the trips for his guests as convenient as possible. He could now anticipate almost all the wanton difficulties associated with travel on the continent and solid advice on what to wear and to buy in advance in 'good ol' England' could be provided by him. Travelling by rail on the continent was still quite arduous but: "Cook himself certainly proved able to overcome the worst railway hazards many a traveller found that 'the magic name of Cook seemed to clear away all difficulties and in due course he helped to eradicate them altogether'" (Brendon 1991:70).

In 1868, when Cook claimed to have transported more than two million tourists, John (his son) introduced the: "system of hotel coupons which gave a further boost to business"(Brendon 1991:114).¹⁸ Hotels that were not part of Cook's coupon network: "by and large failed to develop on the scale of those that were" (Bernard in Brendon 1991:114). The importance of relationships and networks for organizations active in the tourism sector comes to the fore. But the same example also serves to show that success depends crucially on the reduction of risk or increases in safety for tourists. Coupons entitled tourist to food, lodgings and other services against a fixed price, intermediaries took care of the negotiations and the market power they represented drove prices down. Tourists benefited from the knowledge that they could not be overcharged and Cook ensured a positive cash flow because tourists paid in advance. His firm laced sights into a route and guaranteed tourists that the handing over of certain parts of paper at pre-defined places would ensure them safe travel and accommodation that allowed them to see the

¹⁸ The innovation of the hotel coupon is attributed to Cook, he actually copied/abducted the idea from his main rival Henry Gaze (Brendon 1991: 115)

sights they selected. From that point on travel was 'all-in', the trip was assembled and 'wrapped into' a ticket. Adventure became artificial, because risk was excluded. From a managerial point of view this made good sense. If people had continually plunged into ravines, incurred other injuries or were refused lodging previously booked when travelling with Cook, he would never have made his company such a successful one. But safety and predictability were not enough. These are the conditions that need to be met before tourists are able and willing to travel. They precede and stimulate the growth of tourism.

Mass-production

The trip needed to be mass-produced, like any other commodity, to reap economies of scale and scope. We will now describe the organisation of travel to the Great Exhibition in London in 1851 as an example of such mass-production. This event contributed greatly to the acceptance of the excursion and mass-tourism. More than 6 million were transported from England alone to and from the capital, this roughly amounts to one-third of the total population of England at that time. Cook transported about 170.000 persons but also provided lodgings. Resistance to the mobility of the masses going to the Great Exhibition mostly came from the land-owning classes and older powers of these days. The word Mob is, for instance, derived from mobility, reflecting the fear or apprehension of the landed and aristocratic classes of the changes wrought by the industrial revolution. They saw the development of mobility as a threat to their power that was based on the disappearing feudal order, on landownership, a factor of production that decreased in importance during the development of the industrial revolution. However, the mobs of tourists from the lower classes behaved impeccably when they visited the Exhibition. "So it was that the Great Exhibition won a wide measure of tolerance, even approval, for the excursion movement. Mass-mobility was becoming acceptable" (Brendon 1991:62). and with it came opportunities for individual and societal change further stimulating demand, women also started to travel more frequently as we will see in the next subsection.

Tourism and gender

Work and care are two sides of the same coin. They both entail as seen from a workers' point of view the investment of time and energy to obtain a certain goal. Be it a clean kitchen before the weekend or receiving wage at the end of the week. Both kinds of labour are mutually supportive in sustaining a household. We will take it as given that we are talking here about a nuclear family, when we mention household, considering the place and period of time we are discussing at the moment. That is Victorian England in the second half of the nineteenth century and the beginning of the twentieth century. Work and care became, during this period, gendered in such a way that work became associated with the male domain and care with the female domain. The identification of women with place or home was regarded as 'natural', a result of reproductive necessities that require stability and protection by men. So this can be considered an explanation of why: "Historically, men have travelled and women have not, or they travelled only under aegis of men..." (Leed 1991:113). The first steps in undoing this truism were made by female travellers in the seventeenth and eighteenth century. Cook took the second step when he organized

travel in such a way that it was undeniably safe. He democratized travel it came, for the first time in human history, within reach of others than the elite's within a society. Not only from a class perspective things started to change at an even more mundane level. Longer-term changes in the form of changing norms and standards of behaviour began to come about. A female traveller wrote in a letter to Thomas Cook that her social environment thought of her and her sisters as being: "...too independent and adventurous to leave the shores of Old England and thus to plunge into foreign countries not beneath Victoria's sway, with no protecting relatives of any kind ...[But] we could venture anywhere with such a guide and guardian as Mr. Cook" (Swinglehurst 1974). The quote exemplifies that many single, unattached women now felt free to travel. The watchful eye of the tour guide was considered enough so chaperones could be left at home. The attraction between the sexes was also something on which Cook capitalized in the discreet fashion of the day. "Even those who start out alone" Cook suggested, "will often find an agreeable companion." He boasted that there were "constant cases of love-matches [being] made" on his tours. Mixed travel added a touch of sensuality to his trips or in the words of Brendon: "...the very presence of enterprising spinsters (...) added a frisson of romance to Cook's tours" (Brendon 1991:52-54). "He insisted that it was entirely proper for 'unprotected females' to go on his tours... He referred to himself as a travelling chaperon... Perhaps as a result of this special pleading, more ladies than gentlemen went on Cook's tours. Thomas Cook thus made a significant contribution to female emancipation"(Brendon 1991:52). He capitalized on the fact that as modern (wo-)man became more individually oriented (s-)he increasingly resented being part of a community, group or class but paradoxically had to travel in a group to express that sense of individuality.

3.4.4 Changing strategies: balancing exploration and exploitation

Cooks' trips became famous but they were derided in the upper classes and middle-classes of society who did not want to be associated with lower ranks of society. Many people were in this way deterred from booking a trip with Cook. "Victorians feared social contamination almost as much as sexual contagion. Tourism, even more than travel, had egalitarian tendencies. ... Tourism broke down the carefully constructed barriers which inhibited the promiscuous mingling of classes." In the words of Brendon: "...during these early days many people were so affected by the scorn of others, or by their own apprehensions, that they would travel abroad on Cook's tickets only when they learnt that they could go independently". These travellers considered themselves above middle or working class excursionist. They thought of themselves as travellers almost in the old fashioned Grand Tour sense. These new upper classes wanted to emulate the behaviour of the aristocracy and to be associated with them in a leisure setting. Association in a leisure setting is easier than in the more formal symbolic and physical forms of exclusion that abound in the home/cultural context. This stimulated demand under the nouveau riche.

Cook's son, John Mason Cook, was very much aware of the new demand that arose and set out a new entrepreneurial path. He left the emancipatory mass-movement related competitive strategy of his father and started to focus on 'upgrading' his offerings,

diversifying the range of products offered. Cook's tourism system began to spread around the globe. He differentiated product offerings geographically and thematically. He made travel more comfortable, which raised the price but that served a good purpose, because the new generation of 'mobility'-entrepreneurs wanted to improve the low margin they gained on their services. Travelling started to attract a socially 'superior' clientele. Brendon says on page 95, "...like other Victorian organizations which started life as a form of philanthropy designed to benefit the working class (building societies, for example) Thomas Cook and Son grew to prosperous maturity by catering for the middle and upper classes." John Cook: "...transformed his father's rickety mission of good will into an efficient and profitable commercial organization" (Brendon 1991:115). Thomas Cook was the proverbial 'schumpeterian' entrepreneur. He creatively destroyed in the course of producing innovations while his Son stayed within economic orders to generate a profit. It is only logical to presume that: "such a team should have pulled together perfectly..." (Brendon 1991:103). However, the road to a change in strategy was not one without friction, clashes were few but vitriolic and tended to persist. The family ties moderated the conflict and prevented a rupture between the two. The characters of the two entrepreneurs differed and this made it difficult to trust one another: "...it is difficult to avoid the conclusion that John's chief concern with books was to balance them." and "John reacted against Thomas's humane interests as well as his liberal ideals" (Brendon 1991:102). Together they embodied the tension between exploration and exploitation. While Thomas Cook incessantly explored new ideas and in the process of doing so had difficulties maintaining a healthy cash flow, John Cook counter-balanced the exploratory proclivity of his father. At the organizational level this resulted in healthy profits and expansion. The interpersonal level was characterized by tension and conflict.

The generic strategy that underpinned the competitive strategies of John Mason Cook and Pullman can be characterized as increasing or improving comfort through either the design of the environment (luxury) or the experience of the service-encounter (attention). The innovations they produced were variations to a theme. What variations to a theme did Pullman produce and which ones of them resembled the taylorist approach toward the improvement of efficiency and quality of manufacturing processes?

Trains in Europe were compartmentalized and each compartment had its own doors. The train resembled a number of old horse drawn diligences knit together. The trains that were employed at that point in time did not have connections between coaches. It was difficult if not impossible to move from one coach to another. In the United States the tracks were broader than in Europe. More space on trains could be utilized and the distances that needed to be covered were also longer. Travellers had considerably more time to spend on trains and there were more opportunities to fulfil latent needs like catering to food. Pullman invented the harmonica like connection between different coaches and patented it in 1887. The closed vestibule between compartments meant that the whole train became accessible for all passengers. This invention enabled him to offer more to travellers the inclusion of restaurants as a value added service on board of trains and he abducted the idea of sleeping berths from ships.

However, the real unacknowledged innovation that Pullman brought about was in the area of service delivery processes. He produced detailed manuals that aimed to guarantee a consistent high-quality service level. He started to standardize service scripts that were a node in a tourism script. He put in every compartment/car a porter and: “The porters assigned to each car, a hallmark of the Pullman operations from the beginning, provided a level of personal service unmatched any where except in the homes of the very rich. The company left nothing to chance in training its porters. A massive procedures manual gave step-by step instructions for every possible contingency, the instructions for serving a bottle of beer, for example, included twelve steps, including the equipment to be placed on the serving tray, the method of chilling a glass (by pouring ice from one glass into another), the proper way of pouring beer to ensure just the right amount of foam, and finally, the correct placement of the bottle in front of the customer (with the label facing him)” (Withey 1997: 178). Pullman started to script service encounters by breaking down a labour process into discrete parts that follow each other in time to be able to deliver a constant high-quality level of services. If this does not resemble Taylorism I do not know what does.

Two entrepreneurs in the service sectors of travel and transport produced innovations that later on became hallmarks of the great strides the manufacturing sector made in terms of increases in productivity and efficiency. These strides were only then recognized as achievements because actions became structured through, and were partly replaced by machines. A conveyor belt is more tangible than a route through different landscapes; they were perceived as more real. Secondly, the production of tourism and travel takes place over an extended period of time in different spaces. The relationship between different sequences of activities (scripts) is also hard to recognize because many companies were involved in a variety of places. This constitutes our last point, the recognition of a new meta-production script became discernible at a glance when Ford integrated the phases of into one organization in which most of the assembly tasks were standardized to allow for mass-production. In the next section we will provide the information that is necessary to interpret the historical narrative to arrive at the conclusions in which we return to the central questions.

3.4.5 The cycle of discovery

Thomas Cook’s endeavours most closely reflect the stage of accommodation/ novel combinations while the subsequent entrepreneurial endeavours of his son, John Mason and George Pullman reflect other stages in the cycle.

I. Accommodation or novel combinations

Elements of diverse practices are connected and deliver a new architecture. Thomas Cook connected transportation practices and new ‘leisure’ practices that were enabled by changes in production and consumption. His major innovation that arose out of many lower level innovations was the discovery of a meta-script of production. It encapsulates, at a very abstract level, the way in which production needs to be dynamically structured to make a profit.

II. Consolidation

Once the new architecture proves to be successful it tends to be imitated and improved upon by other organizations. Different combinations are tried. An example is that the railways tried to improve the nascent script of Thomas Cook. They denied him access to transport-practices of the railway and wanted to transport people for themselves. They were not able to do so because they did not possess knowledge of the practices needed to satisfy customer preferences that are linked to the transport script.

III. Generalization

In this stage standardization proceeds apace and scale increases. Home markets do not offer enough expansion potential and internationalisation takes off. Which is what happened when Cook was forced by circumstances to develop travel into Switzerland and later on to Egypt and the United States. Hierarchies or professional bureaucracies have come about and the managerial function takes precedence over the entrepreneurial function. This is exactly what happened when John Mason Cook took control. Although more rational less erratic planning dominates, room was created for experiments within bounds. Thomas Cook continued to experiment because his son ensured that the company prospered financially.

IV. Differentiation

Adaptation is even more prominent in this phase, but not in the sense of adapting to different boundaries imposed by institutional arrangements but adaptation refers here to matching demand and inputs. This occurred, for instance, when the railways tried to dis-intermediate him but he developed travel based on nostalgia and used other forms of transportation. The basic elements of the service or production scripts remain the same just as does the organizational architecture that supports the script.

V. Reciprocation

In reciprocation novelty is added in the form of features from other contexts while the basic architecture remains the same. Pullman's abduction of sleeping berths from ships and their introduction into trains serves as an example.

3.5 Discussion and Conclusions

Tourism was a sector with radical innovative propensities during the time of the industrial revolution because of its dependence on, and integration of information technologies in day-to-day operations, the emancipatory agenda of the tourism entrepreneur researched, its network structures and the characteristics of consumption and production of service product offerings (co-construction).

We conclude that the *development of the competence* to transport groups of people over a certain distance, to be able to transport the masses from Lancashire to Blackpool or Mallorca or anywhere else for that matter, made tourism a sector that, when analysed, resembles Fordist production before Ford was even thinking about the production of cars.

The different sights and places are the parts that could be attached fully and consistently into scripts for consumers. Cook made travel safe, easy and cheap through the standardization of the organization of travel and thereby transformed it into tourism. Standardization implies the need for the codification of practices. Tacit knowledge is converted into explicit knowledge. A reduction of the content of variety of practices through the codification of knowledge in service-scripts is an example. Everybody who has worked at a McDonalds has experienced the reduced variety of practices because every single step in the preparation and transaction has been codified. Similarly, consumption is standardized in tourism. This creates a challenge for management, tourists expect a unique and authentic experience to have a certain degree of risk but at the same time it must, be as convenient and cheap as possible. A tourist wants a mass-customized service-product. However, competitive pressure in the tourism industry is high because innovations in the service delivery process are capital extensive (almost anybody can insert a node into a service delivery script), can be easily observed and experienced through the consumption of the innovated service-encounter and network externalities are present. In other words most innovations in the tourism delivery process are easy to copy and on the whole there are low barriers of entrance. This statement does not hold in the international air-transport sector because of its capital intensity, but, as said before, the service delivery process lends itself particularly well to imitation, furthering competitive pressures and the need for innovations. Once the basic recipe for a package tour was established by Cook, and he had established his own organisation that allowed for efficient exploitation in the form of mass-production, he created a platform for change on this stable basis. Expansion to novel contexts allowed him continuously to innovate his service product offerings.

The dominant design of the production of travel was incrementally improved upon. The next generation of entrepreneurs re-defined and raised the standards of service they made travel more comfortable. They did not focus on the organization of the supply-side/production of travel. They employed a competitive strategy that took the consumer as point of departure within the dominant paradigm. In terms of innovations and scripts, while Cook's innovations were of a radical architectural nature, incremental innovations of nodes in the script and, radical innovations that produced new scripts (trips) within the meta-script, were brought about by John Mason Cook and Pullman. The new generation of entrepreneurs made travel far more comfortable and could therewith reap higher rents. They exploited what Thomas Cook had explored.

The innovations of Cook defined the way in which tourism would be organised. Cook's innovations delivered a dominant design or meta-script that is still being exploited today. He applied the logic of the mass-production of goods to a service delivery process in doing so he invented the meta-script of capitalist production. The meta-script/dominant design could be broken down into three nodes: standardization, assembly and mass-production. We therefore conclude that, the co-ordination of spatially and temporally separated sets of activities is the competence that allows for the generation of firm and relational rents in a tourism sector. Cook was tour operator and an agent. The combination of both function specific competences also made his business a successful one. Agencies are essentially market boundary spanners connecting supply and demand while tour operators and

transport companies connect different markets. The tourists he served personally allowed him to bridge the cognitive distance between producers and consumers; he mediated both sets of expectations and selectively integrated technology where it served to produce travel speed.

We conclude that tourism has been so innovative because of one of the peculiar characteristics of services: simultaneous production and consumption. Tourism produces service products that are, to a large extent, simultaneously produced and consumed. The more customized the less standardised a product offer becomes and the more opportunities arise to bridge the cognitive distance that exists between producers and consumers. The more an interaction leads to bridging of cognitive distance the higher the chance that product-service offerings will be improved upon. They are interactively incrementally innovated in a process of co-construction. The nature of the service product of tourism especially the fact that simultaneous production and consumption is a dominant feature allows for the thesis of Schot and Bruhezel (2001) that interaction with users and attention to process ensures a higher likelihood of success when innovating. Because of this and the easy imitability of tourism service delivery processes the tourism industry has a propensity and intrinsic mechanism to be innovative while at the same time it is highly competitive. The easy imitability of nodes and scripts in tourism triggers a concern for opportunism and thus for the need to establish safeguards. The need for safeguards implies that the actions of distinct actors in network need to be co-ordinated. Forms of co-ordination evolve with the establishment and development of the relationship.

Cook's desire to create a just, morally right society, to emancipate the working classes fuelled his ambitions but also almost became his entrepreneurial down fall. At the same time some of the innovate marketing strategies he developed as a results of his desires helped in bringing about or at least support societal changes. These changes developed unevenly throughout the larger unfolding of the industrial revolution and provided opportunities for Cook to embark on new entrepreneurial paths.

By moving into the leisure domain, which at first seemed an innocent enough desire, women created room to explore new worlds and new ideas. They could free themselves from the yoke or gaze of the controlling male superior. The ability to step 'outside' the usual system one is used to live in, to be confronted with other worlds and customs and to be able to reflect on these differences opened the way to new perceptions. New insights and ideas are the first steps of creativity and liberation. Cook himself 'invented' the package tour while walking leisurely to a meeting. Henry Mintzberg, a famous organizational researcher, was enjoying a holiday in Corsica where he was inspired by a mule, especially the 'footwear' of the animal, which led to his conceptual horseshoe.¹⁹

¹⁹ He wrote this himself in the preface of his book: "Power in and around Organizations" (1983).

The innovations Cook initiated made the travel and tourism industry a major force in the egalitarian and emancipatory process of the late 19th and early 20th century political struggles. At the same time it brought the opportunity to lead a temporary leisured life to a broadening range of social groups and a growing number of societies.

4 CO-ORDINATION OF GLOBAL TRAVEL DISTRIBUTION: A TRAVEL AGENCY AND AIRLINE CASE

4.1 Introduction

In the last 20 to 25 years the international travel sector has increasingly experienced the impact of changing economic policies classified as deregulation or liberalization and a new phase in the development of information technology. These drivers exert great pressure on the current institutional arrangements that embed the current exchange relationship between travel agencies and airlines at multiple levels, but they are not the only cause of pressure. As a result, the travel sector and especially the aviation sector restructure their distribution relationships. Restructuring your distribution relationships implies that new forms of governance or co-ordination need to fit new organizational configurations. We therefore formulate an answer to the question: ‘What forms of co-ordination should be stimulated at what level to capitalize, jointly and in isolation, on the opportunities generated by the altered and altering circumstances in the environment of the travel agency and air transport sector?’ In this section we concern ourselves mainly with the way in which the distribution system for international tickets should be governed and we introduce a model of the causes that lead to interorganizational trust to show that trust and networks need not be synonymous. This will be the subject of section 4.4.

We start in section 4.2. with a further introduction on the organization of exchange in the tourism sector and how this affects the strategic agenda’s of firms active in this sector. This expose functions as a backdrop to the main case that we introduce in section 4.3 and shows the importance of networks in the tourism but especially the travel sector. The section sketches the evolution of the current global distribution system for international passenger air transport, its forms of co-ordination and its relationships with its customers: airlines and agencies and, increasingly, other service or transport providers. This will enable us, in section 4.5, to provide an answer to the two questions mentioned:

- What mixture of forms of co-ordination (governance mechanism or mode of governance) would be most effective in governing a distribution system that serves two interdependent networks of travel agencies (agents) and airlines (principals).
- What kind of configuration of relationships would best serve the stimulation of trust or reduce the propensity to be opportunistic between both sectors to allow for the development of shared competitive advantages through collaboration?

The following section first touches on exchange relationships in tourism then we go on and show that networks are the predominant mode of organizing and co-ordination exchange and exchange relationships in the travel and tourism sector.

4.2 The economic organization of tourism: exchange relationships

There are three principal exchange relationships in tourism:

- I. The exchange of finance for temporary rights to occupy mobile property;
- II. The exchange of finance for temporary use (or possession) of accommodation and facilities located away from people's normal place of residence and work;
- III. The exchange of finance for visual property²⁰

Together they constitute the quintessential tourism experience, the first category involves travel and the ticket is the material evidence that transfers the right to occupy space on a form of transport. The second category refers to spaces such as hotels, and restaurants. "Tourism presupposes the exchange of finance for temporary visual property which visitors can acquire when they have temporary rights of possession of spaces away from home." (Lash and Urry 1994: 270-271) The authors contend that the development of mass-media (including the internet) lends more prominence to the gaze. The purchase of images has become part of everyday life. The consumption of visual property is no longer the 'domain' and defining characteristic of tourism. Television obliterated that prerogative and visual consumption is increasingly part many different practices, not just touristic ones. The proliferation of themed environments serves to illustrate this point. "Imagine visiting Disneyland, Malibu Beach, Bourbon Street, the San Diego Zoo, rodeo drive in Beverly Hills and Australia's Great barrier Reef...in one weekend and under one roof...Billed as the world's largest shopping complex of its kind, the mall covers 110 acres and features 628 stores, 110 restaurants, 19 theatres...a five-acre water park with a glass dome that is over 19 storeys high...Contemplate the mall's indoor lake with four submarines...fantasyland Hotel has given rooms a variety of themes: one floor holds Classical Roman rooms, another '1001Nights' Arabian rooms, Polynesian rooms...(Lash and Urry 1994:271-272)". The increase in choice for consumers and the simulated realities that they consume has been initiated with events such as the London exhibition we wrote about in chapter 3. People are facilitated in their desire to do, but more importantly, to see something extra-ordinary. They gaze upon and collect the signs and images of many cultures, without actually having to go there. Many activities that were considered touristic in the early days of tourism are now part of everyday life. Due to increasing space-time

²⁰ This does not mean that other senses are not involved in a touristic experience, they are extremely important especially during service encounters. It is just that the visual is the dominant sense in our western conception of reality. What we can see is real what we smell is volatile and fleeting. It colours our perception but does not define it. The gaze is the primary mover other senses do influence the experience but only come into play during the experience.

compression and the increases in design intensity the information revolution gives more prominence to service sectors in economies because wealth is increasingly created through the manipulation of symbols and signs instead of matter. Moreover, travel is not considered to be the defining principle of tourism anymore it is extended to and encapsulated by modern societies. To be modern is the right to be mobile, to go where you want to go. Fluidity has become a defining characteristic of modern societies (Baumann 1992). People do not have to go to other places to visually appropriate its distinctive character. Imaginative travel through phone, television and radio and virtual travel through the Internet contributes to and deters at the same time corporeal travel in a number of ways. There are many ways of getting 'there' (Urry 2001). Tourism can therefore be said to interact with even more sectors in economies than it used to. Opening up the possibility of innovations because of an increase in the number and the diversity of contacts. The scripts that define a tourism experience, demarcated by the three earlier mentioned exchange relationships, become increasingly de-differentiated from other activities related to care and work scripts of individuals in households and organizations. Put differently, the number of nodes a firm competently links and thus the scripts it delivers is what makes a firm touristic. To give an example when a car-rental firm in a destination delivers 90% of its cars to consumers of tour operator and/or hotels it is considered touristic. Its service delivery encounters will differ from a car-rental company delivering to a business market. The different needs of the two consumer groups will deliver both car-rental firms a different network structure. The more relationships there are with firms that operate to tourists the more they will participate in economic activities that cater to tourists and it is the degree of participation that makes an organization touristic. This conclusion is also drawn by authors that depart from a theoretical perspective that aims to unify transaction cost theory with competence views on firms (Tremblay 1998). We will return to that conclusion in the next section. Although tourism can said to be dead it is also acknowledged that modernity is increasingly equated with the supposed right to be mobile. This fact will continue to drive the growth of travel and the formation of economic configurations that cater to the desire to move and stay in other places.

4.2.1 The economic organization of tourism: exchange networks

We established that tourists have a great amount of discretion to combine different elements of a service-product (transport, information, entertainment, accommodation, etc.). Knowledge, motivation and means to plan travel individually are sometimes lacking, in which case an agent or go-between is sought to perform the search, evaluation and assembly tasks. For a tourist every tourism product that is bought and experienced is unique. Although a tourist does not buy a product but a process, a tourist does not want to recognize the fact that a substantial number of service providers play their distinct parts at a specific moment in time. A tourist wants to purchase a process as if it were a commodity and concomitantly expects a continuous experience through space and time. Travel has evolved from an expensive laborious exploratory adventure involving great amounts of insecurity and risk to something to be purchased from the proverbial shelf.

A commodity is a standard configuration of attributes that are recognized by both consumer and producer alike (Tremblay 1998). Mutual recognition of attributes is therefore problematic in tourism. There is an “unclear relationship between the objects and services purchased and a good holiday experience.”(Urry 1990: 25). The consumption of sights, sounds, smells and emotions is felt and interpreted simultaneously and in highly particular ways, by every body involved and many elements in the environment on which a tourism firm is dependent cannot be (directly) influenced. The applicability of a commodity perspective is therefore considered limited because we cannot define the tourism product as a commodity (Tremblay 1998). This is a true statement but such a conclusion seems to run counter to the claim, in chapter 2, that the processes of the organization of tourist experiences can be conceptualised as a standardized production process. We can uphold this claim if we distinguish between the experiences of tourist while consuming a journey and stay and the process of production, the back-office if you will.

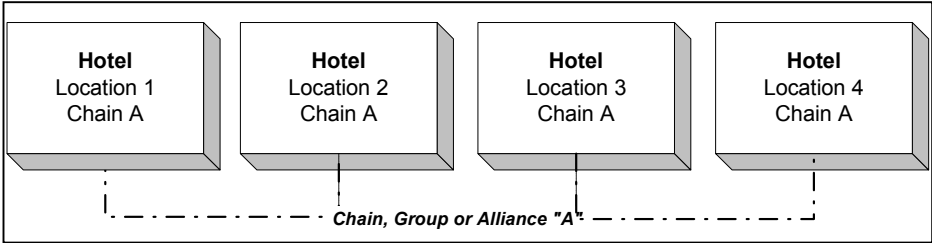
We showed in chapter 3 that the co-ordination of spatially and temporally separated sets of activities is the competence that allows for the generation of firm and relational rents in a tourism sector. We found that the organization of the delivery of raw materials (goods) and acts (services) provide the nodes that consumers and travel agencies jointly assemble into a service script can be drafted as a production process. Firms collaborate and need to coordinate their actions through space in time. Each link in a chain or node in a script delivers an action or good at a specific moment in time. In this way the production process can be likened to an assembly line. In fact it is a virtual assembly line in which the consumer specifies in advance and during the assembly what it likes.

In a similar vein we put forward that tourism can be conceptualised as an industrial sector when the tourism sector is referred to as firms that jointly undertake the *co-ordination* of their activities to serve tourists (Leiper 1979). Tremblay elaborates on this notion and specifies that: “...tourism firms co-ordinate their activities through a web of co-operative and competitive linkages fashioned by the nature of the capabilities they possess and the complementary inputs available in the market”(Tremblay 1998:854). Complementarity and interdependence become criteria for participation. Participation in the co-ordination of spatially and temporally related sets of activities or scripts is then the criterion for membership in the industry. Firms operating in diverse sub-sectors such as: hospitality, transport, distribution services etc. should therefore be included in the industry: “...as long as they are more than passive or incidental participants in the management of tourism”(Tremblay 1998:842). The boundaries of a sector/industry defined in this way are context-specific; the economic co-ordination of tourism differs across markets and destinations because every network of co-operating firms is unique with regard to its products and the particular order of resource and competency wielding. So, organizations or firms are conceptualised as (shifting) bundles of activities that depend, in their turn, on the ways in which demand and supply are matched. Such a conceptualisation is wholly consistent with the way in which the TCT approach operationalizes its notion of script at the organizational level, where it is: “...a framework for connected actions: a connected sequence of activities into which people substitute activities according to their

organizational roles, which are in turn structured as scripts. Thus, there are scripts at multiple levels, with subscripts and superscripts. In other words, scripts become recursive: they are nested. There are scripts beyond the boundaries of the organization, and at higher levels” (Nooteboom 2000:195). When scripts reach beyond the boundaries of an organization then they produce intermediate forms of organizations, like networks.

We will now discuss the network types proposed by Tremblay. Firms, in the first network type, serve a variety of markets in different destinations but employ similar competences and resources.

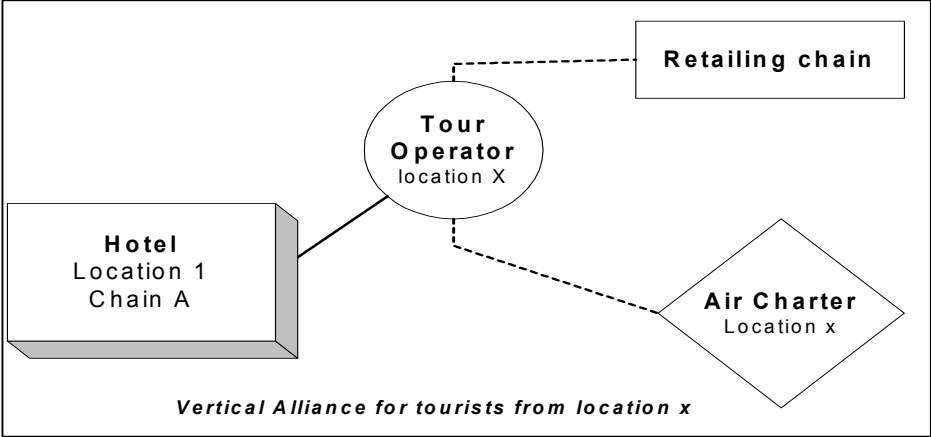
Figure 4.1: Network type 1



(source: Tremblay 1998)

Airline alliances or hotel chains invest in function specific competences and resources such as the distribution system described in earlier sections. Such alliances can appropriate rents associated with scale-scope economies associated with information and transport technology. Central reservations systems are a case in point.

Figure 4.2: Network type 2

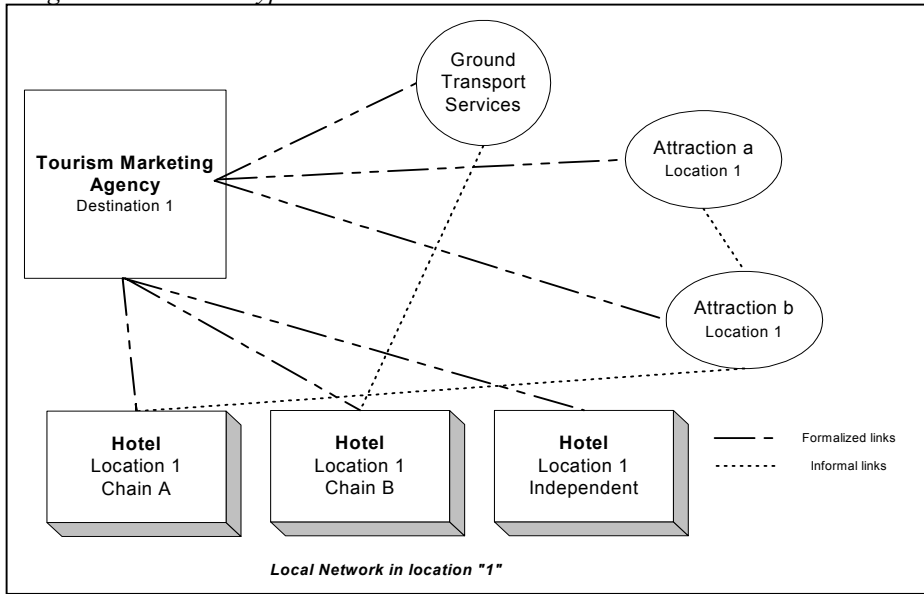


(source: Tremblay 1998)

The second type of network connects dissimilar competences and resources (nodes) into scripts that meet the experience sought by consumers. Be it a multiple-leg business trip with over-night accommodation and three stopovers or a package to 'do' Indonesia in three weeks. Based on a common pool of market and marketing data such a network connects dissimilar competences and resources into a consistent service-script. The synchronization of activities through time and place is the higher-level competence (assembly) and access to information constitutes a higher-level resource. Travel agencies select in a co-constructive process the appropriate nodes that fit the preferences of a consumer. The consumption of the different nodes, again, constitute a co-constructive process that if repeated over time starts to develop into networks of frequently co-operating tourism firms, they become structurally embedded. A loosely integrated network of this type will limit its co-operation to sharing marketing data of specific consumer groups while more tightly integrated networks can work toward improvement and standardization of product quality and designed environments. Similarly designed and shared check-in counters and procedures of airline alliances at international airports are an example. The purpose is to: "ensure cross-functional co-ordination among differentiated businesses such as retailing, wholesaling and main services functions for a given market"(Tremblay 1998:852). Forms of co-ordination differ because the market conditions are partly determined by the institutional environments and arrangements (Hollingsworth and Boyer 1999). It could well be that a tour operator serves 14 distinct tourists-generating markets and manages transport, catering and accommodation for tourists in 25 destination markets. Every market has its own institutional arrangements that have to be dealt with. Scripts have to be adapted to local idiosyncrasies and this leads to different rules for the assembly of scripts. Every time that such a thing happens a new branch is added to the script. If a new branch is more successful than previous scripts it will be copied where possible and an incremental innovation to the script has occurred.

The last type of network is destination based and refers to the co-ordination of service suppliers within a geographically demarcated region. We will not concern ourselves too much with this type.

Figure 4.3: Network type 3

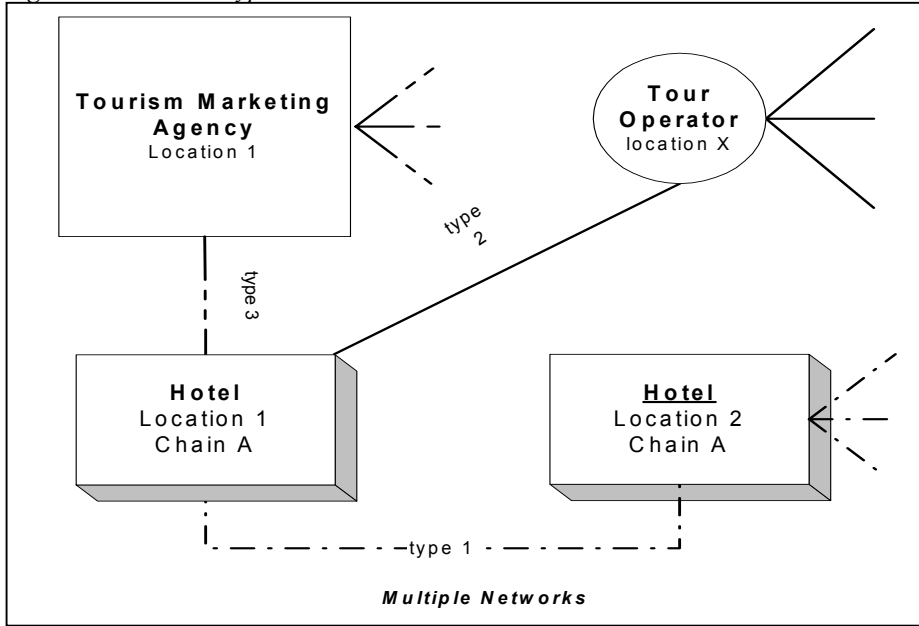


(source: Tremblay 1998)

Type 1 and 2 are of more importance to this study. The tour operator depicted in the type 2 network deals with a range of such destination-based networks. Intermediaries assume more importance in the network types 2 and 3 because the need to bridge cognitive distance is bigger. Firms in network type 3 wield dissimilar competencies and resources but we can assume that they share the same institutional arrangements, environment and culture. The deeper lying, tacit, socialized categories are similar and the distance between different mental images is less than in the second network type. Firms operative in the second network type need to bridge more cognitive distance because they interact with a range of organizations that possess different resources and competencies and function in particular institutional environments and arrangements.

To complicate matters further, tourism related firms usually participate in a number of overlapping networks: "Any firm can participate in a number of overlapping networks..." (Tremblay 1998:851).

Figure 4.4: Network type 4



(source: Tremblay 1998)

The economic agenda of tourism related firms is therefore primarily determined by the perceived possibilities to appropriate economic rents from incremental product innovations and by aligning themselves with a range of organizational configurations (webs of relationships necessary to produce a tourist or business travel experience). The demand side (input) continually exerts pressure to come up with innovations, with new service delivery scripts. Travellers specify what nodes (accommodation, excursions, form of transport, etc) they would like to see arranged in a particular order and therewith determine with whom travel agencies have to transact to bring about the assembly. Continuous incremental change is fuelled by the desire of tourist to experience a degree of novelty. (Cohen 1974; Elands and Lengkeek 2000; Bello & Etzel in Tremblay 1998) This desire produces new experience propositions facilitated by the co-construction of experiences. At the organizational level tourism firms need flexible arrangements, usually organized as inter-organizational networks, with partners and stakeholders exactly because tourist's demands and preferences are so fickle. If these contacts were highly inert (high exit or entry barriers) this would constrain many tourism firms in producing output tailored to individual needs. Too much inertia reduces variety and therewith choice. On the other hand, organizations and firms need stability to be able to plan, invest and work. Organizations cannot be in constant flux, at least not as a whole. Networks as an organizational form need some durability and stability and it seems that networks, as a form of co-ordination cannot provide this stability in isolation. It needs to be supplemented with other forms of co-ordination. Although the travel sector and tourism maybe

characterized as network based businesses, networks are not the only form of co-ordination employed.

Before we elaborate on the forms of co-ordination we introduce our main case study and illustrate the institutional embeddedness of the global distribution system for international passenger air transport, its governance mechanisms and its relationships with its customers: airlines and agencies in the next section.

4.3 Global networks: airline ticket distribution and travel agencies

The section starts with a description of the history of the International Air Transport Association and the ways in which this particular distribution system is institutionally embedded. Domestic travel is not considered in this section. The distribution system for international travel constitutes a global²¹ network connecting, approximately, 100.000 travel agents and 270 airlines. It is owned and operated by the International Air Transport Association (IATA) on behalf of all airline members. This exposition provides the background that is essential in understanding the evolution of the relationship between airlines and their main distribution partners: travel agencies.

4.3.1 Airline industry and distribution: the institutional environment²²

This sub-section starts with a brief historical description of the foundation of IATA. It continues with a description of the formal structure of the relationship between airlines and agents. The last topic focuses on the organization that is managing, operating and transforming the passenger distribution system. The current name is IDFS (Industry Distribution and Financial Services) up until 2001 it was called the IATA Distribution Services (IDS).

As any association IATA's main aim is to represent and serve the air transport sector. IATA does so in a multitude of ways. For instance, it maintains contacts with suppliers (aircraft builders) and regulators (governmental bodies), sets world-wide standards in conjunction with relevant stakeholders, takes care of the global distribution and redistribution of revenues of airline tickets, develops courses for the airline industry and accredited travel agencies and several units concern themselves with research and development. Due to the wide array of tasks IATA performs, it has a complex organizational structure largely structured as a professional bureaucracy.

²¹ The only country not participating is the US that has its own distribution system the Airline Reporting Corporation and governance mechanism in the form of a board of directors (IATAN). The number of agencies and airlines mentioned in the same sentence was quoted in a personal conversation with one of the managers of the distribution system and *includes* the USA.

²² The information in this section has been compiled from a variety of sources: structured and informal (group-) interviews, workbooks, internal documents and the IATA-website. A short list of noteworthy documents has been added to the bibliography.

Figure 4.5: IATA's international distribution system

IATA's head office is based in Montreal, its main executive office is located in Geneva. Nine regional offices and 57 offices around the world are responsible for Agency Services. World-wide the 1999 figures are as follows: 63 BSP's, 136 countries, 350 airlines, 54,500 agency locations and US\$ 110 billion gross sales volume (excluding the USA). The United States has a similar separate organisation called IATAN and ARC (Airline Reporting Company) executes the distribution process. ARC is owned by 14 airlines and serves more than 50.000 agency locations. The distribution system of IATA is owned by all IATA-members and serves the rest of the globe.

(source: IATA Website, 18-05-1999)

The two major international organizations in the field of civil aviation from 1919 until World War II were the International Air traffic Association (airlines) and the International Commission for Air navigation (states). The modern day IATA (International Air Transport Association) was founded in Havana, Cuba, in April 1945. The post-1945 IATA had to handle global responsibilities. This was reflected in the 1945 Articles of Association:

- To promote safe, regular and economical air transport for the benefit of the peoples of the world, to foster air commerce, and to study the problems connected therewith;
- To provide means for collaboration among the air transport enterprises engaged directly or indirectly in international air transport service;
- To cooperate with the newly created International Civil Aviation Organization (ICAO - the specialized United Nations agency for civil aviation) and other international organizations.

Main goals of the two organizations coincided. They aimed to promote: "...technical and commercial co-ordination and safety"(Zacher and Sutton 1996:84). Technical co-ordination leads to globally applicable safety or reliability standards. Commercial co-ordination contributes to making travel easy and cheap because it reduces transaction costs and produces travel-speed through the synchronization of activities and because travel agencies have access to ticket stock of all airline members of IATA (Bucklin 1965; Peters 1997). Technical co-ordination is of benefit to all airlines, not only the ones that are a member of IATA, while commercial co-ordination is largely a matter of collaboration between firms and the benefits only extend to the collaborators.

Interaction and negotiation between and within ICAO and IATA balances the interests of states and the airline sector. (Zacher and Sutton 1996:86-90) The negotiations result in global institutional arrangements that function as the institutional environment at the level of nation states and industries. To allow for the integration of national or regional regulatory idiosyncrasies such global arrangements were implemented through bilateral agreements. Regarding commercial co-ordination, the airline industry was granted anti-trust immunity on the setting of fares, which means that they are allowed to collaborate on

areas normally forbidden in the face of anti-trust laws such as the setting of fares and prices. Because airlines have traditionally been state owned the fares and prices were usually set in a reciprocal way. Without anti-trust immunity airlines could be sued for collusion on a number of issues. They effectively functioned as a cartel and they could do so for a long time because it provided: "...the ability of almost all states to sustain their own airlines" (Zacher 1996:123) and "...important elements of strength in the air transport regime were built on states' mutual interest in protecting...a national airline"(Zacher 1996:122). As a consequence of intense communication between states and the sector a thoroughly regulated air transport sector evolved coordinated mainly by elaborate contracts and covenants that balanced (mutual) interests of states and (nationally) owned airlines. It is therefore that we can conclude that: **"...one of the great services which IATA has succeeded in performing, in both the technical and commercial fields, has been a high degree of standardization, ... it is one of the achievements which has made it possible for air transport to expand throughout the world with a minimum of complication and expense."** The arrangements, the ways in which exchange was regulated, gave the airline industry a high degree of control and extremely low transaction costs in the area of ticket distribution.

4.3.2 The Agency Program: The institutional arrangement

This section introduces the current global ticket distribution system for international passenger air transport and addresses its forms of co-ordination. After WW2, commercial mass-air transport became a viable option and the need was recognized, during the formation of IATA, for a shared global distribution system linking sales and seats. To meet this need the Agency Programme (AP) was developed, it is largely a legislative framework consisting of a bundle of contracts that stipulate minimum requirements travel agencies have to fulfil. It covers administrative, economic and other formal aspects of the airline-agency relationship. The AP's aim has always been to identify and appoint professionally sound and financially reliable sales agents, able to represent the interests of IATA's Member airlines in a professional and competent manner. The AP envelops the world: it's a global programme, with regional and country differences. The programme is based on a universal principal-agent relationship. Or at least this was the case at its inception, nowadays; the USA has a separate distribution system. The distribution system is therefore no a truly global one anymore although they are linked operationally. Sales Agency Rules (SAR) tailor the generic bundle of contracts to local market conditions. IATA introduced in 1976 the general concurrence device and it has been widely used since the 1980's. Through this facility, agents get the means to issue tickets in the carrier's name. This way, a carrier has a cheap and relatively low risk mean of maximising its marketplace representation throughout the world. Airlines can add new destinations to their network without having to bother building a key external resource, a distribution system and intermediaries that sell the new destination. The distribution of tickets for international travel is thus organised as a principal-agent relationship in which the travel agencies mediate between consumer and supplier.

There are two dominant forms of intermediaries: Agents and Merchants. Merchants do take title to the product or service they sell. They buy a product from a supplier and sell it with a mark-up that covers their costs plus a percentage point for profit. The most common example is the retail business. In the area of tourism such relationships exist between hotels and tour operators. Independent hotels supply/offer rooms and tour operators buy them at a certain price. Tour operators subsequently add a profit margin and resell the room, usually as part of an all-in package. Agents, on the other hand, do not take title to the goods or services that they sell. Examples of agents are sales representatives, insurance companies, real-estate broker's etc. In this particular chapter we focus on travel agencies (from the proverbial "Mom-and-Pop-shops" to giants like Amex, Rosenbluth, Ayscough, Thomas Cook, etc.). They perform services for airlines that are, in this context, the principal. Airlines own the tickets they sell and agencies perform the service of selling the ticket for them. Agencies receive a commission on every ticket they sell on behalf of the airlines. They perform for the airlines not the consumer. Facilitators are an additional third party to the distribution system because they assist in the distribution process but are neither an agent nor a merchant/supplier. For example, an IT-company, a clearing house or an advertising agency. Producer, intermediary and facilitator together comprise a marketing channel. "Marketing Channels are sets of interdependent organisations involved in the process of making a product or service available for use or consumption" (Kotler 2000:490). A bundle of marketing channels is called a channel or distribution system. Maintaining a distribution system entails long-term commitment to a range of relationships with the set of interdependent organizations necessary to distribute a service or product. The IDFS is the facilitator, airlines the merchant or supplier and travel agencies are the agents in this case (Kotler 2000).

Travel agencies are the agent of the airline and therefore they should receive compensation for the services they execute on their behalf. Just as any ordinary employee would in the form of wages. Consequently, we conclude that Principal-agency relationship causes the distribution system that connects the interdependent networks of airlines and travel agencies, to function as if it were a private hierarchy while the actual organization is one of two dependent and complementary networks (Stinchcombe 1985).

Over the last 50 years, several changes occurred concerning the monetary compensation agencies receive. These are detailed in the following overview. Before '49 Passenger Sales Agency Agreements (PSAA's), the bundle of contracts we mentioned earlier on, were bilateral with individual airlines setting their commission rates.

Table 4.6: *Rising Commission Rates*

In the 50's this changed: a Standard Multilateral PSAA came into existence. In 1950 The IATA Traffic Conference adopted a standard rate of commission of 7.5%, plus 2.5% override for inclusive tour sales. In '51 divergence took place: rates were set at 6% in Africa and the Middle East, rising up to 7% in '53. In that same year, The Intra-European rate became 7.5%, while Canadian and US rates became subject of individual carrier decisions. In '52, the number of agents (cargo-agents excluded) was 13,209, increasing to 15,107 in '53.

In '75, the commission rate was set at 8.0%, while the number of agents was 22,892.

In '79, Resolution 864a (later redesigned Resolution 016a) appeared in its own right ('commission for IATA Approved Agents – except USA and US territories'). This Resolution defines to whom a Member airline may pay sales commission. IATA approved agents make up the principle group of intermediaries to be so remunerated, the other (much smaller) groups being General Sales Agents and other airlines.

In '79, the remuneration rate was set on 8.0% + an Industry Incentive Scheme was introduced. In cases where this scheme did not work, the rate was set on 8.5%. In the same year, the number of agents was 31,153.

The '81 rate was 9.0%, with a number of agents of 35,264.

From this point onward, industry agreements on agent remuneration are in decline. A movement towards higher commissions in general and a premium for large agents was apparent till 1994. A break in this trend surfaced after 1994, when Delta airlines was the first to cap domestic airline commissions. Deregulation legitimised this action.

In '97 flat fees were introduced in the US, while since 1999 there exists a 'mixed bag' between 5 and 9%.

By '97, the number of agents was 88,607; nowadays the number is 89,764 with gross sales of USD 109 759 817 623 and net sales of USD

(source: policy documents from within IATA)

While the number of travel agencies is still growing the way (-s) in which they need to earn their income is changing. Rescission of resolution 016a means that after 50 years we are back at determining commission levels through bilateral negotiations. Does it then still make sense to be locked in a principal relationship in which the principal offers no remuneration or compensation but unilaterally imposes rules without consultation? Many travel agencies question the anti-trust immunity granted to airlines and the principal-agent relationship because it does not deliver them any benefits, besides the access they gain to ticket-stock, anymore. How did this change come about?

1979 was a watershed year for IATA and the airline industry. At that time deregulation started to gain momentum in the USA. Deregulation makes it impossible for the airline industry to co-operate on a range of issues, because anti-trust immunity is increasingly being lifted. Two of the most important, interrelated, effects are that:

- IATA cannot perform the policing function toward agencies, within the context of the principal-agency relationship, on behalf of all airlines which undermines the basis for a principal-agent relationship and;
- the funding of IATA is shifting from contributions paid and accreditation fees for agencies to the marketing of its products and services to Member airlines, other airlines and others players in the travel, transport and tourism industry.

The main disadvantage of the AP is that it lags behind developments in the environment such as IT and deregulation. Erosion of the AP occurred over time. A consequence is that participation in the main decision making body, the Passenger Agency Conference, decreases. This became clear to me when I held a presentation to the PAConf. Only a quarter of the available seats were taken. When I asked the travel agency commissioner why so few airlines were represented he said: "over the years it has become increasingly difficult to get enough members to the PAConf annual meeting, because airline and agency relationships are increasingly determined by national or regional regulatory frameworks... [and] decision making is extremely slow." (Personal interview June 2000)

There are, however, also benefits for airlines as well as agents, they are:

- I. For airlines it is the prime distribution system, involving low costs and global reach, in which the reporting, remitting, data are all common.
- II. For agents it's a licence that adds value by means of giving access to a worldwide distribution system (network-externalities). As opposed to the CRS's which have a more limited coverage.

These will be lost if the system cannot adapt to the challenges IT and deregulation increasingly pose. Not unsurprisingly the first efforts after the erosion was acknowledged was that the management of the distribution system, working on behalf of the airlines, has taken steps to change the Agency Programme and the organizational structures that enable it to function. The AP embeds the relation between airlines and agents while at the firm level the IDFS, to which we turn now, is responsible for the operations of the distribution system and takes up an intermediate position between agency networks and airlines.

4.3.3 Changes to the distribution system: The IDS becomes IDFS

IATA Distribution Services (IDS) operates the BSP's (Billing and Settlement Plans) and CASSes (Cargo Account Settlement Systems), collectively known as IATA Settlement Systems (ISS), on behalf of the airline industry. Since 1971 BSP's (Billing Settlement plans) have become the backbone of the Agency Programme, an 'accidental' innovation that gave the IDS the possibility to restructure its organization of production. The BSP's, operational since 1971 (the first one launched in Japan) were an administrative by-product

of the accreditation system, but it has become the backbone of the Agency Programme. It is a system whose objective is to simplify the selling, reporting and remitting procedures of IATA-Approved Passenger Sales Agents. In 1998, 61 BSP's were operating around the world in 146 countries. A key feature of the BSP is the neutral Standard Traffic Document used by agents on behalf of all airlines participating in a BSP. This means that, principally, any agency around the world can sell any ticket of member airlines.

Agents' day-to-day administration is conducted with the BSP manager, EDP centre (sales reports), Clearing Bank (remittances) and Traffic Document Distributor (ticket stocks). Before 1998 the distribution system operated within a fragmented, decentralised and high cost structure. Moreover, outsourced service contracts were not co-ordinated and 45 separate data processing suppliers and 65 banks existed. On the whole, the structure became too big and complex to carry out its tasks efficiently and effectively. These conclusions were already drawn by outside intelligence in 1986 (ADSR-report to the strategic planning committee). This shows how inert the current governance mechanism has become. It took 12 years before PAConf adopted Resolutions, in 1998 that involved a restructuring of the ISS. They transferred the day-to-day administrative and operational functions for ISS to the new IDS. It left the IATA Passenger and Cargo Agency Programmes, the relationships and forms of co-ordination unchanged.

IATA follows a two-pronged approach with regard to the restructuring of the distribution system. On the one hand the focus is on exploitation. Improvement of efficiency through concentration and a further standardization and automation of the transaction process are areas of concern. On the other hand value-adding activities are explored, stimulated and developed. For example, besides the processing of tickets it is currently possible to process a car or hotel reservation through the distribution system, electronic ticketing is developed and a web-based (real-time) distribution system is put in place. Such measures are taken to increase the volume of transactions that need to be processed and enhance value for its users and consumers because the speed of transactions increases. It makes booking a journey more cheap and easy. This is part of a larger transformation in which IATA tries to become the number one travel, transport and tourism facilitator of the world. The transformation plans initiated by IDS management have been approved and laid down in a resolution by PAConf. The process started in 1998 and has to be completed in 2003. As a part of the transformation strategy the distribution system has incorporated, in the year 2000, the financial services department of IATA and the name has accordingly been changed into IDFS (Industry Distribution and Financial Services). IDFS currently manages a network of almost 100,000 passenger and cargo agents on behalf of the airline industry around the world and settles multi-billion dollars to airlines through the IATA Settlement Systems (US\$ 140 billion), IATA Clearing House (US\$ 33 billion) and the IATA Currency Clearance Service (US\$ 13 billion). (source: website www.iata.org/ids)

To be able to bring the transformation strategy to a successful end the IDFS needs to perform well in the following areas:

- accreditation and training of travel agencies in conjunction with the Universal Federation of Travel Agents' Associations (UFTAA)

- assignment, distribution and control of ticket numbers
- reporting and financial settlement of travel transactions
- development and support of new distribution technology
- provision of other related travel and industry services
- Above all, IDS needs to maintain workable relationships with its suppliers (the airlines) and their sales-force (travel agencies). It needs to gain a favourable reputation or image with travel agencies. This is maybe the most difficult part of the whole transformation, as we will see later on when we discuss interorganizational trust generation.

We now provide a schematic overview of the distribution channel system in which the operational, direct and intermediated consultation/communication and exchange relationships airlines and travel agents maintain with each other are depicted.

The line on the right-hand side in figure represents the direct exchange relationship big travel agencies can and do maintain with airlines. This is not an option for smaller travel agencies, they do not possess sufficient market power to justify the transaction costs of negotiating the financial and other supplementary conditions both partners wish to make part of their relationship. Smaller travel agencies therefore seek ways to concentrate their market power and intermediaries assume a role in the commercial relationship. Concentration of demand in the small to medium sized travel agency segments happens, pre-dominantly, in two ways. Firstly, a travel agency becomes part of a buying group. Agencies co-operate and pool their projected demand or they connect to a consolidator, which is a firm that has as its main competence the pooling of demand and negotiation of monetary or other forms of remuneration.

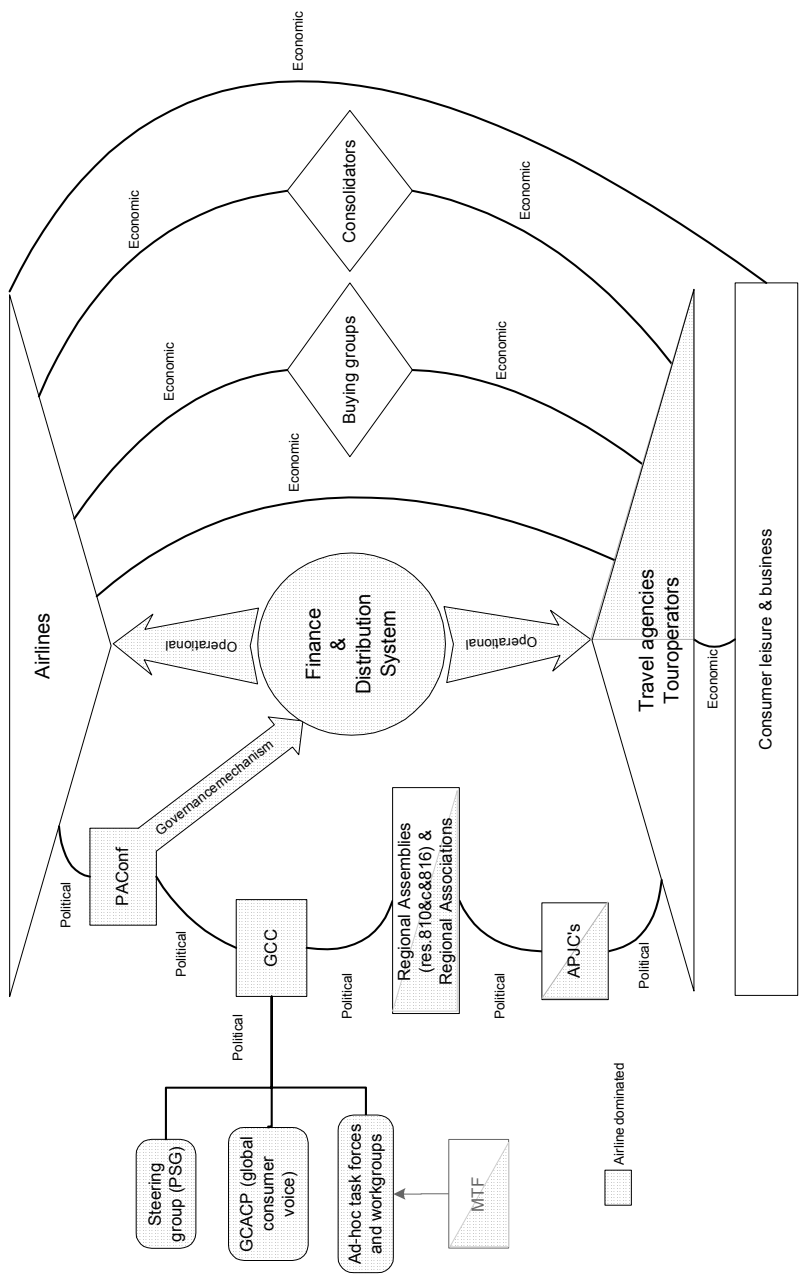
The three boxes on the left hand side of figure 4.7 represent, from bottom to top, the local (APJC), regional and global level. APJC stands for Agency Programme Joint Council and it functions as a platform, in which sides are equally represented, to negotiate, consult, exchange information and adjust the globally agreed to changes to the agency programme at the level of the nation-state. At the regional level there is scant to no communication between the regional associations. Travel agencies are represented at the regional level by regional associations and regional councils. However, the more economically and politically integrated a region, more prominence is given to this level. The EU is currently the most integrated region. It has recently decided that it wants to negotiate an open skies agreement for the whole region instead of facilitating bilateral agreements at the level of nation states²³. The European Federation of Travel Agency Associations (EFTAA) accordingly plays a more important role. Its efforts are mainly concentrated on achieving unity and focus between all associations and on trying to influence the decision-making process of the European Commission. At the global level there was until 2001 no platform

²³ Excerpt from a Dutch National Newspaper the "Volkskrant" 06-11-2002.

that served the same functions.²⁴ PAMConf remains the ultimate decision maker and its constituency is represented here by the airline-triangle. The distribution system intermediates the relationship in an operational sense. Data flows from both parties are processed and a clearinghouse redistributes the gains that arise from the transactions. The thick arrows in the middle show the intermediary position the distribution system occupies.

²⁴ The Millennium Task force has been transformed into the GCC by means of a resolution adopted by PAMConf, as we will see in chapter 5.

Figure 4.7: The distribution network of the international travel sector.



Summarizing: the airline industry has integrated distribution into its value chain by locking their main partners in a principal-agent relationship. Control over the relationship is exercised through a political governance mechanism called the Passenger Agency Conference (PACConf). In the Principal-Agent relationship between agencies and airlines, airlines determine what the content of the resolutions is. The rules, coming forth from this PACConf, to which both parties have to adhere, are laid down in the Passenger Sales Agency Agreement (PSAA) in the form of resolutions. The PSAA is part of the Agency Programme (AP); a largely legislative framework stipulating minimum requirements that agents and airlines must perform vis-à-vis one another. The minimum requirements are laid down in resolutions and cover administrative, economic and other formal aspects of the airline-agency relationship. Adjustments to local or regional idiosyncrasies are laid down in the Sales Agency Rules. Consider the PSAA the constitution of the 'airline-nation'. Resolutions are, in this simile, amendments and Sales Agency Rules, federal laws. All airlines that are a member of IATA have the right to veto any proposal that runs counter to its interest. Consequently, inertia and slow reactions to exogenous change are the rule rather than the exception. Increasingly, the need is felt to find new ways of co-ordinating the diverse set activities and relationships. New 'co-ordination-scripts' have to be developed to accommodate changes in the institutional environment. One of the forms that the IDFS needs to generate is interorganisational trust to improve its commercial relationship to stand a chance in a new competitive environment.

This is important because the two drivers in the institutional environment: deregulation and IT-development will keep on exerting their pressure on IATA and anti-trust immunity could be lifted in many more places around the world. This could lead to increases in pressure from other regulatory bodies to change the current forms of co-ordination and might result in a spin-off of the distribution system. The distribution system would then have to satisfy both customer bodies to ensure loyalty in the global market place and lose its advantage of a stable base of suppliers and travel-agencies. Although this has been made increasingly difficult because the IDS has integrated the financial administration into its operations and has become the IDFS. Nevertheless, travel agents worldwide are dissatisfied with the ways things stand currently, if they are enabled to switch to another global distributor they would. For airlines it would mean a chance to tighten relationships, by means of a shared distribution system, between alliance partners. So the IDFS seriously needs to invest in the relationship, it needs to generate trust in its operations (competences) and intentions of the IDFS itself and between adversarial partners. Something that is eminently difficult given the current circumstances. Not an enviable position to be in one might observe.

4.4 Trust generation and the role of go-betweens

Behaviour that confirms positive expectations creates trust. Confirmations of negative expectations destroys trust and is likely to invoke the use of sanctions via legal arrangements available in as far as they apply to the situation and actors at hand. (Luhmann et al. in Lane & Bachmann 1998:10-14) We should add the possibility that undesirable behaviour can be corrected by more means than law. Behaviour and

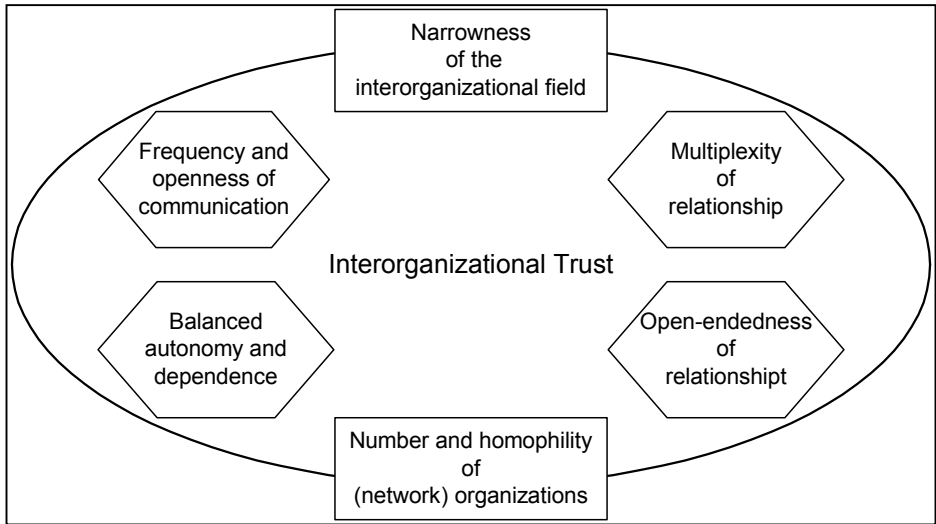
expectations are also guided by implicit or tacit rules in the form of norms and values. (Nooteboom 2000) Behaviour that is detrimental to a relationship stimulates the desire to increase monitoring efforts to mitigate the danger of opportunism (Wathne and Heide 2000). The need for governance or co-ordination arises from the need to stimulate trustworthy behaviour and mitigate the possibility that opportunistic behaviour occurs. Where opportunities for opportunism are high and there is a history of opportunism such a need is felt to be even more pressing. Paradoxically, to agree to the ways in which behaviour is monitored and to establish what constitutes appropriate (non-deviant) behaviour, sufficient levels of trust must be generated. But what kind of trust needs to be manufactured? We will see that trying to answer this question provides us with an insight into the different levels that trust is operative in.

There are very many conceptualisations of trust across a wide range of disciplines (Gambetta 1988; Iacobucci and Schwartz 2000; Rousseau, Simkin and Burt 1996; Steenkamp and Geyskens 1998 and 2000). The conceptualisations are usually categorised according to the level they refer to and such a categorisation is also appropriate for this thesis. We already mentioned the existence of interpersonal (process-based) and interorganizational (reputation-based) trust. The authors of the different studies agree that trust is multidimensional and derived from a number of sources. Four are most frequently mentioned including interorganizational and interpersonal trust. We start with personality-based trust. The source of trust is here the fact that some people are more trusting than others based on their particular experiences and basic inclinations they were endowed with at birth. Secondly, when two actors meet the process of exchange gives both actors clues as to what extent the other can be trusted. Trust develops over time and the process is the second source and is, not unsurprisingly, labelled process-based trust. At this particular level evaluation of the interaction and outcomes is initially calculative and explicit unless actors meet that share a similar background. Recognition of the background can then induce trust and people can start co-operating before the relationship is consciously evaluated in terms of trust. Without this restriction we assume that people evaluate the benefits the relationship delivers. They reflect on outcomes and deduce intentions. If the outcomes (of behaviour) confirm expectations over and over again it is assumed that the other persons' intentions can be trusted. It has become a tacit embodied property of the relationship and in this way co-ordinates the behaviour of actors in that relationship. Thirdly, once such form of trust between persons has been established and been apparent for some time there is a great likelihood that trust becomes a property of the inter-organisational relationship through referral (Gulati 1998; Uzzi 1996; Powell and Smith-Doerr 1994; Zaheer et al. 1998). The reputation of persons is no longer needed because the organization as whole is considered trustworthy; the behaviour of representatives of the organizations is extrapolated to the whole organization as if it were an individual. Trust is then placed in a system, an organization and thus it is usually labelled system or inter-organizational trust. The terms system trust and interorganizational trust, are therefore considered synonymous. People trust that actors within another organization they trust, as a whole, can and do competently wield resources to mutual benefit. If this happens, there is trust in intentions as well as in the ability to skilfully wield resources that is competence. The last or fourth form of trust does not need interaction and rational evaluation it

sometimes referred to as generalized trust (Iacobucci and Schwartz 2000). It is a source of trust where actors refer to something that exists as a process or material reality 'out there' and cannot be directly influenced much in the same way an institutional environment is hard to alter. Not unsurprisingly, such a form of trust is commonly labelled institution based trust. It exists when people refer to tacit, intangible properties of social life, such as norms and values, reputation and image embedded in larger entities. For instance, most citizens living in a democracy trust that the judicial institutions, to which they are subjected, are fair. It should be mentioned that the distinction between competence-based trust and trust in intentions is an important one and falls outside the general four levels to which trust can refer. Trust in competence allows people to communicate and co-operate even if they do not trust each other's intentions. This distinction makes it possible for trust to grow, to evolve and reach higher levels as described above.

Conclusions we drew in section 4.3 force us to answer the question whether interorganizational trust can be designed in this particular case. We showed in section 4.3 that the institutional environment in the form of the drivers Information Technology and deregulation exerted pressure on the global institutional arrangement in which the airline ticket distribution system is embedded. To re-design the forms of coordination of the relationship there needs to be a certain amount of trust between business-partners or else co-operation will be extremely difficult. To answer this question we use the (adapted) framework of Sydow in Lane and Bachmann (1998), because it is one of the few accounts in which interorganizational networks are the explicit units of analysis and their theoretical framework is compatible with the TCT-approach because they share the assumption of the duality of structure.

Figure 4.8: Network level structural properties that influence the formation of interorganizational trust.



(source: adapted from Sydow 1998:49)

Frequency and openness of communication: Information exchanged in a transparent open way and frequent contact between boundary spanners increases the chance that interorganizational trust will evolve and be maintained. (Sako 1992; Uzzi 1996 and 1997) That such a thing occurs has been statistically validated by Zaheer et al. (1996). It is not something that occurs regularly, not at the global level, it does occur in cooperative ventures at the national level and bilateral, business to business level. The IDFS needs to maintain the interests of its association first. They cannot or do not want to share a lot of information with travel agencies. There are consumer groups and surveys are done but this does not constitute interorganizational communication. A website is specifically aimed at travel agencies but attempts to create a thriving loyal community of travel agencies have failed thus far. There have been more frequent contacts at the global level over the past four to five years but this has not increased interorganizational trust. It cannot be considered a source of trust generation at this time.

Multiplexity of the relationship The more multiplex a relationship the higher the chance that trust will develop. An exchange relationship in an electronic spot market or auction resembles a uniplex relationship. The function of that one relationship is exchange. Actors do not even have to meet. The only thing they need to have is access to a market and information about the product or service offered. Organizationally embedded actors usually do not only transact money, goods or services in a highly impersonal way but they tend to exchange information of a more strategic, social and emotional nature. The more ‘thick’ a relationship, the higher the chances are that interpersonal trust will develop. Both

structural properties presuppose/necessitate frequent and extensive contact, spatial proximity thus increases the chance that interorganizational trust develops. Given the fact that we are talking about a global distribution system where the stakeholders involved meet in different fora around the world and given the fact that such contact is limited to information exchange and negotiation predominates we conclude that the multiplexity of the relationship is low and interorganizational trust will not be referred to.

Open-endedness of the relationship Game theory has shown that unlimited games promote trust and co-operative behaviour (Axelrod 1984; Hendrikse 1998). Limited games open up the possibility to profit disproportionately, by behaving opportunistically, in the last round(-s) of a game. When people expect a relationship to continue, which is still the case because the IDFS does not have to operate in a market environment, opportunistic behaviour throws a dark shadow on future benefits actors can expect from that relationship. On the other hand the increase in deregulatory measures puts pressure on the legitimacy of the structure and co-ordination of international ticket distribution. It seems increasingly likely that opportunities arise to find other global suppliers of tickets. Travel Agencies and other intermediaries increasingly expect that more possibilities to access ticket stock will develop in the future. The “prevailing rules of signification and legitimation require such an expectation” (Parkhe 1993 in Lane and Bachmann 1998:50). In this particular case the prevailing rules are questioned. The prevailing rules of signification and legitimation in the IATA-case induce actors to refer to mistrust and conflict rather than to trust and collaboration.

Balanced autonomy and dependence If actors evaluate the relationship(-s) they maintain as balanced in terms of dependence and autonomy then trust is likely to surface. This does not mean that they need to evaluate the relationship as balanced in all respects. This would mean that only actors that are essentially the same are able to develop trust. But there are no compelling reasons to link up with an organizational ‘clone’, other than economies of scale or easy integration of activities. Relationships between economic organizations are usually forged because the other has complementary capabilities or delivers access to resources that, in unison, deliver more value or decrease costs for the respective partners (Dyer 1996; Dyer and Singh 1998). This means that a relationship will always be strained and when it is by definition unequal, which is the case when engaged in a principal-agency relationship, then interorganizational trust seems almost impossible to stimulate. A balanced relationship between travel agencies and airlines should, therefore, be evaluated as an equitable relationship not an equal one. When viewed in such a way a balance can be struck that will contribute to the formation of interorganizational trust. Note that this structural property is similar to the mutual interest balancing form of co-ordination. This structural property in its given empirical setting does also not contribute to trust.

Narrowness of the interorganizational field The interorganizational field we are dealing with in this study is the field of international airline ticket distribution. Travel agencies gain access to this field through an accreditation process. In this sense the field is narrow and bounded. However, the possibilities that Information technology offers with regard to the direct marketing and thus distribution of airline tickets has broadened the field of distribution considerably. The opportunities the new technology offers, makes airlines and

travel agencies for the first time in their history adversaries as well as collaborators. This has led to a considerable destruction of trust and has raised the question within the sector if the current structure of the relationship is still appropriate.

Number and similarity of (network)organizations Interorganizational trust is more likely to surface between organizations that use similar, not identical, categories of thought. When actors use similar structures of thought to make sense of the world there is quite a high likelihood that interorganizational trust surfaces (Powell 1990; Luhmann 1979; Oliver 1995). Such a thing is more likely between numbers of firms that share a similar background. If managers refer to the same categories of thought then they understand each other quickly. Cognitive distance is low and this contributes to trust generation. This is working knowledge in most organizations. It is for instance, a known fact that British Airways delivers the bulk of managers for the IATA offices in Geneva. When I inquired why that was so, the reply I got was: "... they speak English quite well and it takes less time integrating them into the organization..." (Personal interview, April 2000). Similarity is therefore amenable to trust generation. The similarity between travel agencies and airlines is low they employ dissimilar competences and resources to satisfy shared consumers. A small number of co-operating fairly similar firms are more likely to generate trust in an interorganizational network. However, if similar firms compete for the same resource then trust will be difficult to develop and maintain, horizontal alliances between airlines serve as an example.

Concluding, a large number of firms united in a network that depend on each other because they employ dissimilar competencies preclude the possibility of interorganizational trust building with individuals at the global level because it is an aggregate level where people represent interests. In such a situation, trust has then to be placed in the system and the operational effectiveness thereof in the sense that all actors rely on flawless operations to satisfy dissimilar needs. Or process based trust has to be developed between the intermediaries that communicate, negotiate and collaborate on behalf of both sectors, but they should operate in a secure environment where they do not have to constantly assess their position with their constituencies in mind. They need to be freed from their simmelian ties in order to be able to start trusting each other at the interpersonal level. It is only then that process-based trust has a chance to flourish and support collaboration. (See section 4.5.1.). Secondly, trust in competence can be present which gives the participants at least a chance to communicate and start working on the improvement of interpersonal relationships. When interpersonal trust develops at this level and starts to include trust in intentions then these forms of trust are referred to in other contexts, for instance within meetings of travel agency associations. By referring to trust, trust is inserted into the association (Uzzi 1996 and 1997). Boundary spanners or go betweens are therefore extremely important in networks they are the conduits along which trust is 'transported'.

We conclude this section with an overview of the roles that intermediaries play. The roles are used to inform the conclusions of chapter and the analyses in chapters 5 and 6. Here we pay special attention to the roles the IDFS fulfils in the ticket distribution system. As a general introductory remark we stress that: "...it is crucial that the go-between commands trust in both its competencies and his intentions" (Nooteboom 2000:111). A go-between

needs a lot of social capital, a favourable reputation with all parties concerned. Go-betweens also can and do fulfil important roles concerning the development and maintenance of appropriate mixes of forms of co-ordination. We will take this into account when we discuss and evaluate the forms of co-ordination that govern international ticket distribution.²⁵

The first role is that of a dispassionate third party to mitigate inefficiencies that arise from infrequent or large numbers of very small transactions. The transaction cost for every transaction can be thoroughly reduced if a single agreement exists that is enforced and arbitrated by a third party trusted by both sides (Bucklin 1966; Williamson 1985). The IDFS fulfils this role at the global as a clearinghouse and via the accreditation process. However the system is not trusted by all parties, especially not by travel agencies because it is integrated into the airline association IATA. Management is therefore obliged, under contract to serve the interest of its constituencies first. Constituencies are all associated airline members.

The second role is old and was already employed in mediaeval times, where kings exchanged hostages and the emperor took them into custody and resumed the responsibility for their well being (De Laat 1999 in Nootboom 2000). The emperor guarded hostages and was motivated to generate and maintain symmetrical trust otherwise his authority and legitimacy would weaken. The role of hostage guardian stabilises relationships and decreases the possibility of exit because such an action would be accompanied by serious losses. The IDFS does not keep hostages for both parties.

Thirdly, a go-between can act as a filter against spill over. A third party fulfilling this role should know both sides well so he can inform prospective partners reliably concerning the competences and intentions of each other. In this way parties can ascertain whether or not it is worthwhile to share information that might be used opportunistically by the other party. A go-between 'lubricates' and stimulates the formation of more formal relationships by giving accurate information. In the Dutch context actors responsible for regional developments in the province of Brabant are assigned the role of 'Keten- or Netwerk Regisseur', which roughly translates to Chain or Network conductor/director.²⁶

The fourth role is being a trust builder, although all intermediaries generate trust if they fulfil their role properly, it can be an explicit motivation to employ a go-between. Especially when parties are at the beginning of a cooperative venture and ponder the possibility of specific investments to cement and operationalise a relationship or when they are embroiled in a conflict that they are not able to solve in direct interaction. Arbitration and mediation are then two activities that are combined and define this role. Even if things go wrong by mistake or opportunism a go-between might solve the misunderstandings and therewith 'clear the air'. This is a role IDFS must increasingly play remain the sole

²⁵ This subsection has largely been based on pages 110 and 111 of Nootboom (2000).

²⁶ I encountered this function when I tried to gain access to do a case study for the province of Brabant in the Netherlands.

supplier of international airline tickets. It must do so to stop the increasingly credible threat of exit by travel agencies and to mitigate the negative effects of commission cutting on the performance of both supplier and travel-agencies but we have seen that it one of the hardest to effectuate (Hibbard, Kumar and Stern 2001).

Fifthly, monitoring parties that collaborate or compete helps them sustain their reputation. When infringements are observed and credibly reported parties are induced to display trustworthy behaviour. IDFS monitors on behalf of the airline industry and therewith punishes and reports a-symmetrically. A-symmetry makes it difficult to trust, it causes actors to refer to sentiments such as obedience, loyalty and defiance rather than to trust.

The last role a go-between might fulfil is to support a smooth process of exit or discontinuation of the relationship. If a relationship can be resolved in relative harmony both parties save valuable resources and competencies that can be put to more productive uses. It is also desirable in the context of innovations to be able to quickly change partners if the need arises which is usually the case because innovation processes tend to follow unpredictable paths.

We introduced the major case study, the network of relationships that exists between a global, airline dominated, distribution system and its major sales force: travel agencies. We explored the economic organisation of the tourism sector, and paid special attention to interorganizational networks structures because the international ticket distribution system is an exchange network. We detailed the ways in which the airline ticket distribution system is currently governed and assessed the possibilities to generate interorganizational trust and the roles go betweens play with special attention to trust generation. We saw that there was no reason to assume that trust could be generated easily. Although some suggestions were offered that might contribute to the growth of trust building, other forms of co-ordination are more important. In the next section we will formulate an answer to the questions we posed in this chapter and reflect on what mix of forms of co-ordination should govern a global distribution system, given the current situation of increasing deregulation and the fact that, enabled by information technology, travel agencies and airlines have become competitors regarding the sale of airline tickets.

4.5 Discussion and Conclusions

The focus of this chapter was how two sectors that need to work together can re-invigorate their interorganizational relationship, the need to adapt the forms of co-ordination sprung from changes in the institutional environment that triggered changes in airline strategies. The functional intermediary or go-between in the distribution network is the IDFS. We focus on how the IDFS and the connected complementary networks of suppliers and agents should be coordinated because it links sectors with diverging goals, resources and competencies.

We need to answer two questions that go together to come conclusions:

- What mixture of forms of co-ordination (governance mechanism or mode of governance) would be most effective in governing a distribution system that serves two interdependent networks of travel agencies (agents) and airlines (principals). Effectiveness should be interpreted here as the extent to which the network is able to accommodate the diverging or non-congruent goals of the parties involved.
- What kind of a configuration of relationship(-s) would best serve the stimulation of trust or reduce the propensity to be opportunistic between both sectors to allow for the development of shared competitive advantages through collaboration?

We start with a discussion on the forms of co-ordination and determine how the current mix contributes to inertia and flexibility. Then we elaborate on the distinction between a dyad and a triad because that will inform our second research question. We assume that dyadic relationships occur more frequently in market environments, while triads are more apparent in networks.

4.5.1 Forms of co-ordination

Evasion Although sharing information could deliver relational rents agencies are not inclined to do so. The reasons travel agency managers and their representatives cited were the following. Firstly they commented that airlines could not be trusted to share the knowledge that would come forth from the analysis of data. They would abuse their dominance. Secondly, they said that airlines already had access to such information because they could buy knowledge based on the sales and reservation data of agents that the IDS and CRS's compile. It was added that only the bigger airlines could afford to buy and use such information. Thirdly, because they felt they already delivered information they should be compensated for it. As long as this point could not be discussed agencies were unwilling to entertain the idea of further information sharing. The specific investment agencies made, to become an accredited travel agent, turned against them. Dependence on the distribution system and the relative power of the airlines in the relationship made them vulnerable to spill over effects that were subsequently exploited by the airlines. Agencies responded with an evasion of the subject and wanted to have detailed legal and relational contracts, that is to say they wanted a code of conduct detailing good business practices that would deal with the problems of spill over and hold-up.

Integration Airlines' main competence is the transport of people and goods. Travel agencies are assumed to be able to competently provide the consumer with information about transport and destination related services and assembling his preferences into a package. The integration between airlines and agents is partial, because both remain ownership independent but function as a virtual hierarchy because of a specific long-term contract. The good thing about this partial integration is that it preserves the variety of experience and thus opens up avenues for learning and innovation, not between airlines and travel agencies but at both sides of the network between similar actors. Inertia of the system as a whole has to be attributed, to a large extent, to the unanimity clause that is part of the PSAA, the generic contract that co-ordinates the workings of PAConf and the

relationship. The fact that distribution system is integrated into an association in which all members can block change is the real stumbling block.

Contracting The AP and PSAA contain contractual elements that pertain to record keeping as well as the mitigation of opportunism. However, contracting can have unacknowledged or unintended consequences. The self-fulfilling prophecy of contracts designed to mitigate opportunism but in fact generate a heightened awareness of opportunism and therewith stimulate opportunistic behaviour has come around the corner in this particular case (Klein-Woolthuis 1999). Opportunism of the other is assumed. To give two examples from practice, in one of the group interviews the national representative of an EU agency association exclaimed: "Why should we trust them [the airlines] they are robbers, dictators and cheats" (Group interview, July 1999). An airline representative echoed the same sentiments in an interview when he said that: "Travel agents are loyal to everybody and nobody, you can't trust them" (Personal interview, May 1999). This is consistent with our analysis of the structural properties of this network concerning trust generation.

Mutual Interest Balancing We particularly tried to stimulate the development of this form of co-ordination with the group we facilitated as part of this research-project (see chapter 5). Both parties were supported to come to an alignment of interests and to congruency in goals based on the mutuality of interests. The principles of the document that came forth from the meetings contained the main mutual interests. However, the fact that a principal-agent relationship delivers by definition an a-symmetrical distribution of resources and competencies and thus dependence make it hard to envision a more equal relationship that would allow for such a form of co-ordination at the interorganizational level. Only when the principal agency relationship is abandoned in favour of a more equitable relationship, where both parties perceive that responsibilities and benefits are fairly distributed, not necessarily symmetric, the first step is set toward co-ordination through mutual self-interest. Additionally, we noted that mutual interest balancing is one of the roles a go between can fulfil. The IDFS can only credibly fulfil this role, enact this form of co-ordination, if it is not controlled by one of the two complementary networks and acts in the interest of both networks.

Trust. Deregulation led to privatisation and intensified competition. Airlines modified their competitive strategies accordingly and developed a management style that is labelled predatory and shareholder oriented (Hinthorne 1996). There is therefore a slim chance to develop trust at the interorganizational level. It is not only the behaviour of airlines that destroys trust. We have also seen that almost all structural properties that could contribute to interorganizational trust have a negative impact. The whole system can be characterized by institutionalised mistrust and therefore the chance that the other is opportunistic is taken as a given. Wathne and Heide (2000) propose that opportunism can be broken down into passive and active opportunism. Active opportunism refers to the definition of Williamson (1985). He defines opportunism as self-interest seeking with guile. People actively seek to exploit the vulnerabilities of another party or capitalize on the opportunities a relationship offers, e.g. free-riding or spill over effects. Cutting commissions without due notice is a perfect example. Passive opportunism means that an actor refrains from particular actions. Evasion of obligations and neglect for instance, not complying with all rules specified in

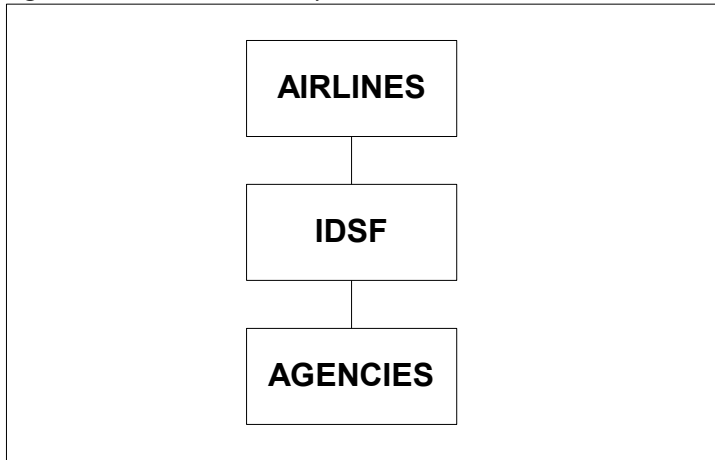
the PSAA or shirking, are examples. It would be wrong to say that only the airlines were opportunistic because this form of opportunism can be found at both sides, but the opportunities to be passively opportunistic are higher at the agency side because control of more than 100.000 agencies worldwide is really hard, especially when deregulation causes an inability to monitor behaviour. Finally, the combination of elaborate contracting that institutionalised a-symmetry to the relationship and the fact that this institutionalisation was legitimised by anti-trust immunity also diminishes the chances to generate interorganizational trust.

Network Structure The networked structure of the travel sector is a response to the inherent instability of tourism demand, especially the desire for novelty and the fact that a tourism product is delivered over a period of time in different spaces. To cater to this desire you need (potential) access to a range of other organizations. In other words, the production of travel and tourism experiences can hardly be done in any other configuration than a network and this has distinct consequences for the way people, active in this sector, perceive the world and act upon it. All firms are looking for opportunities to improve their position in the network and improve their financial performance. The network can remain stable over time because if one agency or airline exits others can and do take over the demand or supply delivered. Low entry-barriers ensure a constant supply of new competitors with innovative ideas and practices on the agency-side. Rigidity or inertia can therefore be present without having an impact on the innovative propensity of the sector.

Now what does this mean for the way in which the distribution system should be coordinated? We have seen that tourism and especially the travel sector are networked economic sectors 'par excellence'. They aggregate financial, transport and information technological relationships into comprehensive business networks that cater to the demand of travellers.

However, none of the three network types derived from Tremblay (1998) explicitly recognizes the role of the go-between or intermediaries. We established that it has a distinct influence on the structure and quality of the relationships and operations of the network. That is why we paid considerable attention to the differences between dyads and triads, in other words between relationships and networks. The distribution system is a market boundary spanner an intermediary connecting demand with supply. The IDFS is an intermediary whose main function is the facilitation of exchanges between two sectors. A highly stylised depiction would look like figure 4.5

Figure 4.9: The distribution system: a structural hole?



The relationship resembles a structural hole. The IDFS receives information from both sides that in theory do not have a direct distribution relationship. Thereby it is in a position to selectively use information from both sides to its own advantage. The IDFS, however, has to represent the interests of its owners, the global airline community; it is integrated into IATA, the airline association. This fact effectively transforms the structural hole into a dyad. Rescinding resolution O16a has as an effect that airlines and agencies need to bilaterally determine the conditions of the exchange at the national level with regard to the re-distribution of value and risk. This is consistent with how things stand at the global level.

The distribution system functions at the operational level as an intermediary and thus the distribution system is constrained between the ‘hammer of agency demands’ for change and the ‘anvil of desire’ for stability of the airline community.

We argue that the because of increasing deregulation and new IT-applications in the areas of direct marketing, the dyad actually increasingly exhibits the properties of a triad. Agencies and airlines have to negotiate terms of exchange anew in a deregulated environment. This has already happened in the US and is on its way in the EU. They have to interact directly with each other about compensation for services rendered and forms of information exchange that are beneficial to both parties and are supportive in the creation of more value for consumers. Agencies have to negotiate contracts with airlines and the IDSF. Airlines have to do likewise with agencies and the IDSF or erect a new organization such as IATAN that controls the US-domestic market. If the IDSF is not allowed to function independent of the association we predict it will loose many accredited agencies in the future in those economies where airlines have erected a direct marketing channel. Agencies do not need to have an accreditation to function because they can perform the booking of an electronic ticket via this channel on behalf of the consumer. Airlines will

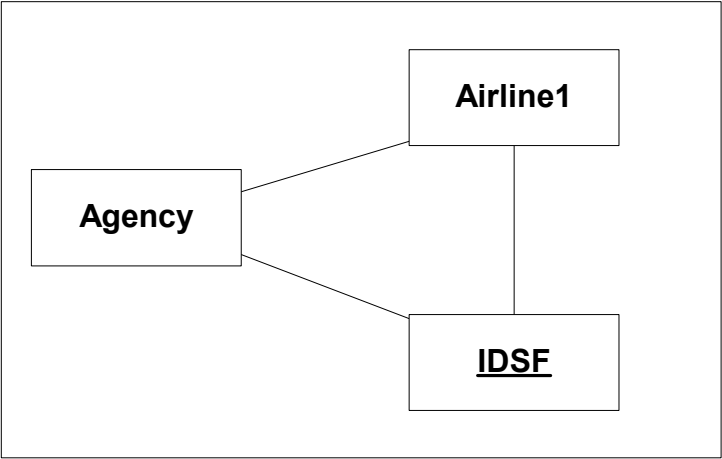
have lost control as well as source of revenue without having reached their stated objectives objective of a reduction in distribution costs.

Actors in a triad and therefore a network are less free in the sense that representatives that negotiate terms of a new agreement have to take into account and are closely watched by their constituencies, their publics. At the same time this attention forces them to produce results that satisfy their publics and to come to workable solutions. (De Vreede and De Bruijn 2000) If the IDFS is enabled to function as if it were part of a triad as an autonomous player then the different advantages a go-between potentially delivers can be capitalised upon. IDFS could in such a situation:

- act as a filter against spill over,
- it can continue to focus on making the process of transaction as efficient and effective as possible,
- it can credibly fulfil the role of trust-builder, arbitrate and mediate, and,
- finally, it is then able to enhance the reputation of both sectors in a symmetric fashion.

At the organizational level we therefore conclude that the IDFS and the whole network would best serve both constituencies if it could function outside IATA. Similar to airline owned virtual distribution channels where a contractually bound board of governors co-ordinates the portals. We suggest that replacing the current political governance system of the Passenger Agency Conference will ensure that the system can truly serve its two main customer bodies instead of having to pay lip service to travel agencies and engage in political entrepreneurial activities to pacify and align the views of all the airline members within PAConf. Such a prescription is also consistent with the findings of Williamson (1985) who describes such a solution as trilateral governance.

Figure 4.10: The distribution system: a ‘Simmelian’ Triad?



Even if such a solution becomes a reality it will remain a tense relationship in which open communication, transparency of decision making and displaying trustworthy behaviour remains important.

As long as anti-trust immunity is maintained the distribution system cannot serve its two main customer bodies even-handedly. Integration of the distribution function into the association was a good solution as long as deregulatory measures are not implemented. Trust as a form of co-ordination is conspicuously absent and seems to be supplanted by a concern for opportunism. As long as opportunism reigns it is unlikely that the relationship will produce shared competitive advantages. Mutual interest balancing is something sought after by agencies and evaded by airlines because it would mean losses for the aviation sector in terms of control and dominance. Evasion also happens with regard to integration on an equal basis and network structure, as a form of co-ordination does not work very well. The generic contract specifies that access to ticket-stock is only possible when agencies accept the airlines as principal. A network with such a contract simulates a hierarchy, a firm if you will, but lacks the means to control and reward its members other than in a pecuniary sense. However, remuneration instilled a degree of loyalty in agencies and this loyalty has been undone by many airlines when they started cutting commissions. This leaves IDFS in a vulnerable position if it were to compete on the global market.

The forms of co-ordination chosen led to an extremely stable system, important to satisfy the requirements of safe, easy and cheap to make a profit. The system served travel agencies and airlines well in a regulated environment for more than half a century, albeit not without friction. It delivered airlines a great amount of control and possibility to coordinate economic actions of travel agencies. Travel agencies were compensated for their subservient position through a commission that covered the costs they incurred as a result of the actions they must undertake on behalf of their principals. These commissions rose gradually over five decades and airlines paid them because it was still more expensive to set up their own distribution systems. This option only became available with the advent of the Internet and the simultaneous rise of deregulation as guiding principle for many governments. Given these circumstances a board of commissioners, that balances the interests of the two main stakeholders, should govern the distribution system. Additionally it would enable the IDFS to improve the relationship by means of enacting the roles a go-between can fulfil. The integration of the distribution function within IATA can only be maintained with anti-trust immunity and the airline industry would do well to prepare the distribution system for the disappearance of these institutional arrangements by changing its forms of co-ordination.

To conclude the chapter we shortly reflect on what stage the travel sector is in at the global level. The increasing concentration on the airline side occurs through the formation of alliances. This is an indication that the sector is in the phase of reciprocation (see figure 2.2). The architecture of the practices remains the same (simulated hierarchy) but elements from novel practices (e-commerce/direct marketing) are imported when they promise to be better in some respects. In this case a decrease in dependency on travel agencies and increase in market share and revenues. On the agency side things are not so clear-cut, this is partly due to the fact that agencies generate demand in specific places, there are very

few big globally operating travel agencies. However, the bigger globally or regionally operating agencies such as Rosenbluth, Carlsson and Cook do increasingly employ virtual channels as well and virtual travel agencies like Expedia compete with airlines for market share in e-commerce field. It is therefore tempting to conclude that both sectors are on the verge of entering the stage of accommodation in which novel combinations are likely to come about.

We do not think that this will necessarily be the case. Firstly, because of the specific institutional arrangements the travel sector is embedded in. Many IATA associated airlines are still (partly) owned by national governments and very much linked to the political field in their respective nation-states, especially outside the EU and US.

Secondly the sector supports the desire for mobility and it is therefore that they cannot be located in close vicinity of one another. This precludes the evolution of the sector in the direction of industrial districts or loose intra-firm networks at regional or global levels. Which is common in the phase of reciprocation. Reciprocation is a dead-end in a globally operating sector that serves locally bound markets. Only if people can live close to each other and frequently interact alliances can be a stable enough form of cooperation.

We assert that it is more likely that they will enter a new phase of consolidation in which mergers and acquisitions take more prominence. The merger of KLM and Air France might be an indication that this assertion possesses a certain amount of truth. For that to happen governments should be increasingly inclined to relinquish their control and focus their attention on providing airlines and travel agencies with a regulatory framework that ensures they compete under the same rules of competition (institutional arrangements).

The current negotiations between the US and EU about open skies between the two trade blocs will create a second market similar to the US. Deregulation will exert pressure and further concentration in the sector will occur. This means that they skip the phase of novel combinations and enter straight into the phase of consolidation. It seems that the cycle of discovery contains shorter cycles. Sometimes an industry can move from reciprocation directly to consolidation and follow a similar path at a higher level. In this case the structure of the market is copied and adjusted by the EU and the evolution of the airlines and agency sector might follow a path similar to the US market. Given a learning effect it should happen faster in the EU-region. The need to think about the consequences these effects might have on the relationship between travel agencies was felt. The need to change the relationship was voiced throughout both sectors and the exertions to come to a re-definition of the relationship will be the main subject of the next chapter.

5 FACILITATING GLOBAL CHANGE: THE INTERPERSONAL LEVEL

“There is nothing more difficult than to achieve a new order of things, with no support from those who will not benefit from the new order, and only lukewarm support from those who will.” (Machiavelli, *The Prince* 1554)²⁷

5.1 Introduction

We saw that interorganizational trust between airlines and agencies is not likely to come about at the global level. Airlines did not support change and the agency sector took a more differentiated view on the matter. They supported changes in a ‘lukewarm’ mode. We concluded that it is better to assume that trust as a form of co-ordination cannot and will not work in globally operating network based businesses protected by specific institutional arrangements, in this case anti-trust immunity. Contracts are more important in such a context but should be drafted in such a way that they try to balance mutual interests, to avoid the trap of reinforcing opportunities to be opportunistic.

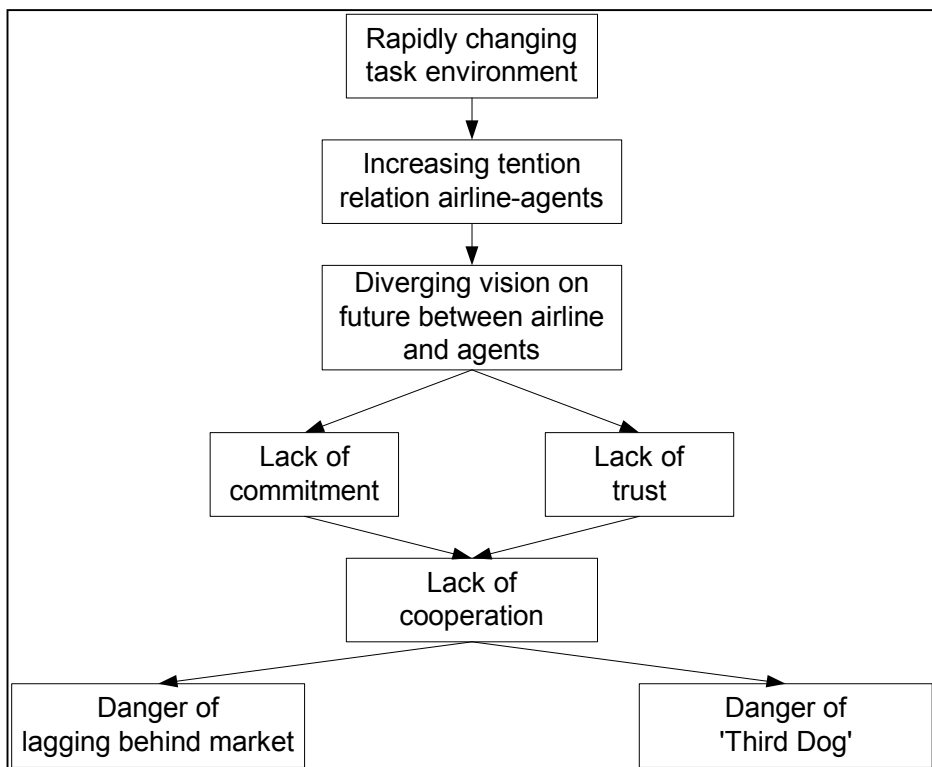
We established in chapter 2 that networks as an organizational form are assuming more importance in economies. We have seen in chapter 4 that a large part of the inertia in the distribution network can be attributed to the forms of co-ordination chosen to mitigate supposed and observed opportunism. According to De Vreede and De Bruin (2000), political issues are prevalent in inter-organizational networks because actors behave strategically instead of rationally. They act strategically in the sense that actors tend to take the interest at heart of the organization(-s) they represent. It can be argued that this is a perfectly rational choice to do so. That it serves the self-interest of the representative. Rationality as used in the article referred to means that an actor weighs every event discretely in a calculative fashion solely from its position. Such a definition of rationality precludes the possibility that an actor can also represent interests. Rational actors would not put the interests of the parts of the network that they represent first but their own. This is an untenable conceptualisation of rationality if an actor would behave in such a way in a network they would be quickly removed or receive quite some information on how they should behave and under what mandate. This is another reason why special interest will be paid to the role of interpersonal trust because we established that the biggest challenge for managers and other go-betweens in network based organizations is to manage the diversity of meaning (creation of focus) and acting trustworthily to stimulate collaboration or, at least, information exchange. However, the bigger and more diverse the members of the network are, the more interests diverge and the less likely it is that a common or shared

²⁷ I am indebted to Fran Ackermann who used this quote in a presentation at The Group Decision and Negotiation Conference at La Rochelle in 2001. Although the quote uses the English title “*The Prince*” it would be more correct to translate “*Il Principe*” as “*The Ruler*”. Note also the resemblance of the word “*Principe*” with the English word principal.

focus and culture arises. The more members in a network and the more diverse the resources and competencies actors bring to a relationship the lower the (initial) levels of trust. It is therefore that there is a highly felt need by the actors involved in negotiations between such networks to 'design or manufacture' trust. This need was confirmed in exploratory rounds of interviews because all constructed causal loop diagrams contained this variable. To have an impact on individual business one should ask what forms of co-ordination are feasible and desirable to govern globally operating network based businesses. This is the question we addressed in the last chapter but to reach consensus on what would be appropriate forms of co-ordination at the global level trust needs to be generated at the interpersonal level between interest representatives.

Group Model Building techniques and methodology (GMB) and a group support system (GSS) were used to plan and implement an intervention. The intervention started in 1999 when a task force was installed that consisted of travel agency and airline representatives. Based on the first information gathered we decided that the problem under investigation was global, complex and messy. It was global because it concerned relations between travel agencies and airlines throughout the world. It was complex because of the number of actors implicated and history of adversity between parties. It was messy because it had to provide solutions for a mix of interrelated strategic problems and the partners had diverging interests. (Ackermann and Eden 1996; Vennix 1996) The focus of the participants was to reduce tension and increase trust via the stimulation of co-operation that would benefit all stakeholders involved. They felt they needed to show that they could co-operate successfully because they considered this a signal to other parties that they could be doing the same in their part of the network. A combined model was built and explained in the first workbook. The second round of workbooks did not yield additional information from the team members and this reinforced the notion that the parties were reaching consensus on the causes and consequences of the tension. The group seemed ready to start co-operating. However, decisions about the implementation of solutions were clearly impossible because it would have meant including all IATA associated airlines. The negotiations continued after the intervention stopped and lasted for a total of four years in which slow but considerable progress was made. The frequently used quote from Machiavelli highlights the support and antagonism felt during the intervention we executed as part of our action research.

Figure 5.1: Problem definition Task Force



The original problem statement of the Task force, dubbed the Millennium Task Force (MTF), was presented as a causal diagram (Figure 5.1). The problem definition was discussed and the members of the group agreed to the following wording: "How to improve the relationship (decrease tension) between airline members of IATA and IATA-accredited Travel Agencies? In order to make the distribution system, on which both depend, less inert and more flexible and responsive in the current turbulent competitive environment".

We will show how difficult it was to design or 'manufacture' trust by means of a description of the evolution of tension in the relationship in section 5.2. This description supplements our analysis of the possibilities of trust-generation in networks in chapter 4. It is a dynamic or historical account that should shed more light on the reasons why it is extremely difficult to engender change in a collaborative manner in the global travel sector. Then we continue in section 5.3. with the design, process and results of the intervention and its aftermath in the form of a description of the process of negotiation and progress made by the GCC (one of the concrete results/outcomes of the negotiations) with regard to the implementation of the recommendations agreed to within the MTF (the task force) and endorsed by the Passenger Agency Conference. This sheds light on the fact that

the MTF did lay the foundations from which to build a new relationship and forms of co-ordination but that such processes tend to be lengthy and drawn-out and, can be stopped dead by means of a veto if just one airline feels their interests are suppressed. Based on the knowledge gained in this process we offer three scenarios in section 5.4 and expand on the one that offers the most benefits to the travelling public, business and regulators (nation states and associations) because that was the original objective of IATA and the distribution system, next to the advantages it delivered the airline industry. The last section contains the conclusions. The following section offers a description of the relational history of the distribution system because it sheds light on the different causes that contributed to tension in the relationship between a global ticket distribution system, airline and travel agency business-systems²⁸ and firms. It is based on interviews with respondents from both sectors executed around the world.²⁹

5.2 The evolution of tension

Due to a number of causes, the relationship between airlines and agencies is very tense. Some of the causes have already been mentioned in chapter 4. Those were the structural reasons. The tension is partly structural, in the sense of being embedded in organizational routines and different scripts or institutions at different levels and therefore a lot of time and energy is involved in generating change. Put in the terminology of the TCT, the scripts with a high degree of permanency. To change such codified or internalised scripts is to change institutions and institutions are not easily altered (Nooteboom 2000:112).

The first structural cause of tension is different forms of (inter-) dependence. Agencies and airlines are interdependent in several respects and each form of interdependence causes tension. The *degree* of interdependence differs between national contexts but similar constructs apply to airline-agency relationships at all levels because a substantial amount of income of both parties is due to ticket sales. The first form of interdependence is that they are income dependent (1). Travel agencies sell about 85% of all international airline tickets. This figure was also acknowledged by the airlines during the PAConf meeting in Hong Kong in 2001 (source: password protected site within IATA). This number is salient because it means that the strategy to distribute tickets directly via web-based systems does not (yet) change the distribution of the pie in favour of the airlines. Linked to income dependency is the fact that they are resource or product dependent (2) because of the mutual need to sell tickets. (Stabel and Fjallstad 1998; Pferrer and Salancik 1978; Thompson 1967) Thirdly, agencies and airlines, selling international tickets, are distribution system dependent (3) because anti-trust immunity allowed the airline industry to set up a distribution system as a part of its association and this distribution system was allowed to function at the global level without any competition. There is no alternative in the environment. There is, therefore, no other legally correct way to access international airline tickets for travel agents and for airlines to process tickets and the distribution of

²⁸ Business systems are usually associated with a nation-state. For an example see, for instance see Whitley's publications in 1998 and 1999. This case deals with an extra layer, namely that of global business systems.

²⁹ See chapter 1 for the number of respondents and data collection methods employed.

revenues that accrue to a host of stakeholders. Institutional constraints subsumed under the heading of anti-trust immunity and codified into national, regional or global regulations/laws prohibit such an undertaking.³⁰ We might remember from chapter 4 that the regulatory systems of the Air-transport sector are firmly embedded in bilateral treaties at the international level, at the global level IATA and ICAO work closely together. Only airlines that have bilateral treaties concerning ticket-distribution endorsed within this regulatory framework are part of this study. Airlines that are a member of IATA have access to a global network of more than 100.000 agencies that can sell their tickets. Travel agencies need the 300+ airlines to deliver seats to their customers. They rely on the access to seats the network offers, they are dependent on the network because it is the only one around. There is currently no alternative in the environment. The network is a resource as well as the main reason for existence for many travel agencies. They are network dependent (4) and this is the fourth form of dependency that delivers the first aggregated reason of tension: dependency. Network dependence and distribution system dependence are distinct constructs because the distribution system could be replaced while the network and the dependency that entails stays intact. Replacing a global distribution network is not so easy especially when the organizations that participate are ownership independent.

This explains why the second cause of tension is due to the fact that travel agencies and airlines are independent concerning ownership. They are relatively autonomous in their decision-making and are inclined to cater to their own interests first. The tension between dependence and independence characterizes any interorganizational network.

The last structural cause of tension is the way in which the relationship is coordinated. At the beginning of the relationship the perceived danger of opportunism, hold-up and spill over effects, were averted by building in safeguards to the relationship (Williamson 1985). The first safeguard is a process of accreditation and compulsory training and, a second one, by locking agencies into a contractually defined principal-agent relationship. The contract simulates a hierarchy and specifies the rights and obligations of the respective parties, containing clauses that detail the right to monitor and punish economic behaviour of agents, comparable to a labour-contract of an employee in a firm. These two measures together gave the airline sector control over this part of the travel value chain. They were enabled to do so by anti-trust immunity granted to them. For more than 50 years airlines have been the principal and have had less and less consultation with travel agencies about changes to the contract.

The causes of tension that now follow were initiated or came about after deregulation entered the global economic 'stage'. Except for the first reason that was something that already occurred five years after the distribution system was called into existence. The first increase in tension was that travel agencies increasingly experienced new rules thrust upon them. They ultimately accused the airlines and the International Air Transport Association

³⁰ It should further be kept in mind that tour operators owning and operating airlines, the charter market and Low-Cost Carriers like Easy-Jet are outside of this picture. Although they can be considered a response to the gaps that have come about because deregulation is promoted in environments that are still partially regulated through anti-trust immunity.

(IATA) of unilateral opportunistic behaviour around 1994 when Delta airlines cut commissions over night (see figure 4.6).

A second cause of tension developed when interlining agreements caused an open market for tickets with high price sensitivity. Application of Information Technology caused a high degree of pricing transparency airlines know each other's ticket prices almost instantaneously. The transparency of ticket prices or tariffs forced airlines to use Revenue Management Systems and yield management resulting in complex fare structures that exerts a downward pressure on prices and therewith margins.

At about the same time privatisation of airlines took off. This forced them to shift their attention from satisfying their stakeholders to satisfying their shareholders. Airlines developed a predatory management style and this constitutes a third cause of tension. Privatization is easier in a market that can sustain a multitude of carriers the US-market is therefore the most privatised (see also Hinthorne 1996).

The critique of unilateral action without consultation was especially fierce when airlines started to drive down distribution costs. To decrease the dependence of airlines on agencies, airlines rescinded the right to a commission at the global level, in 1999. From 1994 on airlines engaged in commission cuts as a way to drive down distribution costs. This phenomenon also started in the US, they were sometimes introduced overnight and could reduce the compensation paid by 50% or more. Agencies procure, on average, 60% of their incoming revenue streams through the sale of tickets. The commission cuts were a perfect example of blatant or active opportunism (Williamson 1985; Heide and John 2000). Global conflict almost erupted because agencies did not have direct access to the decision-making bodies within IATA that would allow them to voice their opinions. They felt they had to resort to rather extreme forms of voice to be heard. Travel agencies and airlines became, over time, calculatively committed to the relationship and they now take the opportunism of the other as given (Kumar 1995). This is the fourth cause of tension that evolved over time as result of the more structural causes.

Deregulation fuelled a wave of privatisation and concentration. It drove airlines towards cost cutting strategies that were not conducive to cooperation with agencies. The ever-present cost pressure is mainly being alleviated by improvements in two economies of scale, bigger planes and bigger hubs with fewer spokes. Concentration leads to economies of scale especially on the airline side where a increase in size of planes double the previous size would lead to cost-reductions of 20% but this only pertains to the operations of bigger planes and it favours large travel agencies over smaller ones. The focus on the hub and spokes that are profitable leads to a less fine-mazed route networks because of increasing rationalization³¹ especially in big countries with a relatively low population density. Although this is efficient in the short-run it is also self-defeating in the long run. A viable airline operating at the global level needs a certain level of diversity in its network of

³¹ The BKK Post formulated it as follows: "Indeed, the travel agents' concerns are shared by many national tourism organisations which have for some time been watching airlines rationalise their route structures in the face of higher costs. This could also affect inbound tourism into many countries, which are dependent upon airlines to bring in most of their tourist visitors."³¹ (Source: BKK-post, travel monitor, 14-5-2001).

outlets to balance fluctuations in different markets and to ensure that it does not reduce the number of destinations it offers too much. Otherwise it becomes an unattractive partner for other airlines and cannot serve all the location related demands consumers have. The third main cost-cutting strategy is the reversal of the cost-structure in distribution. Airlines want travel agencies to charge service-fees for the services they perform on behalf of them.

In markets in geographically vast nation-states with a relatively low population density or low level of economic development or small nation states with high levels of economic development there is a big chance that a monopoly or near-monopoly develops. It is likely that dominance can be maintained and even expanded because of the ongoing concentration in the aviation sector. "In the larger Asian markets and Australia, we do not have that luxury [of alternative forms of transport or competition between airlines: author's note] and in many instances do not even have the population base to support such huge levels of competition" (E-mail 13-7-2001). Taken together they constitute a fifth cause especially in non-EU en US markets that also adds to the tension.

A sixth reason is the fact that the AP and PSAA set global standards. An optimal fit between local conditions and rules is thus hard to establish. When discrepancies between global rules and local regulatory frameworks occur, airlines are able to use this discrepancy to their advantage because of their dominant position in national or regional arenas that is institutionalised at the global level. Tension is likely to increase when such a thing occurs (Ross, Anderson and Weitz 1997). An example of the dominant position airlines can occupy is the fact that SIA is able to command a service fee based environment. Agencies have to accept changes in the policy of the principal and even endorse them without criticism because there is no effective regulatory framework that deters airlines from behaving opportunistically. As one of the representatives from the Singapore agency community remarked, when we were doing a group interview with Southeast Asian agency representatives: "In our case we can't fight the tiger (SIA) we have to ride the tiger." Such a response is largely due to the fact that there is no way to redress an unfair business practice through the courts.

Figure 5.2: Service Fees in Singapore: riding the tiger

Thursday, September 06, 2001

Singapore agents accept no commission. The president of the National Association of Travel Agents Singapore (NATAS) has told TW-Crossroads that commission is not the correct means of payment for agents doing work for airlines. Lee Liat Cheng, also owner of Anglo-French travel, said: 'In Singapore we have accepted zero commission.' But he added that agents deserve money for services such as the marketing they do for airlines and the staff training necessary on rules for booking tickets. Following negotiations with NATAS Singapore Airlines (SIA), which last year dropped its standard 9% rate of commission, has agreed to pay preferred agents individually negotiated amounts for services rendered to it. Additionally many Singapore agents, with NATAS' backing, have started to charge service fees to their customers. Last September NATAS issued a press release saying that agents must redefine their 'roles of providing services to the consumer, rather than acting for the airline.'

(Source: www-E-tid.com)

Finally, the evolution of information technology provides both parties with an alternative distribution channel in the form of the Internet. The opportunity to engage in direct marketing makes, for the first time in their relational history, agents and airlines competitors in a multi-channel environment.

To sum up, control over the value creating process is imperative to give shareholders more dividends. Attempts to control this process in a deregulating institutional environment created an atmosphere of mistrust between highly dependent business partners. The result was the development of a short-term view and a sole focus on profitability measured in financial terms. Airlines have developed a management style characterized by a pragmatic attitude and a focus on short-term gains. The management style is also labelled predatory capitalism (Hinthorne 1996). Such a management style was stimulated during the past two decades when environmental variables in the form of a further development of IT and deregulation increased in importance. They started to exert their influence world-wide. Deregulation stimulated competition, which in turn prompted commission cuts, an action by the airlines that brought their distribution costs down but did serious damage to the quality of the relationship. Airlines have seized the opportunity to bring down part of their distribution costs and, to signal to their travel agencies that the competitive environment is changing drastically. Deregulation did not dismantle or change the rules prescribed by the airlines agencies have to abide by. Agencies thus have to compete in a new competitive environment, the information economy, with rules that are outdated and are not in their favour. Agencies have to learn to adapt to the fact that airlines are now increasingly allowed, because of deregulation, to individually determine the compensation agents get for the services they render to airlines. It is the strategy of airlines to stimulate the agencies in adopting a business model in which they charge the consumer fees for the services they provide to them. Both parties need to co-operate and communicate about how the relationship changes because they have also become competitors. Airlines and travel agencies have to learn how to work together and compete in a changing economic and regulatory environment. Sometimes they succeed and strides are made that bring airlines and travel agencies together in the sense that they are able to achieve consensus on issues through collaboration, but the likelihood that such a thing occurs is dependent on the recognition of dependence and the presence of a regulatory framework that provides agencies with the means to induce their partners to the negotiation and hopefully collaboration table. Dependence is more easily recognized and taken seriously in markets where there are few suppliers or buyers. Focus is more easily achieved in an environment where there are almost no possibilities of appropriating rents through the selection of the 'best' partner (network-management).

In Australia as opposed to Singapore there is an elaborate legal framework in place that controls and monitors competitive behaviour and both parties recognize and act on their mutual dependence. The existence of the Australian Consumer and Competition Commission (ACCC) and a legal framework provided agencies the leverage to negotiate with airlines on an equal footing because they could voice their opinions through institutions that had the power to curb any retaliatory actions from airlines. For an example that met all these provisos see the text box.

Figure 5.3: Successful co-operation at the national level

AFTA/QANTAS ANNOUNCE COMMISSION DEAL ON CHARGES

Qantas and the Australian Federation of Travel Agents (AFTA) have negotiated a groundbreaking agreement, which will allow Australia's travel agents to be paid commission for the collection of non-Government charges and levies on Australian domestic air travel. Announcing the agreement today, AFTA Chief Executive Officer Mike Hatton and Qantas Group General Manager Australia Sales Ian Mitchell said the agreement marked a major positive change in airline approach to the plethora of charges which have beset the industry in recent times.

To implement the plan, a working party comprising Qantas, AFTA and a representative of IATA's Bank Settlement Plan, will begin work immediately to develop a system for the payment of agent commissions, which will be made through the BSP. This system will be implemented as soon as practical. Charges to which commission will apply include airport head taxes, passenger service charges, security charges, insurance levies and fuel levies. Charges imposed by governments, and not subject to the Qantas commission plan include GST, the Ansett ticket tax and the Sydney noise levy.

Mr Mitchell and Mr Hatton said the initial working group project would apply to domestic charges only and, while international charges would be investigated at the same time, the range and complexity of charges levied around the world would need a more detailed investigation.

"We'll certainly be looking closely at the international charges but the initial priority will be to get the domestic structure in place as soon as possible," Mr Mitchell said.

Once the commission plan is implemented, payment will be made through the BSP with the relevant non-government charges and levies to be included in the fare construction as well as appearing separately in the fees/charges/tax box on the airline ticket. Payment will be on the basis of base commission only.

Both Mr Hatton and Mr Mitchell said the move indicated an acknowledgement by both AFTA and Qantas of the added burden the increasing number of taxes had placed on travel agents. "We would hope the move paves the way for the other major domestic carriers, Virgin Blue and Ansett, to follow suit," Mr Hatton said. 5 February 2002

(source: International Press Release forwarded by informant)

Such a setting of partners that recognize their dependence and constructively act upon it was and is clearly absent at the global level.

5.3 Intervention: Process description

The chairman of the MTF stated, during a preparatory meeting in May 1999, that a few small miracles needed to happen before the process could be considered a success. Both parties acknowledged that the forms of co-ordination that regulated the relationship could not easily be altered. All the members emphasized the need to start trusting each other again to be able to co-operate as a group and, ultimately, as an inter-organizational network. This was no small feat to accomplish given the antagonism among stakeholders across sectors.

When the facilitating team prepared the September meeting it became clear that the terms of reference were much too ambitious and detailed. They proposed to the group to focus on producing a report that would attempt to create a platform for change in both sectors. The goal was broadened and stated in more ambiguous terms. It was thought that this would be more fitting for a non-orthodox group because it allows for multiple interpretations within one framework (Lyytinen et al. 1994). The group agreed to the re-definition of the goal

and it was altered to the following: *"to propose principles and recommendations that should lead to the creation of a platform for change in both communities aimed at a joint profitable future for both."* The formulation of such a broad goal aimed to free the group from the detailed rewriting of the contractually embedded relationship and to create room for collaboration. The group agreed to the change but it was only at the end of the third meeting that the ramifications of the choice began to sink in. Change would not be as quick, detailed and decisive as, especially, the travel agents would like to see it come about.

The September meeting did not get off to a good start because the extensive preliminary interviews created an expectation, especially on the agency side, that we could begin with problem solving right away. Progress further slowed down because one of the agency representatives could not attend and was replaced by an alternate who had not participated in the interviews. He was unaware of the time and effort other members had already put into the problem definition and much time was consumed in trying to align his mental framework with the rest of the group. The use of GroupSystemsTM delivered a large amount of data and considerably accelerated the building of consensus. The group had almost reached agreement on the formulation and ranking of the 10 most desirable and likely to happen results, framed as recommendations. Nine out of 10 recommendations were agreed to and the last one only seemed a matter of wording. During the second day it became clear that both parties were still assessing each other's intentions and considerable debate, over the very same issues, arose again. The information produced during the GS-sessions did give a good foundation to structure the next meeting to be held in December. The meeting also contributed to a better understanding of each other's positions and mental frameworks and a joint frame of reference in the form of principles and recommendations had been constructed. Cognitive distance had decreased to such an extent that neither party could feign sincere ignorance.

The December meeting was very successful. The group members had received a well-structured second workbook that gave them an impression of what the final report would look like. At this meeting the agency members suggested a revised consultative structure that would give the task force a more prominent position, they dubbed it the Global Consultative Committee (GCC). This new body would give them equal influence in the preparation of policy-documents informing the final decision making body, called the Passenger Agency Conference (PAConf). They also proposed the possibility of a joint insurance plan against defaults of airlines, the Passenger Protection Plan (PPP). We will return to this observation in the conclusions. The crucial problem, the restructuring or transformation of the relationship in terms of a new mix of forms of co-ordination remained undiscussed. Notwithstanding this problem, the group was very pleased with the results of the meeting and the facilitator was complimented on having performed an excellent job by most of the group members and the secretary. All in all the feeling was that we were almost there but it was also decided that a last meeting should be held to approve the final report.

The agenda for the last meeting in February was planned in close co-operation with the secretary of the group, because it was the last face-to-face meeting and the secretary would re-assume the responsibility for facilitating the implementation of recommendations and

relationship improvement. The agenda reserved a lot of time to design an implementation path, procedural matters and defining the audiences that the report or its summary should be communicated too. At this meeting, the group memory could not be projected on a screen. This made it difficult for the group to remain focused. Verbal interruptions, displays of emotions, clique-formation, issue related coalitions, not letting the other finish and restating revised sentences occurred frequently. For example, lengthy and drawn-out discussions ensued over the semantic implications of translating a recommendation. During the meeting the facilitator reminded the members several times that it would prove virtually impossible to reach agreement on a lot of points if they could not achieve a consensus on what kind of relationship they desired to entertain with each other and how it should be coordinated. The statement was acknowledged and disregarded. The main reason for not taking up this issue, which was central to the problem, will become clear in the next section.

5.3.1 Results of the Intervention

The major result achieved was that the report was unanimously endorsed by the airlines. This was a major feat given the circumstances, which was acknowledged by one of the main actors in the rounds of negotiations that occurred over the last 4 years:

“The task force report made a number of recommendation to IATA members –the airlines– and ALL these recommendations were accepted by the conference” (source: speech delivered at AFTA conference 06-27-2002).

This result ensured that the representatives of both sectors could remain on speaking terms and could not deny that there were no routes to a solution. These were specified in the final report. In that sense the intervention was a success. A platform for change acceptable to both communities had been created. What was needed was the will to follow through on the recommendations. The newly formed Global Consultative Council (GCC) and the revised consultative structure provided platforms to keep each other informed. Instead of creating a platform for change, the team agreed to platforms of information exchange. The choice to write a report containing principles, recommendations and benefits enabled the team to make the first strides in bridging cognitive distance. Especially so, because the principles were formulated as mutual interests and thus provide a motivation to keep working together to find solutions. This will not be easy and the level of conflict and distrust is still high as was confirmed by one of the team members of the GCC who wrote to one of the researchers: “We recently held a GCC meeting and again it was a painful exercise with very little progress. I remain very concerned that this will change and that we will accomplish meaningful change.”(E-mail February 2001).

All recommendations that were deferred in February needed a re-conceptualisation of the relationship. It was a different kind of meeting aimed at closing a package deal (De Vreede and De Bruijn 2000). The day after this last meeting one of the members stated succinctly: “The mountain gave birth to a mouse”. This indicates that the expectations of the group members were high. The members believed that small miracles could be accomplished even though they had no decision making power. They were disappointed, the facilitating team also considered the intervention to be a partial failure because at the last meeting no

agreement could be reached on an implementation path. Nevertheless, from the agent's point of view, it made good sense to agree on the package deal and defer important decisions. They gained more voice in the system because they now possessed the ability to influence the preparation of resolutions that are usually rubber-stamped by the PAConf and this was a substantial gain. The airlines could also agree to the document because actual changes to the relationship and the PSAA (Passenger Sales Agency Agreement) were relatively absent. The rather shallow initial modifications ensured that they would remain in control of the value-creating network that the distribution system aims to transform into. The strategic agenda of the airlines only became clear when the final report was presented to the PAConf because the secretary complimented the airline members of the group on achieving very little real change. They had an agenda of reducing the demands of agents, who were far more interested in drastically reviewing the relationship and institutional arrangements. In other words the strategic agenda of at least one party to the negotiations was not amenable to trust generation or the 'design' of trust.

Recommendations reviewed: trust and associated constructs

Nevertheless, it is important to ascertain if the recommendations the MTF produced and the GCC took as a starting point for a new round of negotiations could have helped to improve the relationship in terms of trust, if they would have been implemented. The relevance of this exercise has been sketched in chapter 4, in which we determined that trust is one of the hardest forms of co-ordination to engender between members of global networks of organizations. This argument holds most forcefully when the members of such networks are dependent in an a-symmetric way and at the same time are autonomous in terms of ownership, have unequal access to common resources, employ different core competencies and are geographically and cognitively distant. In such contexts opportunism of the other is assumed and trust is therefore hard to 'design or manufacture' but it is, at the same time, indispensable to stimulate and initiate any sustainable form of cooperation or negotiation. To give a first answer to the question if trust can be manufactured, we estimated the effect the intervention had in terms of the consequences and antecedents of trust. (Geyskens and Steenkamp 1995) We now first link the recommendations of the report to antecedents and consequences of trust. Secondly, we estimate to what extent the recommendations could be helpful, if implemented, in improving the relationship in terms of trust.

Extensive research has been done on the development, maintenance, antecedents and consequences of trust in predominantly buyer-supplier relationships (Morgan and Hunt 1994). In the relationship marketing literature trust is deemed of central importance although there is an increase of research into one of the main trust destroying constructs, opportunism (Heide 2001; Heide and John 1998). Processes of communication, collaboration and negotiation are facilitated when an interpersonal trust building process occurs. Interpersonal trust develops in interaction and may cumulate into reputation. Reputation is a set of attributes ascribed to a particular person or system, inferred from past actions, that makes it significantly easier to enter into new relationships. (Sydow 1998) Reputation defined in such a way closely resembles the generally accepted notion of social capital (Coleman and Bourdieu 1990). The value of a reputation is determined by the

interactions of the reputation holder with its stakeholders and the evaluation of these actions by the partners and stakeholders in the environment. If an actor feels he cannot rely on reputation other forms of co-ordination that can preclude or mitigate anticipated or experienced opportunism will be sought after.

We use a meta-analysis performed by Geyskens et al. (1998) to select the most important antecedents and consequences that contribute to trust in a (distribution) marketing relationship or deteriorate it.³² We do not concern ourselves with the distinction between antecedents or consequences because in a process over time antecedents can become consequences and vice-versa. The kind and source of trust we focus on in this paragraph is the formation of process-based trust.

Before we discuss the recommendations that came forth from the MTF and asses to what extent they contributed to trust building we discuss the constructs that we selected to provide an insight how they contribute to or deteriorate process based trust.³³ If the recommendations countered or reduced the inclination of actors to refer to trust destroying constructs they were considered to be helping the generation of trust.

Opportunism destroys trust it does not matter if the opportunism is active or passive. Active opportunism is more easily discernable and, when recognized, cannot be denied or attributed to a mistake. It is therefore likely that such a form destroys trust more quickly and thoroughly, but because of visibility it can be identified and amended. The most prominent example of active opportunism in this case is the unilateral cuts in commission levels. Both parties accuse each other of behaving opportunistically but the airlines' conduct clearly showed the opportunism on that side. On the Agent's side things are not so clear-cut. I have found many instances of opportunism but they are not so visible. One of the things that does happen is that an agent in country A books a domestic flight via an agent in country B. Country B agent gets a higher commission and he sends the tickets via mail to agent A and vice-versa. This is also an active form of opportunism but harder to detect. Ignoring certain rules airlines thrust upon agents. For instance, it can be imagined that agents are required to verify if a passport or other form of ID is not a fraud and truly belongs to its proclaimed owner. Ignoring such a rule, not performing an action in a service script, constitutes passive opportunism. Such a form of opportunism is harder to detect or to control when you are an airline but once identified the effects could be more damaging in the long run. It is a more insidious form because it undermines trust in intentions and detection and control are eminently difficult. A mistake or an opportunistic act cannot be distinguished which makes actors wary once it becomes clear that passive opportunism is likely to occur.

³² All antecedents and consequences discussed that had a weighted mean r higher than 0.500 or lower than -0.500 have been selected. With one exception, environmental volatility that had a weighted mean r of -0.405. The construct was nevertheless included because so much emphasis was placed on the environment during the negotiations and preliminary interviews.

³³ I am indebted to the MA students that participated in the courses Tourism Management at the Erasmus University. They have actively participated in several discussions and fulfilled several assignments that were all aimed to ascertain which antecedents and consequences of trust had been damaged by opportunism.

Manifest conflict, or the threat to initiate it, is also detrimental to a relationship. Only if conflict leads to the bridging of cognitive distance by surfacing tacit assumptions it can be helpful when trying to generate trust. A last point of deterioration of trust levels is the presence of a volatile environment. The technological revolution we are now in, fuelled by IT leads to a lot of uncertainty. Secondly the wave of deregulation and liberalisation also adds to volatility. Uncertainty makes actors wary and a calculative attitude is therefore more prominent in firms and industries characterized by such an environment.

Relationships between parties improve if there is co-operation but current co-operation exists mainly in the interest of the principal. An important side effect of co-operation is that parties communicate and develop a shared understanding of the business they are in it decreases cognitive distance. Cooperation and communication are currently increasing, especially at the global level within the GCC. Fairness is a second important factor and in a sense the mirror image of opportunism. We will see that fairness as a guiding principle gradually gained more prominence during the course of the negotiations. When both parties follow the rules to the letter, if they are procedurally fair, trust and commitment will surface. Distributive fairness is also important but not as important as procedural fairness. Distributive fairness relates to the distribution of rents and in this case to the level of remuneration. Commitment is a tricky concept it is not always clear to what actors commit but recent research reconfirmed that commitment and trust influence each other directly (Hibbard, Kumar and Stern 2001). Commitment refers here to the intention to follow through on the recommendations (outcomes) of the negotiations.

The recommendations covered four aspects:

- I. Agency Programme (1 through 4);
- II. Remuneration (5 and 6)
- III. Agency and Airline administration (7)
- IV. E-commerce (8)

We discuss the recommendations one by one but grouped into the aspects mentioned.

- I. Agency Programme

Recommendation 1. *The Sales Agency Agreement be reviewed, analysed and improved so that it continues to meet the commercial and legal requirements of the contracting parties.*

One of the major documents detailing administrative rules and obligations of both parties is the (Passenger) Sales Agency Agreement. Over the years (more than 50), the document became very intricate. Its complexity is so great that rules can be interpreted in multiple ways, mostly in favour of the principal. The recommendation positively influenced all antecedents and consequences of trust. Commitment to a review and improvement of one of the major forms of co-ordination, i.e. contracting, was lop-sided. Agencies had a stronger commitment to change than airlines. The fact that both parties agreed that this was the most important recommendation ensured that Manifest conflict was averted temporarily. Co-operation would have been needed to effectuate changes and fairness especially procedural fairness should have been the result.

Recommendation 2. *A Global Consultative Committee be established to replace the IATA/UFTAA Consultative Committee. This body will initiate improvements and evaluate other proposed changes to the Agency Programme and make recommendations.*

This recommendation aimed to further the adjustments to the competitive landscape and to ensure that PAConf will take into account matters that are of great importance to agencies and the relationship between agencies and airlines. The fact that this recommendation was formulated leads us to conclude that both parties wanted to remain on speaking terms and by doing so decreased the chances for opportunistic behaviour and the possibility that manifest conflict arose. The MTF performed an intermediary role and one the function of go-betweens is trust-building (Nooteboom 2000:110). Commitment to change is also part of this recommendation otherwise such a change in the consultative structure would not have been accepted.

Recommendation. 3. *A Code of Conduct detailing the responsibilities and duties agents and airlines have towards each other with regard to maintaining a good business relationship will be formulated by the Global Consultative Committee.*

The unilateral cuts in remuneration levels without due prior notice has led to an increase in tension and wounded the relationship. When linked in a long and lasting relationship as airlines and agents are, it is not enough to rely on formal rules. Careful attention should be paid to how the parties should behave. Behaving fairly, according to the letter as well as in the spirit of the relationship, is stimulated by a code of conduct. We therefore feel it contributes to all constructs except volatility in the environment because such a code addresses inter-organizational behaviour.

Recommendation. 4. *All the Executive Councils and Agency Programme Joint Councils, as well as any other consultative bodies which deal with issues affecting the Agency Programme, will have equal representation of airlines and agents.*

PAConf needs a balanced view on issues that have an overall impact on the sector because the rules of competition are changing. The introduction of direct marketing channels stimulates co-operation and communication in a diverse range of industries. A constructive dialogue between airlines and agents should aim to ascertain as to what areas of communication and co-operation are advantageous for both parties and the customer, as well as, which areas are open for competition. The Task Force considered equal representation for all consultative groups fair and equitable. Additionally the arguments employed for recommendation 3 also pertain to this recommendation.

II. Remuneration

Recommendation. 5. *A study on the work performed by agents on behalf of airlines is being carried out by independent contractors. The results will be studied by the Global Consultative Committee with a view to recommending action to PAConf.*

This recommendation expresses the desire to have a world-wide common frame of reference to establish an agreed basis for measuring the level of travel agent resource required to sell and service products as agents of IATA Members. A reasonable level of remuneration for the services performed by agents on behalf of the airlines was to be

deduced from this report. Agreement on the level of compensation would have satisfied many travel agencies and contributed to a positive assessment of the benefits the relationship brings along. People will accept moderate levels of opportunism and power asymmetries if they feel they profit economically (distributive fairness). We conclude that the rising levels of commission (remuneration) were a mean to keep travel agencies bound to the system and to compensate for the disadvantaged position of agencies. Loyalty has its price. This conclusion would also explain the intense debates that arose over this issue. That is why the constructs of commitment and fairness are most positively influenced.

Recommendation. 6. Changes in the structure of remuneration will be communicated well in advance. Not less than 90 days notice of change will be the target.

The unilateral commission cuts have been detrimental to the relationship between agents and airlines. It was a clear example of a destructive act in a marketing channel relationship (Kumar, Hibbard and Stern 1996). Further deterioration should be prevented as it has the potential to undermine the working relationship between airlines and agents. If this happens, the extreme consequence will be the rise of competitors in the area of distribution and the demise of the Agency Programme as it established today. The acceptance of this recommendation would have barred similar actions as the one described and it would have decreased the opportunities for opportunism and therewith the likelihood of manifest conflict erupting. Additionally it would have stimulated commitment to the relationship and increased the feeling that airlines were procedurally fair and sentiments related to opportunism would have decreased in importance.

III. Agency and Airline administration

Recommendation 7. Certain forms and procedures used in the distribution system today require further standardisation. The Global Consultative Committee will examine and propose further standardisation, particularly in the area of net remit ticketing and reporting and processing of airline tickets and associated documents.

The Agency Programme is an efficient and economical form of distribution compared to other industries and derives its main value from creating the routines for distribution (standardisation). To become more efficient and enhance its value, further standardisation was recommended. Further standardisation will lead to more transparency, less ambiguity and more cost-effective operations. Agencies and airlines would increase their commitment to stay in the relationship because further standardisation serves their interest.

IV. E-commerce

Recommendation 8. To keep abreast of industry developments, the Global Consultative Committee will monitor evolving E-commerce strategies and structures. It will make recommendations relevant to the Agency Programme based on a comparison of best practices in business and commerce.

Advances in Information Technology combined with deregulation gave rise to the need to redefine the existing relationship. Consensus on issues pertaining to this subject would not have altered inclination to be opportunistic. But it would have positively influenced the other constructs. Information exchange can only take place if people co-operate. If this

happens the other constructs will be positively influenced much in the same way as we described under the heading of the Agency Programme.

All in all we conclude that the recommendations, if accepted and implemented, contribute to process based trust. The foundations to regain some of the trust lost in recent years to negotiate a new settlement and come to workable global consensus were there. It seems therefore logical to assume that the next round of negotiations would be resolved in a shorter timeframe. This is the subject of the next section.

5.3.2 Negotiations continued: process and results³⁴

In this section we describe the process and outcomes of five meetings of the GCC. Major problems that could not be resolved in the MTF were circumnavigated by deferring the responsibility of reaching consensus, or at least compromise, to the GCC. The likelihood of quick and decisive change to the relationship was considerably reduced. We hypothesized that it was likely that the GCC would speedily prepare the implementation of the recommendations the MTF had formulated. The hypothesis was refuted when one of the GCC-members mailed: "As far as the GCC is concerned, it has been a re-run of the MTF..." (E-mail 13-07-2001). We will only highlight those decisions or points of disagreement that are a supplement to our description of the intervention. We stopped our research after the fifth meeting because that last meeting can be considered the break through meeting (and a thesis had to be written). We kept on following trade-journals, newspapers economic sections and remained in contact with a number of respondents but far less intensive than before.

The first meeting (August 2000) began with an introduction by the IATA Director General. His presence highlights the importance IATA attached to the reformulation of the relationship at that moment in time. The group members also took the relationship at heart because: "All at the table agreed that the absolute priority was the revision of the Passenger Sales Agency Agreement." (Source: minutes GCC-meetings). In other words all actors involved lend prominence to contracting as the main form of co-ordination. Agency-representatives wanted to drastically re-write the contract, airlines wanted to adjust it marginally and consensus was therefore hard to engender. The GCC could not elect a chairman because of differences of opinion, slowing the process down. It was further mentioned that all other points would follow after consensus on re-writing the PSAA had been reached. Other points that needed to be dealt with were: the formulation of a code of conduct, credit cards and fraud, E-commerce, standardization and remuneration issues. All in all, the same points that were deferred in the MTF-report were back on the agenda again.

³⁴ The information on progress in the GCC is largely based on documents from a password protected site within IATA (minutes and other documents of relevance to members of the GCC), personal (e-mail) correspondence with key informants, trade press journals (Travel-Weekly, Reisrevue) and two web sites (www.newsroom@e-tid.com and www.nua.ie/surveys/) these were visited everyday the year after the intervention (May 2000).

Three months later they had the 2nd meeting, and again both parties confirmed that: "...it was agreed to defer all other tasks which had been delegated to the GCC until such time as the issue of the PSAA had been resolved." (Source: minutes GCC-meetings) Agency representatives increased pressure by using threats of withdrawal. That they acted to make threat of exit as credible as possible is shown in the next line: "...I think we have a situation now where the national associations would totally support any move against airlines and IATA and they are the opinion leaders and formers in each country."(E-mail 13-07-2001) More importantly, the group reached consensus on what principles should guide/support the negotiations about the PSAA. Fairness was accepted as the leading principle and it was broken down into three dimensions: Fairness in administrative procedures, fairness in competition (both are forms of procedural fairness) and fairness in remuneration (distributive fairness) (see appendix IV). This was not enough, during and before meetings the pattern of the MTF repeated itself. Agencies were bringing detailed documents to the table, based on information and knowledge compiled over years. Airlines either objected to discuss them, started to discuss every tiny issue in detail or stated that they wanted to review the PSAA marginally and that could not be done with documents tabled by the travel agency representatives (see appendices II and III).

In the 3rd meeting airlines did deliver a paper that contained minor modifications to the current PSAA and started to criticize the info delivered by the agencies. After rather heated debates the participants felt this was an unproductive avenue of negotiation and they agreed to further specify the principles they wanted the new PSAA to adhere to. The group split in an agency and airline side. Agencies formulated the principle that they wanted to co-manage the distribution system. The rationale was that by doing away with the principal-agency relationship where it concerns communication and negotiation between parties and maintain the principal-agency relationship where it concerns an exchange-relationship. The rationale behind this suggestion was that: "...joint management would give both parties an incentive to work together and ensure that the programme functioned correctly."(Source: minutes of meetings GCC). Airlines, as we said before, basically wanted to maintain the status quo, they wanted to remain in control on all fronts. They were adamant in their position that agencies cannot co-manage the distribution system, but said they were open to suggestions that enhanced the transparency of the decision-making process or led to more input from the agency-side in the form of consultation. Due to the clear, detailed demands and threats from the agency members some progress was made. The agency members of the GCC were now allowed to deliver more input into PAConf and for the first time in history agency-representatives were allowed to be present at PAConf. They could not participate in the deliberations of PAConf, because of anti-trust immunity, they were allowed to review the decisions made and deliver critique to PAConf if they felt that the resolutions did not serve their interests. Communication and trust increased slowly.

The 4th meeting (March 2001) was more of the same and agencies increased pressure. From here-on things get muddled, different documents started to circulate and IATA, particularly senior management of the IDFS, started to play a more prominent role.

Firstly the airlines launched an alternative proposal put together by IATA (the policy department of the IDFS) and BA. This was not a very wise move because it is common knowledge that senior management from IATA is almost solely recruited from BA. It made agencies quite furious because they saw it as confirmatory evidence that airlines colluded and perceived it as a ploy to buy time.

Secondly during subsequent periods it became increasingly apparent that IATA was aiming to become the world's principal facilitator of travel and tourism. IATA openly states this goal on their website, IATA wants to capitalize on their impressive global network and effective distribution system.³⁵ Agencies interpreted this strategic goal as grab for power and suspected that, for instance, IATA (distribution), BA (air-transport) and American Express (sales-outlets and finance) were secretly co-operating to corner a large part of the international travel market as soon as anti-trust immunity was lifted. They feared the dominance of such a combination because they would be able to capture a substantial part of the international market for tickets.

Needless to say, this did not increase trust between members within the GCC. However, what is more important is that from this point more departments within IATA became involved in the negotiations. Due to the massive restructuring process the quality of their operations suffered and more and more complaints were voiced from both airline and agency side. The official statistics about satisfaction levels on the operations of BSP's tell us otherwise but the way in which they are represented makes it impossible to draw any conclusions from them. It is, for instance, not clear how many and what kinds of agencies responded. When we tried to verify the figures that were publicly released access was denied. The manager responsible for the data wrote: "I have agreed with my field staff on what information would and would not be released from the survey, what would go public and what would not and who would have access to the data externally. To maintain both my credibility with my staff and the credibility of the data, I am not prepared to go back on this agreement." (E-mail 10-31-2000) If the data are not credible in and of themselves it becomes hard to attach any meaning to them. But information from other sources sketched a less rosy picture. To give one example from the Dutch context, as part of the transformation process IATA BSP-offices are relocated. Some of the staff and functions of the Amsterdam office were relocated to Brussels. This led to a lot of complaints. So much even that the Dutch travel agency association sent a letter to IATA head quarters in Geneva. An overview of the main complaints was given in the trade press and a letter was sent on behalf of all European agencies to the EC by ECTAA (European Council of Travel Agency Associations). Since September 2001, IATA's BSP office in Amsterdam has been unable to provide overviews of marketing-sales data, delivery of tickets, wallets and other forms does not happen as agreed upon and usually (too) late, refunds are processed late while fines are sent one day after the obligatory payment date, huge financial deposits are demanded without explanation (sometimes these have been changed manually) and reports (of sales) do not match with the administrative documents agents sent to IATA, they have

³⁵ For more detailed information see www.iata.org/itss or <http://www.iata.org/idfs/committees/PACConf/files/pac24agda.pdf>.

to double check which is time-consuming business.³⁶ The dissatisfaction with the performance of the IDFS brought some parts of agency- and airline-communities closer together, especially regionally operating airlines outside the EU and US. The acknowledgement of the mutual interests shared contributed to the formulation of a solution within the GCC.

Thirdly, a document that revised the whole Agency Program (including the PSAA) was sent to the GCC members three days before the meeting commenced. It was largely written within the IDFS policy department without explicit consultation of agency representatives. I tried to obtain an early draft but, just as numerous other requests I made to the airline side, access was denied on the grounds that: "At this stage the Agency work has to remain confidential as we need to appraise our airline members before too long." (E-mail 12-19-2000) So, airline members can peruse the document in a timely fashion while agencies have to browse through it three days before the negotiations commence. This makes it extremely difficult for agencies to present a clear and united view on the matter. The airline sector is notorious for its secrecy and manipulation of information, parties such as travel agencies who have a long history with airlines, therefore, tend to distrust the information they receive.

Fourthly, a proposal from the agencies to give the GCC more power by installing the possibility of an arbitration process (already proposed during the MTF-meetings) when the PAConf ignored or voted against resolutions coming forth from the GCC was refused by the airline side. Agencies replied that if this issue was not resolved before the next PAConf meeting, they would start fighting anti-trust immunity within Europe (the major market) and world-wide. This was not a hollow threat. Decisions on the issue of anti-trust immunity have been postponed for about 2 years now because the European Commission wanted to see if the industry could come up with a re-written PSAA itself, could regulate itself. Or as the former director general of IATA said at the Annual General Meeting of airline CEO's: "an industry which does not regulate itself often deserves to be regulated."³⁷ Interpersonal trust in intentions was, at this stage, almost non-existent. As a response to this crisis unplanned and informal, bilateral meetings increased between the Managing director of the IDFS and agency representatives to find a way out of the impasse. The discussion delivered the following results:

- a small group of three people, two from the agency side and one from within IATA would work on a broad outline based on the information delivered by the agency side
- the same group would come up with a proposal for an arbitration/conciliation process between GCC agency representatives and PAConf
- recommendations from this group would be forwarded to the GCC members but also to the IATA board of governors.

³⁶ Source: Dutch travel trade journal "Reisrevue" 04-01-2002:13.

³⁷ Source: IATA press release 06-06-2000, no. 13.

Attitudes changed, temporary goal congruence had been achieved and process based trust started to grow. This was reflected in the fifth meeting that proved to be a success. All parties were constructively working on a new contract (PSAA) and its embeddedness into the agency program. This does not mean that the negotiations were ‘smooth sailing’ but: “There is no doubt that there has been a huge change in attitude by airlines towards the GCC PSAA process.” (E-mail 13-7-2001) The main causes that led to a more constructive attitude were:

- Airline CEO’s became involved through the Board of Governors. This removed final responsibility from airline representatives engaged in the negotiations. The simmelian ties were temporarily suspended, GCC-members did not have to take into account the reactions of their constituencies or publics. The participants felt less constrained because they knew that the airlines’ industry leaders took on the final responsibility of deciding what to do with the outcomes coming forth from the GCC and to communicate outcomes to the larger public, involving consumers, regulators, states and businesses.
- The informal meetings convinced IDFS management that the threats uttered by travel agency representatives were credible and should be taken seriously because they posed a direct threat to the livelihood of the IDFS. At the same time management became convinced that agency representatives were earnestly working on a solution that would also be of benefit to the IDFS. Trust in intentions increased further. Communication between informal leaders also led to the acknowledgement that both were competent. Put differently, the process of communication led to more (process-based) trust.
- IATA/IDFS wanted to prevent that dissension or at least goal divergence between IATA-members came out in the open. It would seriously impact on the image and reputation of IATA. Many actors with an interest in the aviation sector would start to question the legitimacy of IATA as sole representative of the aviation sector. Especially so because deregulation makes it increasingly hard to function as an effective association and competition, like Low Cost Carriers that partly operate outside of the current institutional arrangements, grows.

In sum, over time travel agency representatives found that more and more carriers were equally concerned about the agent/airline relationship, and favoured a solution in which the traditional agency distribution system is maintained. As one informant mentioned in an e-mail: “I think the realisation has hit home that they cannot do without us, just as we have a huge reliance on them for our success.” (E-mail 7-13-2001) The recognition of dependence lies at the root of the will to cooperate. The close monitoring of the negotiation process by CEO’s was very important. It was one of the main things lacking during the MTF-process, you need decision-making power to be present or in this case close by to really go from plans to implementation. Only when agreement had been reached on the three points mentioned and personal commitment to change between IDFS-management and the informal leader of the agency representatives had been shared with the leaders of the agency community, things started to happen. Airline members felt that they had to

come up with results that satisfied their CEO's and the close attention they were giving. The attitude of airline members changed and became a lot more constructive.

We conclude that trust needs to be generated at the interpersonal level to change negotiations into collaborative efforts. This is possible because people can rely on trusting the competence of a person whose intentions they do not trust. Once trust in competence gets re-affirmed it is also possible because of all the interaction that takes place that trust in intentions starts to play a role. Even though this is difficult in a climate of mistrust and a great awareness of the opportunities to be opportunistic. In this particular episode of the interaction between airline and agency representatives and senior-members of IDFS trust in intentions developed because both sides believed that they shared the goal of improving the relationship to mutual benefit. Additionally, the fact that not one member of the GCC was directly representing one of the larger American carriers supported the attempt to come to a compromise initially, because it allowed the members to ignore the structuring influence the American market has on the relationship.

All in all, the GCC succeeded in re-writing the PSAA after the Hong Kong Conference to the mutual satisfaction of both sides because of the trust in intentions and competence generated during the informal meetings. Control over product and pricing remained in the hands of the airlines. Agencies agreed to a continuation of the Principal-Agency relationship. Airlines agreed that such a relationship entitled travel agencies to a certain amount of remuneration depending on what sort of market they operated in. In return for control airlines pay a prize in the form of remuneration. There was also consent to implement a formal mediation process and to revive the role of the Travel Agency Commissioner, who acts as a go-between within IATA. He is specifically assigned to inform airlines on travel agency positions and to inform agencies on airline positions.

However, during the final stages of preparing the document for presentation to PAConf and at the actual conference in Miami travel agencies increasingly developed the notion that a handful of mega-carriers tried to nullify the efforts of 4 years of negotiation. They became suspicious because, firstly, IATA suddenly produced the legal opinion that the use of the word "fair" (which was the cornerstone underlying negotiations in the GCC) indicated that a level of remuneration should be set and the consequence would be that airlines were legally obliged to do so. Remuneration could therefore not be included in the document because that would contravene US and global anti-trust regulations. This is important because: "...no contract or rule governing the global airline-agent relationship can be implemented anywhere in the world without agreement from the United States government through its Department of Transport...[even though the rules do not apply]...to the United States domestic market which operates under separate arrangements and solely under United States law." (Excerpt from a conference speech held in November 2002 in Brisbane) If you look at the part of the legal argument that concerns itself with global anti-trust immunity it is a strange argument, when you take into account the fact that airlines have paid remuneration under the current anti-trust laws for 50 years or so. In line with the overall distribution of power at the global level, the explanation seems to be that national (US) and regional (EU) interests dominate a global political arena, PAConf. It was also a return to the beginning of the MTF where the same arguments were used in the first meetings and throughout the negotiations to block change.

Secondly, agencies obtained legal advice from Europe, Canada, North America, Asia and the Pacific, Africa and Latin America. All the legal experts they consulted refuted the arguments advanced by IATA/IDFS. Agencies felt it was obvious that IDFS management tried to use 'the legal route' to prevent disclosure because it has been routinely used throughout the time the global relationship exists. They guessed management did it to prevent that the dissent among airlines came out in the open because it would undermine its own legitimacy as an association. They also thought that IDFS had been pushed by the bigger airlines to do so, because prevention of disclosure makes it impossible to re-trace who actually used its veto. In this way no one could be blamed³⁸ and made the focal point of retaliatory actions by travel agencies.

Thirdly, it became clear IATA had not informed the board of governors very well and did not consult their own lawyers after consensus had been reached in the GCC.

Fourthly, IATA made unannounced changes to the mediation process. These actions brought the process effectively back under the control of PAConf. Impartiality and neutrality were lost accordingly.

Nevertheless, the rewritten contract was subsequently presented to the PAConf in MIAMI where PAConf reached no unanimity on this subject. Agencies were present, although not allowed to attend the deliberations, and they stressed that they would only accept the wording as agreed to by the GCC. The policy department of the IDFS³⁹, prompted by the airlines, reacted with a proposal that gave agencies even less rights and benefits than they enjoyed under the current contract. We might remember that the current contract has been considered outdated for 15 to 20 years now, the clock was set back even further by this proposal. It became clear that airlines were in disarray because they proceeded to vote down their own revised proposal. On a more positive note it might also be an indication that not all airlines agreed to the confrontational approach at PAConf in Miami. The net-result however, was that nothing happened and no substantial change concerning the way the distribution should be co-ordinated in a changing competitive environment was initiated. Inertia remained and this is largely due to the unanimity clause at the global level. It is one of the obstacles that continues to block meaningful change.

³⁸ Such actions are not uncommon in PAConf. When I interviewed employees at the executive head quarters of IATA in Geneva they also told me that bigger airlines sometimes used a small carrier to vote against a proposal they did not like. In return they could, for instance, expect a lower price for planes or gain access to valued slots.

³⁹ This is a conjecture based on the experience I gained when I was involved in the process of deliberation that goes on during PAConf meetings. I cooperated with the policy department to deliver a report and presentation to PAConf that contained the findings of the Millennium Task Force.

5.4 Three ways out of the impasse: A glimpse of the future?

What will be the consequences of the current crisis that ensued after Miami? The ramifications are not so clear-cut. That is why we present a range of scenarios⁴⁰. They have been adjusted to account for the events that happened leading up to the Miami Conference of 2002.

Scenario 1: *Travel-Agencies become global competitors in distribution*

This scenario predicts that the IDFS will gradually break down because the governance mechanism will remain burdened with the unanimity clause in the coming years. The inertia that this clause causes will continue to hamper the attempts to adapt the system to changes in the environment. The legitimacy of the governance mechanism (PACConf) will keep on deteriorating up to the point where it becomes impossible to gather sufficient airline members at the yearly conferences to effectuate and endorse changes to the Agency Programme. Concomitantly, the need for anti-trust immunity will also be harder and harder to explain to the regulators. It will not be an up-hill struggle but a downward one. If anti-trust immunity is lifted worldwide travel agencies are enabled to develop an alternative to the current distribution system. If they actually develop an alternative distribution system then the IDFS will need to start charging the full commercial tariff for the services they offer to airline members. It will also become harder to enforce safety regulations and airlines will also find it will become increasingly hard to maintain a certain level quality in their sales-fore. More importantly though, if they perform a service on behalf of a consumer they can book directly via the electronic portals and channels airlines have erected to gain more market share. Travel agencies do not have to be accredited to book from these sites. The need to be accredited vanishes in an electronic environment. The size of the network will decrease and therewith its value to airlines because agencies will divert their business to a distribution system that will protect them from the opportunism of (some) airlines.⁴¹ Airlines need to use every alternative available channel open to them (including the new agency channels) to sell their seats, otherwise their load factors would go down and they could face bankruptcy. Most of them will be tempted to re-introduce commissions/remuneration to bind travel agencies although it will probably be under a different label, like over-rides. The IDFS would then become a cost-factor to the airline industry instead of a revenue generating mechanism. In fact, if anti-trust immunity is lifted then IDFS will become one of the many GDS's around and not the most liked one. The evolution of the CRS's is a case in point. They were initially developed to cope with the increase of flights and bookings, to reduce complexity and give American Airlines a

⁴⁰ These scenarios were presented at an annual meeting of PACConf in June 2000 adjusted, presented again to the airline industry at an IATA organized distribution seminar in November 2000 and in 2001 to the Dutch Travel Agency Association and electronically (E-mail) commented upon by a number of people directly or indirectly involved in the negotiations.

⁴¹ This is not theory anymore, in a final informal interview on the 19th of January 2004, with one of my main informants, it became clear that about 50% of all US based travel agencies (the most deregulated) have forgone their accreditation some are still able to survive and thrive others will have, undoubtedly, not been so successful and went out of business.

competitive advantage vis-à-vis its competitors. CRS's are now factored in as a cost-function.

The same reasoning holds for direct marketing channels based on Internet technology. No matter what the future relative size of the direct marketing channel will be, airlines feel they have to erect travel portals like Orbitz (US), OPODO (EU) and the newly erected portal Zuji in the East-Asia Pacific region because of competitive pressure. An additional effect is that generating your demand decreases dependence. Airlines aim to become less dependent on input from travel agencies in virtual distribution than they currently are in the real world. What airlines do not seem to take into account is that they will need to develop all kinds of travel agency related service-delivery processes. They will increasingly need to solve problems for and supply information to consumers. In other words they will need to learn how to perform 'agency' activities that could nullify the gains in terms of pushing down distribution costs. Another effect they do not seem to take into account is that the greater pricing transparency, enabled by Internet technology, exerts a downward push on prices. This insight is increasingly acknowledged and voiced: "JP Morgan analyst Jamie Baker warned yesterday that growing travel industry internet revenue 'is not necessarily a good thing', ... He said the airline strategy of pushing customers away from traditional travel agencies and towards less costly Internet sites to buy their tickets was dangerous. 'The industry is fast approaching the point where the pricing transparency inherent to the Internet will cost carriers more in lost average fare than it otherwise saves in distribution expense...'"⁴². Finally, we put forward that a substantial part of the costs incurred to execute CRM strategies are essentially distribution-related costs, such as having to perform agency related activities. The cost-savings as sketched in Doganis's (1999) book, that can be considered an airline 'bible', for the airline industry in the 21st century are therefore way too optimistic.

His analysis implicitly assumes that the world consists of just two marketplaces, EU and US, while these are idiosyncratic markets from a global perspective because they have a range of competing airlines within one economic space. Competition is fierce but also protected and this leads to vicious cycle of cost-reductions that keeps most internationally operating US-airlines on the verge of bankruptcy. US-airlines are protected from a looming bankruptcy by 'chapter 11', this legal document gives American companies the ability to avert a bankruptcy. They are allowed to suspend or write-off debts. They get a 'break' from competition to restructure their business processes to become more competitive and survive. The effect is that every time a carrier goes through a 'chapter 11' period it comes out of this process as a more competitive airline. This causes other airlines to falter and the go subsequently into a 'chapter 11' period. In their turn they can offer lower prices to consumers, etc. etc. This policy helps US-carriers to dominate the global market place they are backed by domestic regulatory arrangements in a country that purports to be the champion of deregulation. The consequences or second order effect is a kind of inversed 'Baron von Munchhausen' effect: US-carriers drag themselves and other

⁴² Source: www.travelbiz.com.au/articles/7f/0c01187f.asp, 11-10-2002.

airlines in the world by their own hairs in to the swamp of bankruptcy to which the only answer seems to be concentration and price-reductions to consumers. This argument holds more forcefully in the US than in the EU but this could change when the EU manages to negotiate an open-skies treaty with the US. The first steps haven been taken in this direction. If 'chapter 11' remains in place it would disadvantage European carriers and all other airlines beside US-carriers. Many markets within the EU are still structured in a traditional way where dominance is maintained through the control of slots and tight links with main airports and governments. One dominant carrier 'rules' per nation state and in such markets agencies do not have an alternative in the environment. This is quite unlike the American market that is exposed to more fierce levels of competition between carriers. Travel agencies cannot switch carriers or distribution systems unless they 're-invent' themselves. For instance, Thomas Cook reverted to older forms of transport and emphasised the nostalgic experience of travelling with coaches and ferries, when he was confronted with a boycott of rail transport companies. However, we deem this an unlikely scenario for the following reasons:

- The big question in this scenario remains if travel agencies can maintain their momentum, unity and consistency to erect an alternative distribution system. Such a move is technically possible but becomes only a feasible proposition the moment anti-trust immunity is lifted worldwide. If they would, there would be a loss in network value and connectivity for all and a loss of control and power on the aviation side. Travelling will regress to a less seamless experience for the consumer than is currently the case. We deem it more likely that concentration in the travel agency sector will remain limited, the distribution of ownership in the travel agency sector will remain fragmented and unity of action will remain difficult to achieve.
- Demand cannot be pooled, stored or diverted. It is extremely difficult, as opposed to the cargo sector, to stabilize demand and predict future volumes. A natural catastrophe, a war that erupts or terrorist acts can cause in an instant a pretty sharp decline in demand and/or supply. The inherent instability of tourism markets can only be mitigated to a certain extent if something like a (virtual) futures exchange for seats comes about. Anti-trust immunity has to be lifted to erect a futures exchange. (Doganis 1999)
- LCC's and vertically integrated tour operators continue to exert a downward push on prices but will also ensure that new links are added to the global network of airline routes. They will partly replace the holes that might arise when traditional airline rationalize their route-structures and they provide, to a limited degree, an alternative for agencies. The fact that they exert a downward push on prices is the most important effect. Most traditional airlines feel because of price pressure that they cannot do otherwise than to try to shift a part of the burden of distribution costs on the travel agency shoulders.
- It is unlikely that anti-trust immunity is lifted over-night. This fact seriously impedes the speed with which a new distribution system can be made operational and competitive.

This scenario will only develop if anti-trust immunity is lifted, and then it will play out to the full.

What then are other more likely scenarios? We will discuss two we deem more likely to occur. The first scenario assumes that there is a global market place in which competition becomes structured along the lines of trading-blocs or alliances. The second scenario assumes that the two parties can converge to a shared solution based on the progress made within the GCC and MTF and therewith preserve the advantages of stability at the global level with diversity at the local level which is amenable to innovation that in its turn supports the whole travel sector.

Scenario 2: Trade blocs and Alliances: parallel global distribution systems?

The major threat for the IDFS from within the aviation sector is the alliance formation within the airline industry, driven by concentration, privatisation and economic regionalisation. The majority of the alliances strive to have a global coverage of destinations via IATA's Agency Programme. If deregulation continues and anti-trust immunity is lifted then it will become necessary for every alliance to negotiate the coordination of the relationship and the reward structures for intermediaries as compensation for the services rendered. The alliance that would be able to exchange much information aimed at joint profit and maintains an acceptable remuneration level would probably flourish. New rounds of negotiations open up the possibility to formulate criteria that are currently hard to negotiate, like-information sharing (guarding against spill over) and knowledge creation that could lead to cost-reduction or innovations.

This last step is something IDFS is unable to effectuate. The distribution system needs to represent the 'whole' aviation sector and as long as one carrier is opposed to such joint endeavours with agencies they block change with a veto. It is to be expected that this scenario will have negative consequences for the IDFS, it will need to compete with other global distribution providers, but it also creates opportunities. This is not an unlikely scenario. The author observed himself (November 2000) how representatives of a large international business travel agency urged airlines to consolidate and concentrate into alliances so that they could facilitate the distribution for them.

The challenges do not only come from the alliance formation but also from firms operating outside the sector and its specific institutional arrangements. We refer here to the rise of low-cost carriers (LCC's) and vertically integrated tour operators in tourist generating regions. They challenge the institutionally embedded airlines and travel agencies. The more successful they are the more the current institutional arrangements (largely co-constructed by IATA and ICAO) will be considered dysfunctional or outdated. An important loss, for the consumer, would be the demise of the current global coverage and easy interconnection between airlines because interlining agreements would be restricted to the alliances. Although the density of the network might not decrease because LCC's and tour operators could compensate for that, it certainly changes the structure of the network. It would mean a push for more traffic on the profitable lines and a move away from destinations that do not offer enough volume to sustain low prices. It would mean that consumers can less easily switch flights and it would become harder to assemble a complex trip spanning the globe or parts of it. It will be increasingly difficult to book and

travel with more than one alliance while, at the same time, one alliance does not suffice to book a complex trip. If a consumer also employs an LCC on one of its legs you can imagine that, if something goes wrong, airlines will not feel responsible. Faults that cannot be attributed directly to any of the carriers will always be attributed to other players in the network or chain. The consumer will be the one caught between hammer and anvil and might experience similar annoyances travellers ‘enjoyed’ during pre-industrial times.⁴³ (See Chapter 3)

Global coverage will remain but it will be more fragmented. For the bigger American, European and Asian carriers this is a scenario that would help them establish a more dominant position in terms of market share in their respective regions. The smaller and regionally oriented airlines that have joined successful alliances in a new competitive environment will also gain. In short it would re-enforce the economic power of the main economic blocs in our world economy, most notably the US and EU and maybe the emerging markets in the Asia-Pacific regions. The industry would then regress from a truly global system to overlapping trade bloc based systems. It would also lead to less finely meshed route structures because unprofitable destinations would be dropped. Such a development can have serious consequences in big countries that have a low population density and medium levels of development. Examples are Argentina, China, Russia and Mexico and a host of ‘island’ nation states in South and East Asia and the Pacific. Such countries are highly dependent on air-transport to integrate their economic and political activities. It can even be said that in such areas air transport is as important as the road-networks are in smaller countries. There is not a country in the world that seriously entertains the idea to relinquish control over its network of roads.

A last important drawback is that such a scenario would seriously impair the possibility to develop and maintain global standards. Standardization is beneficial to all players, without it interlining would be impossible, one of the main reasons why IATA and ICAO exist as we saw in chapter 4. The likelihood that alliances or trade-blocs start to develop their own standards is quite big because it is a mean of gaining a competitive advantage. You can almost see the ads, for instance, ‘We really take your safety at heart.’ when an alliance wants to convey the image that they have the highest safety standards. Interoperability issues will become more prominent and there is a danger that safety-regulations will be compromised, just to remain competitive. Something that was already apparent before September 11 but nowadays receives a lot of attention.

This scenario would lead to more concentration and paradoxically less coherence in the industry. More concentration because airlines will merge or forge stronger bonds between alliance members and less coherence because the global system would be subdivided in a

⁴³ This might seem an exaggeration because IT and proper management can, in theory, mitigate the effects of trade-bloc formation but this effect has been predicted by every member of the MTF task-force when I interviewed them before the intervention. The effect has also been personally experienced, the last two times the author flew on a 2-alliance complex trip. At both occasions my luggage was missing on arrival. Although it can be that I am jinxed it is unlikely because I spent an hour with a complaining official, to whom I was officially complaining, at the airport of San Francisco (January 6 2002). She confirmed that more luggage got lost between alliance transits than between airlines within an alliance.

few big blocs dominated by a handful of mega- or global carriers. Such a development is not in the interest of the consumer and most nation states but mainly supports the vested economic and political powers and dominant players on the agency as well as the airline side. It would also seriously impact the innovative acumen of the sector if it means that Small to Medium-sized Enterprises will be integrated and made dependent on larger agencies or tour operators. A reduction of variety in outlets, and therewith consumer and producer interaction, is not conducive to the generation of innovations.

Scenario 3: Accepting the intricacies of global business

The GCC has been able to create some form of trust at the interpersonal level and has been successful in balancing mutual interests by means of re-writing a contract (PSAA) and acceptance of partial integration of the two sectors, through a principal-agent relationship. They found a workable solution concerning the forms of co-ordination. This scenario is written in a prescriptive fashion because of the close involvement in the attempts to restructure the relationship.

The proposed PSAA at the Miami conference acknowledged the fact that we have a globally operating distribution system operating in a variety of nationally or regionally bounded marketplaces. There is no single Global Market but a range of connected national and regional markets that overlap and differ in the ways that they are embedded in institutional arrangements. The yardstick market tends to be the US-market. This is a fallacy, when markets and carriers are viewed from a global perspective we must admit that the US market is quite an idiosyncrasy. There are not many (nation state bounded) markets that have evolved into societies that can sustain a market in which several big carriers compete with each other. Using the American market as a model is therefore not a panacea at the global level. The sector needs to be regulated at the global level to allow for standardization that benefits the sector as a whole and to prevent unfair business practices at lower levels. Especially in those markets around the world that are dominated by one, sometimes two, dominant carriers and are not part of a trade bloc. The more dominant a carrier is the better it is able to set the rules of the game in its favour. We showed in section 5.2 that Singapore Airlines had the power to dictate to agencies that they should switch to service fees.⁴⁴

The current distribution system consists of multiple levels of decision-making that balance interests of businesses, consumers and states and adjusts global rules to local circumstances. This is a lengthy ‘ugly’ negotiation and policy-making process but the fact that the members of the GCC started to acknowledge their mutual dependence and agreed that fairness should be the guiding principle to structure the coordination of the relationship allows for the emergence of mutual interest balancing and trust as forms of co-ordination. Additionally, the current distribution system provides platforms of information

⁴⁴ The reverse is also possible airline delegates from Japan do not tire to point out that the concentration of the travel agency market in Japan enables agencies to negotiate high levels of compensation because they are able to offer their potential demand, which is pretty stable because of the socio-centric organized culture of the Japanese, to different airlines. Nevertheless, this point only reinforces the need for a global arrangement that mitigates the danger that either party can set the rules of the game in an unfair way.

exchange and negotiation for many different interests and therewith stabilizes economies by allowing for a diversity of distribution channels and sales outlets. Concentration on the other hand leads to more volatility and decreases diversity. IATA also provides learning platforms that stimulate (the diffusion of) innovations. It is a known fact that smaller airlines use PAConf meetings to learn from their bigger competitors. IATA also maintains a network of information sharing and learning partnerships with other sectors and organisations and has developed an extensive network with a diverse set of regulatory organisations and national governments, most notably ICAO, and performs many other tasks on behalf of the whole industry.

In line with the conclusions we drew in chapter 4, we suggest that PAConf should be abolished and the unanimity clause should go. A board of directors that supervises the IDFS and co-ordinates the relationship would suffice. Such a configuration is the classical prescription in transaction cost-economics, commonly referred to as trilateral governance (Williamson 1985) and would enable to IDFS to become a trust builder, one of the roles of a go-between, between two polarized parties. It will give IDFS the room to act in a trust worthy manner toward both parties involved. In this way the inertia present in the system will have been circumvented and adaptation to the changes in the environment could be accomplished far more rapidly. Furthermore such a de-coupling of distribution from the association would greatly enhance the probability that the distribution system could evolve in the travel service facilitator they would like to become.

For the airlines it would mean that they have a global distribution system that remains under their control, is more flexible than before and potentially innovative. For travel agencies it means that direct access to ticket-stock at a global level remains possible. The possibility to collaborate in a constructive way should deliver benefits to both sides and the sector can rely on just one system for the distribution of tickets. For that to happen a distinction between the content of contracts at the global level and national and regional (local) level has to be made.

At the global level the Principal-Agency relationship remains intact, but should contain nothing more than clearly defined:

- entry-barriers (accreditation);
- specifications that detail the performance of the distribution system (to further transparency and allow for bench-marking of the services IDFS delivers to airlines and agencies);
- the kind of access to information contained within the distribution system for both parties and the IDFS;
- the fact that an agent in a principal relationship is by definition entitled to remuneration.

At the local level airlines and agencies are free to add a commercial b-to-b contract that specifies the kind and amount of remuneration based on the services an agency has to perform on behalf of the airline and they have, in this context, more freedom to exchange information and co-operate without the spectre of anti-trust immunity. National

associations should accept that such activities lead to different forms and levels of remuneration, competition and collaboration. In fact, differential rewards are already existent in the form of over-rides. It is basically a matter of acknowledging that the agency sector is diverse and that both SME's and big intermediaries/agencies in both leisure and business travel perform different functions (see chapter 6).

Benefits and drawbacks

The 'price' agencies pay or concession that they have to make in the negotiations is that they forego their claim that they are entitled to a piece of the 'transaction data' pie. Marketing knowledge that can be developed by pooling sales data from individual agencies is a competence airlines are allowed to develop. The 'price' airlines pay is that they concede that a minimum amount of remuneration to cover the costs of the services agencies render to airlines is appropriate and fair and they should stimulate their members to adhere to this principle. The covenant operative in the Netherlands or the agreement reached in Australia could serve as examples in the next chapter. The fact that travel agency representatives and the dominant carriers achieved a new 'modus vivendi' in these market places is an indication that this scenario could still become the preferred option. The 'price' the IDFS pays is that it must enable a more meaningful and substantial dialogue. They will have to learn to listen and satisfy their agents socially instead of economically. This means that travel agencies will need to be consulted more earnestly and constructively. It does not mean that decision-making power should be conceded to them.

The most important benefit of this 'global' scenario is that the interests of nation-states, the consumer and businesses are taken into account and balanced. The existence of a set of (evolving) global standards further inter-operability and efficiency and therewith reduces the work of regulators at lower levels and consumers profit from the possibility to procure any ticket from any airline around the world and change their itinerary while on the move. The preservation of the variety of meaning and diversity of experience at the local level, that is preserving a variety of sales-outlets, is a distinct benefit at the b-to-b and higher levels because it 'guarantees' innovations and backward linkages in national economies. More diversity of meaning increases the likelihood that innovations emerge in interaction. It is more likely that frequent interpersonal contact develops at national or lower levels because of relative physical proximity and shared cultural backgrounds. Trust and mutual interest balancing can therefore become more prominent as forms of coordination because the frequency of interpersonal contacts and multiplexity of relationships is potentially high.

Close co-operation and innovation are therefore more likely to come about at the national level but will be quickly mimicked if they provide a distinct advantage. Local innovations can therefore quickly diffuse to the global level. In this way the local contributes to the global and confirms the notion dynamic complementarity (Rothwell 1985).

An inevitable consequence is that remuneration levels but for a base-commission are to be determined at the local level. This is a hard pill to swallow for the agency sector especially in countries where there is one carrier that controls the market through slots. Nevertheless, this is an unavoidable consequence if we want to maintain a system that balances the interests of states, consumers and businesses and we have seen that most of the points mentioned here were part of the agreement the GCC agreed to.⁴⁵

5.5 Conclusions

The focus of this chapter was how two parties that need to work together can re-invigorate their working relationship. We have seen that the parties in the distribution network do not trust each other, opportunism of the other is assumed and this also contributes to inertia because co-operation is needed to mitigate the inertial tendencies of large networks.

Equal representation on areas that could lead to mutual benefits should be stimulated and implemented. For instance, working together to fight fraud with credit cards. This will only work if both parties see an immediate return on their investment to co-operate. They are able to co-operate on exploitation strategies not exploration strategies under the given circumstances.

Currently, travel agencies feel that IATA is neither honest nor benevolent because IATA, due to its history, must represent the interest of the airlines and they are also the other main customers of IDFS. Agents are therefore calculatively committed and do not trust the intentions of the airlines. This means that they will seek as many safeguards as possible and will want to have extensive monitoring devices put into place to ensure that further breaches in trust do not occur. The result is that they focus on detailed contracts specifying mutual obligations, rules and procedures. This is what we saw in both process descriptions. If the airlines, through the IDFS, succeed in enhancing its image/reputation in terms of trustworthiness with agents it is to be expected that communication or information exchange increases the chance that negotiations will deliver results more quickly, and co-operation would become more likely to occur.

The dynamics of negotiating and collaborating in a global inter-organizational network were investigated using a qualitative research approach. An action research intervention was carried out to support a politically laden negotiation process in a global inter-organizational network. The extensive communication process gave rise to minimal changes to the status quo. The airline sector was fairly satisfied with the result, as their domination of the network remained secure. Big internationally oriented airlines in the EU but especially the US mass markets do not want to change the forms of co-ordination governing international ticket distribution because they perceive that they will not benefit from such a new order and they control the distribution system. They only want to reverse the reward structure, the consumer should pay for the services rendered by agencies but agencies should at the same time remain under the control of airlines. Smaller leisure

⁴⁵ The first versions of these scenarios were sent to key-informants within IATA and Agency community in 2001 on their request when they were in a gridlock. This explains the congruence between sub section 5.3.2 and this section.

based travel agencies support change only half-heartedly because they will suffer in a new environment and are already suffering in the current environment. The business travel agencies big and small and the big tour operators and leisure travel agencies have clients or networks of clients that are demanding management contracts. The contracts specify what services are delivered and what savings must be obtained in return the agent receives a reward based on how well he meets or exceeds the specifications. The B-to-B market already partly functions with service-fees, for this segments of the travel agency market the transition is not so hard. Nevertheless, they still feel they are entitled to commissions because of the services performed on behalf of the principal. They consider it a legal right as long as anti-trust immunity is not lifted. Even if they pass these directly on to the clients they represent because they are rewarded in a different way. Such contracts are not possible in the business-to-consumer markets. Luke-warm support from the Agency-side and no support from the airline side was therefore to be expected. The dynamics of negotiating in a global business systems network exhibited much evasive behaviour, exposed inert structures and showed that distrust and cognitive distance kept the members from converging toward shared solutions. This has distinct implications for facilitating negotiations in global inter-organizational networks (Appelman et al. 2002). The fact that there is no real alternative to the current distribution system explains why agencies focus so much on trying to extend their influence and not exit the relationship and why the airlines zealously protect their current position. To be able to control the flow of distribution information is a competitive advantage in itself.

More explicit attention to concepts such as power, dependence, intermediated (representation) relationships and (marketing) constructs that indicate the quality of a relationship should be given. This first conclusion is consistent with findings from a meta-analysis on the antecedents and consequences of trust and with the general knowledge on issues in distribution channels in the tourism sector (Geyskens et al. 1998; Buhalis and Laws 2000). If these issues are not addressed beforehand or adapted to during an intervention process they can lead, as we have seen in this case, to unrealistic expectations. The discrepancy between what is achieved and what was expected to be achieved leads to decreases in sentiments that contribute to or facilitate the meaningful exchange of information, such as satisfaction or long-term orientation (Geyskens et al. 1998). Most of these sentiments are related to trust, either as a consequence or antecedent. We also showed that the development of trust was central to the concerns of the participants. At the group or inter-personal level process-based trust is important but the extent of such trust being apparent was determined by a number of other factors outside the scope/sphere of direct influence of the negotiating group. Interpersonal trust as a pre-requisite to co-operation could not be so easily manufactured.

Secondly, creating process-based trust at the apex of the hierarchy that governs a global business network does not automatically lead to a change in the dispositions (cognitive sunk costs) of actors at the organizational or national level. In other words, consensus and a rise of trust at the global level, but within a group do not automatically trickle down to the B-to-B level.

The analysis of the recommendations in terms of how they contribute to the antecedents and consequences of trust showed that the MTF did lay the foundations from which to

build a new relationship and showed that the same controversial points kept resurfacing. Progress and commitment to change was felt to be absent and tension rose accordingly. This almost led to a global crisis because agents increasingly felt that the only way to influence the position and delaying tactics of the airlines was to initiate manifest conflict. They were preparing and prepared to fight anti-trust immunity on a global scale. The major difficulties were solved in a 'tête-à-tête' between the 'unofficial' leader of the travel agents and the general manager of the IDFS. It made clear that the rather paradoxical theoretical notion, that the bigger the network the more important interpersonal communication and personal characteristics become, rings true in this case (Sydow 1998).

The way the relationship is governed, what forms of co-ordination are used, also exerts its influence. We saw that the unanimity clause embedded in a contract greatly contributed to inertia. Networks, in this case study, are not as generally assumed in the literature, reciprocal in nature and do not induce a co-operative attitude among its members. History of the relationship, the direction and content of the communication and information flows, the way it is governed, the purpose the network serves and the size of the network all exert their influence. In this case this has led to a rigid network that can only be rejuvenated if more information and responsibilities are shared. (See appendices.) Mutual interest balancing as a form of co-ordination should take more prominence next to the already existing forms of co-ordination of contracting and network structure. Trust in competence and intentions developed over time within the GCC but were frequently put to the test by acts of opportunism or the perception that such was the case.

A highly fragmented agency sector serves airlines well. It is very seldom that the agency sector is united, that requires, besides blatant opportunism on the part of airlines strong leadership. Such leadership and a shared problem definition (focus) existed in and around the GCC over the last years. It was one of the main reasons airlines were so accommodating at the fifth meeting of the GCC during the PAConf in Hong Kong. They were faced by a possible crisis, a refusal to sell airline products and the threat to fight anti-trust immunity worldwide by the distribution channel that represents 85% of their ticket sales. However we saw that all the exertions of the group members were nullified in an instant when the completely rewritten global contract, governing all associated airlines and accredited travel agencies around the world, was not accepted by the 2002 Passenger Agency Conference in Miami. We conclude that a small but powerful part of the airline industry is well served by the current stalemate and inertia will remain present. As long as the old institutional arrangement stays in place the changes wrought by deregulation and IT in the institutional environment works in favour of the airlines. They are well served by inertia, it allows them to roll out their e-commerce strategies and force travel agencies to either compete on an unequal footing (airlines can charge lower net prices (or just a matter of timing). Or they force travel agencies into a relationship in which no service fees are paid but control remains unbalanced in the favour of the dominant airlines at the global level. Nevertheless, although this seems at first to support airlines in their strategy to cut distribution costs, we argued that the reversal of the reward structure and the erection of direct marketing channels like portals and websites will backfire. It is likely that airlines do not succeed in reducing distribution costs but merely re-label the costs under the headings of investments and expenses for IT and CRM related strategies.

We conclude that the interests of the IDFS and Agency-associations are best served when they team up to persuade the airline community and governments around the world to accept the reviewed and revised PSAA and AP and to replace PAConf with a board of governors. Consumer organizations, trade-policy commissions at the regional and local level and ICAO at the global level are organizations that share a concern to balance interests of consumers, businesses and nation states. Their influence should be mobilised to maintain a global distribution system that is flexible enough to adapt to local institutional differences but stable enough to allow for standardization in the interest of businesses and consumers.

In this way the progress in understanding and appreciation of each other's role that has been made by the MTF and GCC members will benefit consumers, airlines and agencies around the world and not the select few.

6 LOCAL CHANGE: THE DUTCH TRAVEL SECTOR

6.1 Introduction

In this chapter we continue to focus on innovation, co-ordination and the ways in which travel agencies and airlines interact because, "...innovation outcomes...are to a large extent determined by the forms of co-ordination used for inter-firm relations..."(Nootboom 1999:916). Next to a governance approach, we further explain why the travel sector is innovative.

We start in section 6.2. with a description of the Dutch travel cluster, one of the most innovative segments in the Dutch economy. This sub sector is known in the Netherlands as the travel-segment that together with various stakeholders at different levels and firms in destination areas make up a tourism system. (Leiper 1979; Tremblay 1998) We will discuss and connect the findings of section 6.2 we introduce the Dutch tourism and travel cluster and connect them with the findings presented in section 6.3. Here we interpret the major conclusions of a study that delineated the innovative clusters of the Dutch economy. In Section 6.4 we revisit the question we posed at the global (chapter 4) and interpersonal/group level (chapter 5).

What mixture of forms of co-ordination (governance mechanism or mode of governance) would be most effective, in terms of innovation, in governing a distribution system that serves two interdependent networks of travel agencies (agents) and airlines (principals).

Of course we do not lose sight of the fact that one needs a stable base form to explore and innovate. We therefore also pay attention to the following question:

How is and should the exchange relationship be embedded to best serve the stimulation of trust and reduce the propensity to be opportunistic? The way in which the relationship is embedded or institutionalised guides and forms the perceptions and actions of actors. If the forms of co-ordination are arranged in such a way that cooperative behaviour would bring benefit to actors it is likely that they will be motivated to do so. If there is a basis for cooperation the innovative potential of the sector might be preserved or boosted. Conclusions are subsequently presented in section 6.5. Now we start the next section with a description of the Dutch tourism sector.

6.2 The Dutch Travel Sector

The main goal of a report commissioned by the ministry of Economic Affairs (Jacobs et al. 1995) was to develop a better understanding of the innovativeness of the Dutch Tourism Sector (DTS). The report used as an analytical framework Porter's Diamond. The broad picture sketched in the report is that of a sector that, when compared with neighbouring countries, scores rather well on innovation-output. Innovations take place at different

levels but are spread unevenly through different segments. Incremental innovations dominate and we argued in chapters 2 and 3 that changes in producer-consumer scripts deliver a cumulation of product innovations that, in their turn, sometimes add up to changes in information architectures and organizational structures.

Two of the most innovative segments⁴⁶ are the travel segment (agencies and transporters) and the information and promotion segment. Both segments are tied to each other through constantly shifting coalitions of firms and public stakeholders to satisfy demands of tourists and residents in and around tourist receiving areas. The relationships and exchange with the transport sector are intensive and predominantly intermediated. Either through an aggregation of demand by travel agencies resulting in business configurations like consolidators and buying groups or through an aggregation of voice. Co-operative relationships have developed on areas such as safety, access to markets, (customer) information and standardization (see also textbox 6.1). In practice these are hard to separate. It can well be that failures in service delivery processes leads to negotiations that deliver a project-team or task force that needs to collaborate to solve the failures.

A number of umbrella or branch organizations and the national carrier, KLM, coordinate the tourism sector. They do so predominantly in the fields of marketing, distribution, consumer research and promotion. As a last point it should be mentioned that one of the big plusses of the DTS is the existence of a national reservation system for accommodation. The system is already expanding into auxiliary services and the implementation of the conversion to broadband information technologies is already underway. The Netherlands is one of the first countries to implement such a system and therewith gives all firms active in the incoming tourism sector a competitive advantage in terms of an increase in access to highly relevant tourist information and a reduction of the time needed to handle said information. The reduction of time to assemble a trip or satisfy a need of a tourist contributes to the competitiveness of the sector as a whole.

We will now concentrate on the travel sector and information and promotion segment. Tourism-Recreation-Netherlands, commonly referred to by its anagram TRN, is the national organization that aims to promote travel to the Netherlands. It came into existence through a merger of the Dutch Bureau for Tourism (Nederlands Bureau voor Toerisme NBT) and Tourism and Recreation AVN. The Congress Bureau for the Netherlands joined at a later stage and the Dutch foundation for Local Tourism Offices will follow. The tourism sector comprises of about 45.000 businesses and directly employs over 300.000 people (Jacobs et al. 1995). Concentration of promotion and information, research and policy related activities is actively pursued and forms of co-operation, in differing degrees of intensity, exists with employer organizations, trade unions, water recreation, (domestic) recreation branch-organizations, transporters, other platforms such as the platform for attraction parcs, car-owners and agriculture. They further the building of consensus and transform the consensus into political leverage on issues such as: competitive position of

⁴⁶ We use here the term segment, because Jacobs et al. (1995) views tourism as a sector and the different sub-sectors as segments. The study of Broersma (2001) refers to the segments as clusters.

the Netherlands, promotional activities and strategies, governmental policies on planning and mobility, safety and access for tourists, sustainability etc. Information and promotion perform a central role within the sector, it brings organizations together in different working relationships. It is a segment actively engaged in and with an open eye for innovations and upgrading of products, the emphasis is primarily on incremental product innovations to cater to qualitative changes in demand. There is a lot of cooperation and mutual consultation. Because of frequent communication and collaboration with and close proximity of all kinds of partners, this segment is rife with social networks.

An association that was established in 1966 represents the organized travel segment: The General Dutch Union of Travel Companies (Algemeen Nederlands Verbond van Reisondernemingen - ANVR).⁴⁷ In 1989 the organization became a federation with four member associations. At present more than 650 travel businesses with a total of some 2200 offices have joined one of the four member associations. These separate associations each have their own board and a secretariat that actively monitors developments in their own field. In this way they provide a platform for the members and they maintain contacts with related organizations. Since 1994 the federation has also developed into an employers' organization. The ANVR and the four member associations have the following objective: "To combine the strengths of the members in order to protect the common socio-economic interests, so that the ANVR and its associations, as organization(s), will occupy a leading position nationally and internationally, as representative of the travel industry."

The member associations are:

Association of Travel Agents (Vereniging van Reis Agenten - VRA) The VRA protects the interests of the travel agencies that focus on selling tourist (package) trips to the consumer, by providing information (including the member bulleting VRA-journal) to its members. This Association of ANVR Travel Agents also participate in the board of Travel Net, an information network in the travel field, and has developed a quality control system for the industry. Members can compare their company development with those of others in the industry by means of Comparative Business Research.

Association of Tour operators (Vereniging van Reis Organisatoren - VRO) VRO aims to create the best possible conditions for the management of its members. The VRO does this by protecting general interests, specific interests for groups of members with similar activities, and, when necessary, individual interests. VRO actively monitors and responds to national and international developments. The policy document and the Association rules and regulations, including the code of conduct, are available on request to interested tour operators.

Association of Tour operators Incoming Tourism (Vereniging van Reisorganisatoren Inkomend Toerisme - VRI) The representative of incoming tourism occupies an unusual

⁴⁷ Information of the report of Jacobs (1995) on the travel segment was supplemented with information derived from feedback given after a presentation to the board of the member association VLZ in 2001 and ANVR's website www.anvr.nl.

position compared to the other three ANVR member associations that focus on outgoing tourism. The VRI is the interest group of businesses that organize trips within the Netherlands for the foreign leisure and business market.

Association of Airline (consumer) Agencies and Business Agencies (Vereniging van Luchtvaart agenten en Zakenreisbureaus - VLZ) The VLZ looks after the interests of the IATA-recognized travel agent (International Airline Transport Association), who focuses especially on services for the business travel market and airline ticket sales, by means of regular consultation with KLM and other airlines. There is also an exchange of know-how and information with affiliated international associations. On behalf of the Dutch agencies the VLZ participates in various IATA-bodies and members can take out special insurance thereby limiting security for IATA. The Association also acts on behalf of agencies in legal procedures.

The separate member association shows the importance of IATA for the global air transport sector and, concomitantly, the agency segment.

Organized travel (transport and agencies) is the most concentrated segment within the sector but there is also a large part of the agents that should be classified as small to medium sized. KLM dominates the transport side while two Germany based tour operators dominate the Dutch market. The first one is Preussag that owns the following 'Dutch' brands: Arke, Travel Unie International (TUI), Kras en Holland International. The brands will probably be subsumed under one heading, that of TUI. The other group is called Karstadt Quelle its most famous brand in the Netherlands is Neckermann (Bywater in Buhalis and Laws 2001:156-157). This list is by no means exhaustive but it serves to make the point that the existence of only a small number of such big brands in the Netherlands makes collaboration between them feasible and such collaboration usually concern issues of safety, standardization or joint responses to crises. The development of standardized procedures (codified routines) leads to cost-reductions and an increase in travel speed. If the whole sector adopts such a standard the sharing of information becomes more effective, cost-investments in the training of personnel decrease and transaction costs are reduced. More importantly from the viewpoint of the diffusion of innovations it enables the large companies to integrate new successful small to medium sized firms more easily. This practice is common in the travel sector. Product innovations are not only developed by the big mark I organizations but predominantly by newcomers. If such newcomers already employ similar information systems integration of operations is less problematic. The big tour operators and big transporters are motivated to share such a standard with independent agencies because of these advantages. Small businesses and big businesses can therefore be said to complement each other. SME's profit from standardization because they do not have to bear the risk of investing in the development of standards. They complement the big businesses with their innovative propensity.

Figure 6.1: Cooperation and innovation in the Dutch Travel Sector

2000 December 15: 7 big tour operators and travel agency chains called the G-7 agree to collaborate to produce a common internet norm (standard) for the whole travel booking sector: a tourism CRS. Examples of standardization are: bar codes, recap strings and electronic invoicing. The branch organization tried but failed to produce such a standard and recommends that other agencies follow the agreements and standards that could come forth from the collaborative efforts.

2001 February 9: The CEO of the biggest tour operator in the Netherlands Travel Unie (part of Preussag part of TUI) announces that the joint development of a shared tourism CRS announced the 15th December is not: "In our interest. We do not participate in open price comparison systems."

March 2: Other members of the G-7 broaden the agenda and state through their spokesperson that they will also look into: "other versions and options." besides the CRS-option.

May 18: Most independent travel agencies consider a tourism CRS a top-priority for the travel branch. This was concluded after a 3-day workshop/discussion trip organised by Olympia

June 8: The G-7 has reached an agreement on a common communication standard based on the internet protocol of Travel-NET plus. Technically we are talking about the XML standard.

September 7: The booking and availability standard has been offered for free by the G-7 to the ANVR. The CEO of the ANVR, mr. van der Kaaij responded that: "thanks to the G-7 we have succeeded in providing the branch with one standard, with which everybody can work, a major step forward."

(source: Dutch Trade journals: Reisrevue, DIT-magazine)

Big businesses are stimulated to focus on process innovations to further integration of successful formulae.⁴⁸ It is therefore that Jacobs et al. (1995) concludes that a small group of relatively large firms tend to be more innovative. There are, at the same time, a number of innovative small firms in the organized travel segment that develop new formulae and new or 're-packaged' offers to destinations. Together they represent the innovative acumen of the sector.⁴⁹

The big tour operators have a strong competitive position and incorporate successful and innovative small firms. Almost every large tour operator is part of an international holding. Tour operators connect the different parts of the value chain. Additionally, strong links with the transport sector were found. Tour operators and airlines are the main business

⁴⁸ Formulae is a commonly used term in the tourism sector to refer to travel scripts and the arrangements accompanying a travel script such as accommodation and entertainment nodes.

⁴⁹ Notice that the general structure of the Dutch sector is similar to the global structure of the travel sector. This is an indication that the findings might be extrapolated to other levels.

forces that structure relationships into different value configurations. Sets of relationships form networks (triads) or chains (dyads) and sets of overlapping chains and networks form clusters, usually defined as related and interdependent businesses that tend to be located in each other's vicinity. Although physical proximity is a condition that does not necessarily apply to the tourism sector and often not to the travel segment or cluster.

6.3 Clusters and innovation

There has been a growing recognition of the importance of clusters, networks of similar and complementary firms usually located in geographical proximity of each other (see chapter 3). Innovative clusters are defined as: "...industry groups that have strong innovative links with each other, but weak innovation links with the rest of the industries." (Broersma 2001:6). Notice that the condition of physical proximity has been left out it is therefore a definition that suits a sector like tourism. The study can be seen as an improved follow-up of the study executed by Jacobs et al. (1995) because it tries to open the 'black box' of Porter's input-output analysis by employing an input-throughput-output model. The rationale to choose an input-throughput-output model is that the relative success of innovation processes depends on the way in which inputs are transformed in outputs. The assumption here is that the more throughput is apparent the more output, in terms of innovations, there will be. In the words of the author: "Successful innovation processes depend crucially on the way in which inputs in the innovations process are transformed into outputs." (Broersma 2001:4). In the terminology of a TCT-approach, the ways in which nodes are re-arranged in scripts, caused by the simultaneity of consumption and production, delivers incremental innovations. It is the process of organizing and delivering service-encounters and the meaning given to them that delivers new forms of social and economic organization (Lash and Urry, 1994). There is therefore a clear need to open 'the Black box' if we want to understand the role tourism plays as a 'change-agent' in economies. We now continue to detail the most important findings of the study, pertinent to this thesis, to delineate more clearly which economic clusters can be considered innovative.⁵⁰ (Broersma 2001)

The main conclusions of the study will be given here and reflected upon and where appropriate compared with the findings with study of Jacobs, by means of such a comparison we hope to come closer to the question: "...how these intermediary services innovate, how they support innovation in supplying or using industries...." (Broersma 2001:37). The relevance of discussing this particular study is that the study delivers more evidence that indicates that service sectors tend to be more innovative than manufacturing ones something we argued already in chapter 3.

⁵⁰ The Dutch Ministry of Economic Affairs has commissioned this study within the framework of the Research Programme: Structural Information Provision on Innovation in Services (SIID).

First of all the study found by means of cumulation of linkages, that services have stronger forward than backward linkages. Backward linkages give an impulse to supplying firms and forward linkages provide innovative impulses to purchasing firms. A division between the linkages that different services produce is apparent; 'new' services like (tele-) communication, computer services and temporary work agencies produce more forward linkages, they function as providers of resources to the rest of the economy rather than using resources from other industries in service-outputs. While 'old' services such as public transport, travel agencies and hotels have developed more backward linkages. In the case of the travel sector backward linkages are not hard to imagine. For instance, the raw 'commodity' is the tourist who consumes products and services by going to other places, the travel sector transports the tourist backward into the economy to places where nodes are consumed delivered by other clusters. These findings are consistent with the findings of Jacobs et al. (1995) in the last section that large travel organizations tend to produce process innovations that go forward while smaller agencies produce product innovations that are integrated backwardly.

Secondly, three of the five clusters identified as innovative are service industries or sectors. Service clusters are consistently present, no matter what kind of indicators used. The clusters are: travel (transport and travel agencies), trade (retail and real estate) and the communication and finance cluster. The trade, finance and communication cluster are indispensable to tourism because they develop and deliver the resources that enable travel agencies to assemble, standardize and mass-produce their service scripts. Continuous linking and de-linking of different economic firms in different clusters, the constant re-arrangement of nodes in travel scripts, ensures that the travel sector performs a central role in innovations. This conclusion is further corroborated when the same data-set is analysed from a network or linkage perspective and Broersma states that it is remarkable that: "...specifically travel agencies have a relatively strong impact on the rest of the economy through their suppliers" (2001:38). Innovation in this sector is thus likely to have a relatively strong impact on the organizations supplying to, or collaborating with travel agencies, this is corroborated by the next finding of the report.

A third conclusion is that: "...intermediate trade linkages may act as carriers of innovation from one industry to another, under the assumption that innovations are incorporated in the traded goods or services" (Broersma 2001:39). This is exactly the case with tourism as we saw with the example of the development and use of standards, with the added comment, that in tourism consumers and producers co-produce in certain nodes of scripts. Technical standards allow for the connection and comparison of different flows of information. These standards are incorporated in software used to compile or access the information to perform a service. Demands of consumers lead to changes in travel scripts. Consequently, the more the consumer scripts deviates from a general pattern the more the relationships an organization entertains with a range of suppliers must change. When agencies acquire access to reservation systems with new information and services, they can stimulate demand by explicitly offering the new service. A novel resource that provides more choice to a consumer, more potential nodes for a travel script, is offered. For instance, a hotel chain located on an airport offers after-flight or transfer massages. If travel agencies can

also offer that and it becomes a success, a process of innovation diffusion and sometimes creation happens. First of all, the new node (service) will be copied by other service providers other suppliers. It will spread quickly through the global travel system because most services can easily be imitated. Secondly, hotels or airports will need to provide space for the massages. This opens up opportunities to innovate the use of space, rooms will have to be redesigned and the construction sector will called upon together with designers to create a right environment. Thirdly, it will stimulate demand for products implicated in massages like: towels, tables and oils (forward linking). Fourthly, and this reason explains a lot of forward and backward linkages, if travellers like the new service then there is a big chance that a traveller will make use of such a service outside of his role as a traveller. A rise in the consumption and production of massages is therefore to be expected in tourist generating regions. We see similar patterns with food and music. A tourist experiences something extra-ordinary and 'imports' it into more ordinary leisure routines or other societal fields like health. This is increasingly possible because our modern society has become more liquid, it are flows, scripts of activities of people, goods signs and symbols, bounded by institutions that generate change (Urry 2001). All these services and products revive particular experiences of a holiday and by doing so become incorporated in domestic consumption routines and stimulate and diffuse innovations. The reverse is, of course, also possible certain day-to-day practices like farming can be drawn into a tourism script.

A fourth conclusion is that communication proved to be central to innovations. "The more intense trade links between industries are, the easier innovations, incorporated in these traded goods and services, can move from one industry to the next" (Broersma 2001:37). Communication in the travel sector is intensive, codified and institutionalised, and mainly done by intermediaries. The highly regulated nature, in the interest of the safety of the consumer and the protection of national carriers, of the industry has produced many levels of decision-making and contracts and huge amounts of codified procedures to satisfy the need for standardization. The high frequency of communication at different levels produces spin-offs in the form of many incremental innovations. The successful incremental innovations can and do, in their turn, cumulate into higher-level scripts. However, it also became clear that frequent communication and is more likely to develop where there is the possibility to develop and maintain multiplex relationships and that such relationships only flourish in contexts where actors are physically proximate. Such is not the case at the global or regional level. Innovations at that level are therefore not likely to occur as we have witnessed in chapters 4 and 5.

Finally, it is concluded that technical engineering, travel agencies and the more or less 'new' services like computer services, consultancy and (tele-)communications all have a relatively strong impact on the rest of the economy (Broersma 2001:38.) All sectors mentioned occupy an intermediary position and their success is partly due their ability to bridge cognitive distance.

We have provided some answers that give us more understanding why a service cluster has a more innovative propensity than many manufacturing sectors. Broersma (2001:38) summarizes his conclusion to that question, on which we elaborate hereafter, as follows:

“...an impulse in these service industries affects the input in other industries. In this way innovations incorporated in the output of these services is hence spread through the rest of the economy. This corroborates the importance of these service industries.” It is therefore that service clusters that have as their main resource the manipulation of symbols/information (e.g. finance, telecommunications and travel) are more innovative. Secondly, such industries are all intermediaries, they need to occupy a position in networks that bridge diverging perceptions. Thirdly, as a consequence of the first two points mentioned such industries need to possess the competence of translating and connecting diverse structures of thought. The role of the go-between or more generally of intermediaries is crucial in innovation processes, because they are able bridge cognitive distance between diverse sets of actors. They are in a sense the go-betweens of capitalism and in the case of travel agencies of travel capitalism. Fourthly, in service industries the notion of dynamic complementarity in which “... small and large firms have different roles to fulfil in innovation, and are complementary to each other” (Rothwell 1985 in Nooteboom 2000:259) applies more forcefully than between small and large firms in manufacturing, because the entry barriers are relatively low (see textbox 6.1 for an example). A physical or virtual office and a set of relationships with transport companies and accommodation providers are enough to start an agency. Small firms in the travel agency tend to produce more service products, formula (good bookers, etc.) and brand related innovations. Large firms buy or follow, but their contribution to the innovation process tends to focus on either standardization of service delivery processes or reformulating standards. Large firms focus on the improvement of the organization of production while small firms are more interested in reaching new customers and improving the service to old customers. Together they produce over time incremental and radical innovations. These four points are additional explanations why the travel sector tends to be so innovative.

Concerning the balance between exploitation and exploration we saw that strategies that designed to exploit existing scripts are largely initiated and developed by big companies while exploration strategies that deliver new scripts are usually generated in small to medium sized companies.

This does not mean that an exploitation strategy delivers only incremental innovations. For instance the integration of information technology into distribution delivered CRS's that added a new node to distribution scripts and new institutional arrangements had to be developed to integrate the CRS's in distribution routines.

6.4 Forms of co-ordination in a national context: The ‘Zwaan covenant’⁵¹

This section will provide an answer to the question as to what would be the best mixture of forms of co-ordination that ensures a stable base for exploitation while at the same time room is preserved for exploration. We will show that answering this question delivers the information to answer the second question: How is and should the exchange relationship

⁵¹ For an elaborate event history see: appendix 6.6

be embedded to best serve the stimulation of trust and reduce the propensity to be opportunistic? We start to detail the main relationships travel agencies need to maintain to be able to sell tickets. Then we discuss the solution the major carrier in the Netherlands (KLM) and ANVR negotiated and try to explain why an agreement came about that does recognize the right to remuneration while at the same time the height of the remuneration was adjusted. After this we continue with an assessment of the appropriate forms of co-ordination for the Dutch travel sector.

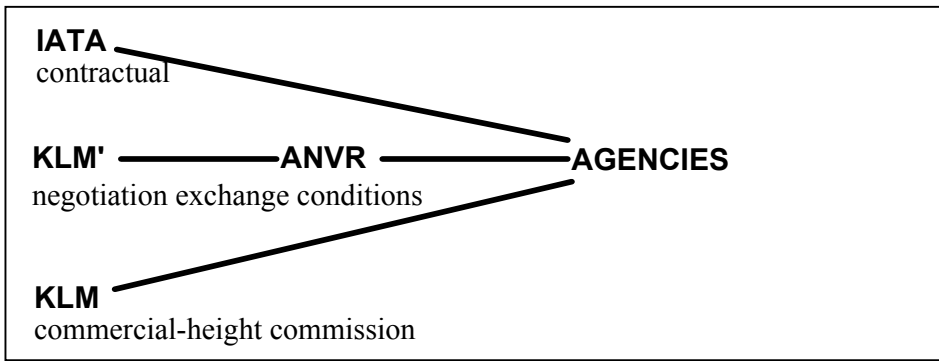
Travel agencies selling international airline tickets (not domestic) need to entertain three relationships in order to be able to sell tickets.

Firstly a direct (1) *contractual* relationship with IATA that gives them the right to sell international airline tickets (accreditation). We discussed this relationship exhaustively and we do not discuss it in this chapter.

An intermediated (2) *negotiation* relationship with IATA, at least for the SME-segment of the sector, and dominant airline, via the representatives of the associations they are affiliated with. The negotiations at this level concern the conditions under which (commercial) exchange should take place. The political need to accommodate a diverse range of interests arises because of the economic need to connect highly diverse and constantly changing competencies and resources. Voice is embedded in the political relationship and agencies can ignore the relationship and devote their time developing and maintaining relationships with:

- other agencies;
- a range of other suppliers and purchasers;
- public organizations that provide (access to) resources that support travel and tourism;
- customers

Figure 6.2. Minimum amount of relationships of an accredited IATA-agent



Lastly, they need a direct or intermediated (3) *commercial* relationship with at least one carrier, in this particular case, the KLM. A specific agreement supplements the globally defined agreements and the amount and forms of remuneration can be established when a principal agency relationship is maintained.

We established that airlines are trying to bring down their distribution costs. They do so by relegating the negotiations on monetary compensation to the national level, increasing competition by opening a variety of direct marketing channels, and they proceed with driving down the commission levels paid to travel agencies. As a response to changes at supra-national levels and to the implications of the changes at the local level, negotiations between agency sector representatives (ANVR) and the dominant national carrier (KLM) were initiated. The negotiations produced an agreement in the form of a ‘covenant’ a gentleman’s agreement with strong contractual clauses (see appendix 6.1).

We put forward that the KLM and ANVR representatives adapted to changes at the global level because actors in the ‘Polder-model’ are tacitly guided to work toward consensus and maintain working relationships with all stakeholders involved. The use of contingent power is preferred. Even though airlines are endowed with resources and legitimised by a contract to enable them to use non-contingent power without the fear of retaliation because of the dependency and ‘exchangeability’ of travel agencies (Geyskens and Steenkamp 2000). The following excerpt from an e-mail correspondence with a manager within American Express responsible for distribution policy within the European Union makes this clear.

Figure 6.3: Power of a Principal

Q. Do you, as a large multinational agency, negotiate directly with the major carriers in the UK or are you dependent on the agreement reached by EBTA or GEBTA?
A. With regard to your question. The situation on commissions/fees varies by airline and country. In the UK, for example, BA decide unilaterally what rate they want to set and then either just introduce to the trade or go through a consultation period. With previous commission reductions they just announced their plans and went ahead. ...After consultation BA may modify the plan slightly, but basically they do their own thing.

(source: personal communication, e-mail 19-9- 2001)

Airlines can set the rules in the area of international ticket distribution because most markets for international airline tickets around the world have a structure in which one or two airlines dominate the market in a given nation state. Without the 'cushioning effect' of a consensus-based culture it is tempting to use force at will because retaliation will not be too severe given the levels of dependence of many travel agencies. Thirdly, airlines can achieve more focus because they are an integrated tightly coupled hierarchy. They are able to perpetuate a strategy without having to continuously reconcile a plethora of different interests. Agencies are fragmented and this leads to conflicts of interests within the agency community. As long as a carrier employs this kind of power agencies feel impotent to influence the decisions of airlines and tend to evade investment in such a relationship, they neglect the relationship as long as abuse stays within bounds.

Against this background we discuss the appropriate mixture of forms of co-ordination of the Dutch travel agency sector.

Horizontal integration refers to travel organizations organized in horizontal alliances. The Rosenbluth International alliance (a global business travel agent that relies heavily on information technology) is a prime example at the international level. (See network type I in chapter 4) In the Dutch context travel agencies such as Good Bookers and the Travel Company employ such forms of co-ordination. Consistency of operations in such networks is ensured by the use of the same software, symbols and procedures. Franchising is the preferred mode of governance. Contracting as a form of co-ordination features prominently.⁵² Trust is an important form of co-ordination in horizontal alliances but is always supplemented with contracts that provide some stability and serve as a basis for technical co-operation (record-keeping), to prevent misunderstanding or allow for the redress of mistakes. Completely vertically integrated agencies, through organizational

⁵²Technology could be said to serve as a form of co-ordination, because it structures the ways in which partners routinely interact. Tacit knowledge develops from the repetition of certain actions and can be engendered by a managerial decision to use a particular technology. A combination of training and practice has been successful when workers refer to machines or technology as structuring their actions.

integration, are usually part of tour operators. Partial integration exists in the travel sector where agencies have access to IATA-ticket stock. Tour operators integrate transport, distribution and accommodation functions and deliver them into assembled packages to their travel agents. Assembly is something that partially integrated agencies need to develop more as an important competency. Integration as a form of co-ordination features therefore prominently. Such travel agencies are comparable to captives in the insurance of fast food retail branches (Wathne and Heide 2000). Contracting in the form of franchise agreements or labour-contracts accompany integration as a form of co-ordination. Vertically integrated companies do not rely solely on their own agents, but offer their products to independent agencies as well. Here contracts serve two purposes, first as a document to constrain opportunism and the other is record keeping. The purposes are intertwined because record keeping enables monitoring that is needed to detect opportunism. Trust as a form of co-ordination therefore not likely to be found at the interorganizational level but needs to be produced at the interpersonal level. This is not likely to occur in the travel sector, but it is not impossible, as we have shown in chapter 5. Evasion as a form of co-ordination is also present. Specific investments and long term commitments to a single supplier are evaded by agencies where they can. Dependence can lead to lock-in while agencies need to maintain and develop links to suppliers based on changes in demand. They need flexibility to satisfy volatile demand. Such a need for flexibility is easily misconstrued as opportunism and trust is therefore hard to establish and maintain. Network structure and position: networks of organizations connected through information technological networks that perform globally standardized practices provide stability, in networks of constantly changing contacts. Such networks employ standardized protocols (scripts) to allow for communication between actors that do not have the opportunity to be in each other's vicinity. Standardization then allows for flexible rearrangements when shifts in demand occur. Political intermediary organizations such as associations negotiate about such common elements. Mutual interest balancing is something that occurs continually. Not so much between organizations but between interest representatives of different sectors that need to collaborate to ensure a healthy out- or input in their own sectors.

It seems that the assertion that 'the only constant is change' in the European and therewith the Dutch travel sector does not capture the entire truth. Firstly, if that were true concentration via vertical integration would be less (Buhalis and Laws 2001:8). The bigger the hierarchy, build of overlapping networks, the more inert it becomes. Networks need to share common elements and processes (routines) to be able to adapt to changes and the integration of innovations. But such common elements and routines need to be decided upon by building consensus between members of a network. Otherwise such a network will slowly grind to a halt and become inert.

At the beginning of this section we promised to provide an answer to what would be the best mixture of forms of co-ordination that ensures a stable base for exploitation while at the same time room is preserved for exploration at the national level. It seems that the same answer holds as in chapter 5. We conclude that the travel sector is best served when its network structure is given cohesion by a contract that simulates a hierarchy,

standardizes procedures and defines a fair amount of remuneration. In return the principals are allowed to capitalize on the individual marketing data of agencies by pooling and analysing them, just as agencies are allowed to pool their data, for instance via their associations, buying groups or consolidators. We conclude that the exchange relationship should be embedded in a contract to best serve the need for stability. For the stimulation of trust and reduction of the propensity to be opportunistic other forms of co-ordination at other levels are required.

A certain degree of integration is important and apparent in this case because large organizations or a number of large organizations can and do provide the resources and possess the influence to provide a sector with standards that make many service delivery processes more efficient and reliable and allow for smooth integration of merging or incorporated firms. In short, as a general rule we posit that big companies stimulate exploitation while the SME section delivers more fundamental innovations. The notion of dynamic complementarity therefore also holds at the national level. A note of caution however, we have seen that the KLM is enabled by means of a global contract to be opportunistic. Opportunism stifles innovations, variety is needed to produce innovations and ensure fair competition. Especially the SME-segment delivers many innovations and this structurally driven propensity to be innovative should not be stifled too much.

Interorganizational trust should preferably govern relationships between similar organizations within clusters. We have seen in chapters 4 and 5 that simulation of a hierarchy leads to high levels of perceived and actual opportunism so there is a slim chance to develop such trust as a form of co-ordination for a whole sector. The generation of interorganizational trust requires that people and firms are located relatively close to each other or can meet frequently and extensively. Dependencies of a more social and tacit nature should also be apparent in a cluster, before such trust can develop. This is more likely to occur in destination areas. Spatial proximity and trust are imperative to understand how innovations (of scripts at different levels) come about. "Sufficient cognitive proximity is needed to be able to understand each other and trust is needed to do without complex, detailed, costly constraining contracts, and to contain the risk of spill over" (Nooteboom 2000:212). Intermediation of the relationships prevents a high degree of innovations at the interorganizational level. Trust by referral (Uzzi 1996), reputation based trust, does not develop because of the opportunism assumed and experienced. Intermediaries do, however, develop process-based trust to be able to come to compromises or agreements that benefit the whole cluster or sector.

6.5 Discussion and conclusions

Section one showed that the development of standardized procedures (codified routines) led to cost-reductions and an increase in travel speed. If the whole sector adopts a standard the sharing of information becomes more effective, costs of training of personnel decrease, transaction costs are reduced and it enables the large companies to integrate new successful small to medium sized firms more easily. Tour operators, big travel agencies and airlines were the main business forces that structure relationships into different value configurations. Sets of relationships form networks (triads) or chains (dyads) and sets of

overlapping chains and networks form clusters, usually defined as related and interdependent businesses that tend to be located in each other's vicinity. Entry barriers in the travel sector are relatively low and incremental product innovations are generated all the time. We already concluded in section 4.2 that innovations come about more easily in a network where organizations are weakly connected and where people are proximate autonomous actors with multiplex relationships involved in complementary and partially overlapping activities. This chapter has corroborated these notions. A network of dense multiplex contacts within the travel agency and transport sector respectively were found in the cluster study we discussed. We should be aware that the contacts are intermediated by individuals that develop bonds over time. They mitigate and supersede the contradictory positions parties sometimes take based on their self-interest. At the same time there were many operational linkages to other sectors.

Such a network description provides a partial explanation why the travel cluster is innovative and at the same time has the biggest impact on other sectors. The high degree of backward linkages is caused exactly by the fact that the travel cluster has a huge number of contacts with firms from different sectors and we showed that tourism as a whole has need of even more diverse contacts. A division between the linkages that different services produce was shown. 'New' services like (tele-)communication, computer services and temporary work agencies were found to produce more forward linkages. They function as providers of new resources to the rest of the economy rather than using resources from other industries in service-outputs. Remember that we argued in chapter 2 that a resource can also be a competence depending on what level is analysed. New competencies such as the ability to work effectively and efficiently in a virtual environment are actively sought after in such sectors. If people or organizations develop such competencies their value is high and the likelihood that such human resources are drawn into other sectors and bring with them new scripts increases. They deliver new nodes to scripts and this indicates that they might be more radically innovative when compared to manufacturing sectors, just as tourism was. Section 3 re-confirmed our conclusions with regard to innovations and the innovative potential of the sector. We showed that intermediaries stimulate the adoption and diffusion of innovations. We argued and found support for our assertion that a service cluster has a more innovative propensity than many manufacturing sectors. Service clusters that have as their main resource the manipulation of symbols/information are more innovative because:

- service clusters are intermediaries that need to occupy a position in networks that bridges diverging perceptions;
- they therefore possess the competence of translating and connecting diverse structures of thought and
- thus are positioned to bridge structural holes. That enables them to discern and capitalize on opportunities by re-arranging their network of contacts.

At the cluster or sector level we concluded that the notion of dynamic complementarity applies more forcefully in service sectors than in manufacturing because of the simultaneity of production and consumption.

The fourth section revisited the questions how the relationship for international ticket distribution should be co-ordinated at the local level posed. The conclusions were similar to those in chapters 4 and 5. Simulation of a hierarchy in interorganizational networks or network-based businesses via a contract provides stability but only if agencies are compensated for the services they perform. The inertia that this mix of forms of co-ordination delivers stimulates that the interest of consumers, businesses are balanced and allows for standardization that facilitates the integration of innovations. Here we see a difference with the global level where it led to inertia and distrust. We posit that interpersonal trust (especially competence-based trust) is more easily developed and maintained because of the physical proximity and therewith increased chance of multiplexity of relationships between individual actors. We will return to the implications of the similarity and differences in conclusions in the next chapter.

7 CONCLUSIONS

In the introduction we formulated the following central question: How does the travel sector, embedded in the tourism sector, change as a consequence of changes taking place within the sector and the environment of the sector and how do these changes affect the set of relationships that enables exchange between the network based business systems of travel agencies and airlines at the global, interorganizational and firm level?

Our main point of attention concerned the ways in which forms of co-ordination change, and should change at the global and national level, to allow for the seamless experience international air travel can still be and to ensure that the travel sector stays as innovative as it used to be. We will now reflect on this question and in the course of doing so review and connect the conclusions of the different chapters.

Theory

We used insights from sociology and philosophy to argue that Competence and Resource are similar to the concepts of Agency and Structure and concluded that they are not fundamentally opposed but complementary aspects of an organization. At the theoretical level in Management Sciences they have long functioned as competing and diametrically opposed concepts. This is quite understandable given the fact they seem to depart from different epistemological foundations and because the division between resource and competence is a fundamental one. Competence and resource are separated they are a dichotomy, distinct constructs that need to be studied in isolation. Consider, for instance, the difference between discrete modelling and flow-oriented modelling or the difference between structure and process. Similar distinctions that are almost impossible to integrate into one coherent theoretical framework. It is a question of either studying objects or the relationships between the objects. It is eminently difficult to study both concepts in a unified way because we saw that, in practice, they function as a duality, they both need to be present to be able to explain how organizations behave and interact. The concepts that seem to oppose each other actually presuppose each other to sustain business and innovation processes. We can show with the same set of concepts how agency and structure are related and envision how actions and structures at more than one level relate to each other. This is needed to understand how network based businesses function.

We further concluded that the concept of competence and capability represented institutional ways of thinking and the concept of resource represented resource based ways of thinking in the management sciences. We also concluded that competencies can become a resource the moment they become codified or internalised and resources can become competencies depending on the level analysed. When a competence is internalised, when it is a skill, it is subject to reflexivity. It becomes part of a person and different rules apply to a person. The skill is not codified anymore, but has become literally embodied. Its valued

action, the application of skill, can therefore not be as easily coordinated as a machine, a resource. At the level of an organization people can be considered resources in as far as they, as carriers of skills (that constitute a competence) can be employed in a script. Rules regarding behaviour between manager and worker are both formal codified and tacit informal ones that allow managers to exert coercive power over individuals. Law provides formal codified rules while culture is internalised and therefore more tacit and cannot be influenced or coordinated straightforwardly. Coercion via culture is far less obvious than coercion in a hierarchy with formal rules and sanctions. Both are institutions. When viewed through a cultural lens different forms of power play a role but we will not dwell upon this subject. There are enough Pandora's boxes in this thesis as it is. We end this section with the main conclusion drawn in chapter 2: institutional and resource based views mutually presuppose each other when evolution is studied.

We extrapolated and adjusted the insights formulated in chapter 2 to networks of organizations as separate organizational forms. Networks differ from hierarchical coordination because of the autonomy of each member and networks differ from market coordination because there is an attempt to coordinate through elaborate decision-making committees at multiple levels. Interorganizational networks are therefore more complex organizational forms than a single organization studied in isolation. The problems of coordination are much more difficult because of (perceived) increases in volatility, member autonomy and the ensuing complexity in decision making processes. At the same time networks are conceptualised as flexible arrangements that are an apt organizational form in increasingly fragmented markets (mass-customization). This has distinct implications for a theoretical framework that aims to understand change and inertia, in other words tries to make sense of the evolution of businesses and business networks. The existence of boundaries, be they material, institutional or cognitive implies that different forms and solutions to similar problems exist. There is no one best solution to a problem. Secondly, different layers exist in social and economic reality, they are instantiated, maintained and changed through interaction at the individual level, but it is analytically justified to assert that other levels bound and enable action. They contribute to outcomes by excluding possible paths, in the minds of individuals to a solution or goal and structure action and can be changed by (inter-) action. Thirdly, because change is bounded we can assume that there are regular recurring patterns of interaction. These patterns or routines (codified and internalised) can be modelled as scripts that are recurring sequences of resource use through competence wielding. The more permanent the script the more institutionalised it is.

Tourism and innovation

We will now present the conclusions that explain why we conclude that the tourism sector is so innovative and simultaneously apply the script metaphor to connect different levels in social and economic reality.

Tourism exploits general-purpose technologies by adapting them to the particular needs and wants of users and therewith explores the uses to which new technology can be put.

New gadgets and social routines are tried out in 'leisure-spaces' and, when found more than agreeable or socially uplifting such scripts can 'migrate' to other spheres of life and become part of the ordinary day-to-day routines. Thomas Cook has established a meta-script for the production of travel. The development of the meta-script started around 1842 with the first recognized excursion from Leicester to Blackpool and evolved into maturity around 1862. We showed that this meta-script already contained elements of later production-scripts that arose in the manufacturing sector. Most notably it contained the essential elements of both Fordist production. In other words it seems that tourism delivers innovations very early to an economy. They are literally the transformers of general-purpose technologies into all kinds of value propositions much more than manufacturing sectors are.

Now, of course this is quite a claim, and a counter-intuitive one at that, because matter seems more real than an ephemeral experience caused by a service. The first point of critique that one might raise is methodological and is reflected in the proverb that one case is no case. We would agree with this critique if this thesis had consisted of one case. In effect it consists of a historical case (chapter 3), a case at the global and interorganizational level (chapter 4), a case at the interpersonal or group level (chapter 5) and a case at the local or national level (chapter 6). They are embedded or nested because the aim of the thesis was to show that similar constructs can be used at different levels. We discuss this conclusion also in chapter 6. Secondly, when we first stumbled on this conclusion in chapter 3 we thought of ways to substantiate this claim and make it a more robust one, worthy of further research. We found a similar phenomenon when we studied the tourism and travel entrepreneur Pulmann. He preceded Taylor when he scripted service delivery processes on trains to maintain the highest service-quality standards. Taylorism was thus also 'invented' in a service sector. Thirdly, we discussed, in another case study in chapter 6, recent research on the innovative propensities of the Dutch economy. There the notion was again corroborated and made more precise, in the sense that service sectors that occupy intermediary positions tend to be more innovative. We therefore tentatively conclude that innovations in (tourism) service delivery processes tend to predate radical architectural innovations in manufacturing. The implications are interesting because the business models of the future might then be found in intermediary service sectors. However, we admit that it is entirely possible that further historical research might uncover that manufacturing is leading, although we do not think so. It can, for instance, be argued that Adam Smith famous example of the pin-factory to explain the division of tasks and labour did the philosophical groundwork for mass-production in market driven economies. Pins are manufactured not serviced. We would reply that Adam Smith took an example from a manufacturing sector because that is more easy to explain and understand and the concept of service was not very well developed in these times. Matter is more convincing because it can be felt, smelled and touched while a service can only be experienced. Nevertheless, the final word will not be said about this particular tentative conclusion.

The radical new architecture that we labelled the meta-script of capitalist production consists of three nodes: standardization, assembly and mass-production. The dominant design that characterizes capitalist production came gradually into being during a process

that consisted of many incremental innovations that, when combined, delivered architectural innovations and finally cumulated in a radically new architecture or meta-script of production. Now why was the tourism sector so innovative in the early days of the industrial revolution?

Cook and his son served tourists personally and they did so throughout most of their career. Being part of the process of service delivery and the process of travel script assembly gave them first hand experience. They were also asked many questions and received unsolicited feedback from travellers and co-travellers. These interactions provided them with information as to what nodes in the travel script, could be changed, inserted or deleted. They were strategically positioned to connect knowledge on the expectations of tourists with their knowledge of the workings of diverse organizations necessary to produce a travel script in- and outside the tourism industry. The peculiar characteristic of service delivery processes, the simultaneity of consumption and production, is one of the reasons that explain the innovative propensity of the tourism sector.

These facts also corroborated the central notion of the TCT-approach that the main reason organizations arise and exist is to decrease cognitive distance and in the act of doing so focus the perceptions of actors in (and around) the firm to perform actions that are valued by said actors (Nooteboom 2000). Additionally, the case of Cook underlines the importance of intermediaries. Cook and Son directly experienced the services delivered or observed the experience and they could translate newly found needs quite quickly into their business processes because the cognitive distance was small, they only needed to understand each other and themselves. Focus was more difficult to achieve because of a clash of characters but that was not a bad thing because the tension that existed between exploration and exploitation was a productive one. This tension was so apparent because the father embodied and practised an exploratory entrepreneurial mode, inspired by religious and political motivations. His son, on the other hand, was motivated to exploit. His chief concern was with balancing books. Thomas Cook incessantly explored new ideas and continually inserted new nodes in travel scripts. The result of the exploratory proclivity was that the firm occasionally teetered on the brink of bankruptcy. John Mason Cook provided the stability needed to ensure a healthy profit that consequently created room for further exploration and expansion. A firm needs to possess or control the competencies and resources that allow it to explore new possibilities for rent creation. At the same time it must competently exploit resources to sustain exploratory ventures. This structural contradiction at the individual level ensured that the firm prospered in the long-run and produced many innovations that cumulated in a societal force called tourism. We conclude that the balance between exploitation and exploration or inertia and change also constitutes a duality.

The script metaphor enables us to explain how an accumulation of incremental innovations can produce more radical forms of innovation that have an effect on national economies and global institutional arrangements such as time. We might remember that the increasing mobility of the masses led to a standardization of time in the United Kingdom. The need for National Time Table created Greenwich Mean Time. The individual annoyance of

missing trains and the complexity involved in planning transport over fixed routes standardized not only national time but also global time. A national time developed that structured global time, in that sense even time is an institution.

We also detail a business innovation to show how this innovation evolved into something much bigger than was originally intended: the invention and application of the voucher. The voucher ensured that accommodation and food at different locations were pre-arranged. Before the voucher the tour guide or individual tourists went through the following nodes of a 'destination' script. Arrive-find accommodation-negotiate-pay-find food-eat-pay-sleep-pay-leave.⁵³ This sequence is a node in a more elaborate travel script. The voucher replaced the individual competencies of travellers it made such competencies superfluous and created a new service industry. The sequence of activities was reduced to the handing over of a piece of paper appropriate to the particular destination and amenities offered. The introduction of the voucher made it possible to standardize and time the routines involved in the production of services adding to the performance of hotels and transport companies. Standardization leads to a reduction of the amount of nodes in consumer scripts. The trip is made more convenient. Once parts of scripts are collapsed into a node they become a resource. The nodes serve as building blocks that facilitate arrangement of nodes into a script in a co-constructive process, assembly. The total transformation of the travel script into pre-assembled package that can be bought as if it were a product, made it possible to mass-produce corporeal mobility (passenger-travel). The way Cook organized and tourism organizes travel satisfies the requirements of safe, easy and cheap and, had as a side effect that travel speed was produced which furthered space-time compression. Mobility and modernity are closely intertwined.

Forms of co-ordination and the cycle of discovery

Chapter 4 explored the global governance of exchange and distribution in the international tourism sector at large but with an emphasis on the interconnected international air transport networks and travel agency networks.

We detailed how a principal agency relationship created inertia in global service networks. Mutual dependence, power asymmetry in the relationship, ownership independence, absence of an alternative in the environment, the institutionalised perceptions of each other based on a common history of interactions that led to the assumption that the other is opportunistic, all structured the way in which both parties interact.

The structural origins of inertia and mistrust in network-based businesses were:

- The ways in which the networks were linked and the fact that the network structure resembled a triad as opposed to a dyad. Actors involved in negotiations feel less free because the larger publics they represent hold them accountable.

⁵³ For the sake of brevity we do not elaborate the script too much. We do not 'script' sightseeing or other leisure activities, drinking, playing, gambling, socializing, etc. etc.

- the institutional arrangements erected to safe-guard the specific investments in a global distribution system of the airline industry and to protect the sovereignty of nations, in other words the political governance mechanism of the global distribution system.
- the (institutionalized) attempt to mitigate potential and observed opportunism through the choice for an a-symmetric principal-agent relationship.
- a detailed contract with a global reach also designed to mitigate opportunism (Klein-Woolthuis 1999).
- The ability to use a veto in PACConf, the political governance mechanism, the unanimity clause is a structural barrier to change because it allows airlines strategically to block change and so long as they can block they have a competitive advantage. They can roll out their e-commerce strategies and force travel agencies to compete and collaborate on an unequal footing.

At the same time we came to the paradoxical conclusion that the more diverse the contacts in a network and the bigger the network in terms of nodes, the more rigid it becomes (as a whole) and the more a need arises to manufacture trust at the interpersonal level and to display trustworthy behaviour. Not between firms in the network but initially between delegates/interest representatives.

We concluded that the behaviour of actors in networks resembles behaviour of actors in triads and they are therefore more constrained than actors that function in a dyad, but only if the actors do not perceive an alternative in the environment of the network that delivers them the same benefits (access and ease of administration). We concluded that triads contributed to inertia if the general sentiment is one of opportunism and actors are bound by a contract. A certain degree of inertia is not a bad thing at the global, regional and national level. Stability or inertia is needed to exploit commonly agreed standards that satisfy and facilitate the 'safe', 'easy' and 'cheap' requirements that every tourism script should possess. In their turn standards contribute to flexibility because integration of innovations is easier when firms use similar information architecture and share a common language/discourse.

The similarity of the conclusions at the global and local (national) level concerning the optimal mix of co-ordination forces us to conclude that the travel sector is a truly global sector. It could very well be that the prescriptions regarding the optimal mix of co-ordination do not only apply to the tourism sector but also to new network based business in the e-commercial field. It might provide business models for the future. Although we should acknowledge that the space-time compression caused by the Internet and ICT applications is essentially the same process that supported the success of Thomas Cook. In that sense the Information revolution is a radicalisation of modernity, its final phase. So it could be that the applications of information will produce novel combinations that challenge old institutional arrangements. It could also be that the meta-script of standardization, assembly and mass-production will remain unchanged. Tourism is again at the forefront of changes that have developed as one of the first sectors to develop profit

making virtual travel agencies and travel portals. We conclude that the travel sector is nearing the stage of novel combinations. The first signs of novel combinations are there, one only has to think about the rise of low cost carriers, but the main trend is reciprocation. In reciprocation, architectures (organizational scripts) are broken down through the substitutions of nodes between parallel scripts and alliances are a preferred mode of co-operation as is obvious from the alliance formation in the airline industry. It could, however, be that anti-trust immunity will disappear in the EU region. If that happens the EU region will enter a period of consolidation. It will leave travel agencies worse off than before and they will need to start charge service fees.

If the current policy of deregulation plays out to the full the real losers will be the consumers and airlines outside the EU and the US markets because intermediaries will remain necessary to assemble complex trips at the global level. Even if airlines succeed in capturing a large share of the direct it-intermediated markets they will be faced with expenses in the areas of marketing, IT and distribution that are likely to nullify the financial gains made in the areas of commission reduction. Airlines, their association (IATA) and the global distribution system (GDS) are left to communicate and cooperate with travel agencies that assume they are untrustworthy and they have the evidence to back the claim of opportunistic behaviour. As long as anti-trust immunity remains intact in the area of ticket distribution airlines will maintain an unfair competitive advantage that allows them to capture market share at the expense of travel agencies.

A highly fragmented agency sector serves airlines well. It is very seldom that the agency sector is united, it requires, besides blatant opportunism on the part of airlines strong leadership. Such leadership and a shared problem definition (focus) is currently being provided. That is one of the main reasons airlines were so accommodating at the fifth meeting of the GCC during the PAConf in Hong Kong. They were faced by a possible crisis, a refusal to sell airline products and the threat to fight anti-trust immunity worldwide by the distribution channel that represents 85% of their ticket sales. However, we saw that all the exertions of the group members were nullified in an instant when the completely rewritten global contract, which governs all associated airlines and accredited travel agencies around the world, was not accepted by the 2002 Passenger Agency Conference in Miami.

We conclude that a small but powerful part of the global airline industry is well served by the current stalemate. As long as the old forms of co-ordination stay in place, the changes wrought by deregulation and IT in the institutional environment work in favour of the airlines. They are well served by inertia, it allows them to roll out their e-commerce strategies and force travel agencies to either compete on an unequal footing, airlines can charge lower net prices or they can time their pricing better or they force travel agencies into a relationship in which no service fees are paid but control remains unbalanced in favour of airlines. It remains to be seen if the reductions in distribution costs can offset the investments and cost increases that need to be made in other areas to compensate for the loss of part of their sales force and a substantial loss of control over the remaining travel agencies.

This brings us to the conclusion that the IDFS would be best served if it could function outside of IATA or at least that the current political governance system of the Passenger Agency Conference is replaced by a board of governors, similar to airline owned travel portals. Then the system can truly serve its two main customer bodies instead of having to pay lip service to one and engage in political entrepreneurial activities to pacify and align the views of all the airline members within PAConf. Such a prescription is also consistent with the findings of Williamson (1985) who describes such a solution as trilateral governance and it is one of the six functions the TCT-approach identifies as roles for a go-between. The system as it currently stands offers benefits. It accommodates the interests of states, businesses and consumers. It also ensures that diversity at the global and national levels is maintained. Diversity is a good breeding ground for innovations.

APPENDIXES

Appendix I: Sample Interview Questions

General information and verification of problem definition

First questions on personal data, function, age etc., then the actual interview.

Do you agree that (dis-)solving the Tension in the relationship is currently most prominent problem?

What drives the renewed interest in the relationship?

Why is it currently such an issue?

Quality and structure of the relationship

Describe the relationship between airlines and agents. (focus on qualities, characteristics) (from an emotional point of view, describe as if it were two persons having a relationship)

What kind of roles in the relations can you distinguish? (different functionalities, roles) (buy-sell, knowledge-exchange, legal, etc.)

Causes

What causes do you think lead to an increase in tension in the relation between airlines and agents?

What are the drivers that cause an increase in tension?

How did the tension in the relationship rise to such a level?

What are the drivers that cause a decrease in tension?

Consequences

What are the consequences/effects if tension increases?

What (kind of things, events, actions) cause a decrease in tension in the relation between airlines and agents?

What are the consequences/effects if the tension decreases?

Appendix II: Example of agency member input into GCC for the redrafting of the Agency program and PSAA

Ref : FP00-310/94166

Agents-Airlines Agreement

Proposals of ECTAA and UFTAA

I. Introduction

The IATA-EU Agents negotiations in 1997/98, the IATA/UFTAA dialogue within the IUCC as well as the New Millenium Task Force Report presented in February 2000, have identified a list of major problems with the current Passenger Sales Agency Agreement. In particular, they underlined that the totally unbalanced character of the Passenger Sales Agency Agreement and the unilateral IATA decision-making process concerning changes and/or revisions of the Agreement were core problems.

However, mere recognition of these two specific aspects did not allow solving the tensions, which appeared within the industry when Airlines introduced drastic changes in their commercial relationship with Agents.

At the same time, both sides of the industry consider that the survival of a general agreement between Agents and Airlines is essential. Agents and Airlines acknowledge that a standard accreditation system applied worldwide, standardization procedures (STDs) and clearing mechanism (BSP) are extremely useful to the benefit of Airlines, Agents and ultimately the consumer.

IATA has requested the exemption of the current Passenger Sales Agency Agreement to the European Commission. When IATA's request for exemption was notified, the Commission strongly advised IATA to enter into discussion with Agents in order to achieve a balanced Passenger Sales Agency Agreement, to the benefit of Airlines and Agents but more importantly to the benefit of the consumers. If discussions fail, the Commission will most probably not grant a new individual exemption to the current Agreement.

ECTAA and UFTAA are therefore in favour of the establishment of a standard agreement as a useful instrument between Agents and Airlines, based on the following principles.

II Principles of a new Agreement

1. A new Agreement between Agents and Airlines is important.
2. The Agreement should be a general basic Agreement and should be implemented on a regional basis, in order to make sure that it complies with the requirements of national and regional legislation.

3. The Agreement should take into account that while the travel Agent acts as an agent of an Airline, he is a preferred partner of the Airline for the distribution of air transport services.
4. Agents and Airlines should mutually agree on the terms of the Agreement.
5. The Agreement should be drafted in a clear and comprehensible manner.
6. The Agreement should be concluded for a fixed period. It could only be subject to revision:
 - When the fixed period expires
 - During the fixed period, only under specific conditions (agreement of both Agents and Airlines, new legal requirement, important change in the market structure, force majeure).
7. The Agreement would include provisions that are strictly necessary for the smooth running of an air services distribution system. Any business practice not addressed by the Agreement should be dealt with on a regional basis, through the competent regional decision body (e.g. Euroforum) or on a national basis, through the national APJC, depending on the issue to be discussed. For instance, EU legislation will require that some issues be addressed within the Euroforum in order to ensure full harmonization.
8. The Agreement could make reference to a Code of Conduct, as the case may be.
9. The Agreement must acknowledge that the Agent is entitled to receive a remuneration that is related to the services that he provides to the Airline.
10. The Agreement should take into account the development of electronic commerce and the tendency of Airlines to compete directly with Agents by developing their own distribution channels.
11. The Agreement should take Airline alliances into account.
12. The Agreement should maintain the technical functionalities of the current PSAA:
 - The accreditation criteria that are mutually agreed at APJC level
 - Standardization procedures (STDs, Carrier Identification Plate, Agent's IATA number, etc.)
 - The Billing and Settlement Plan.
13. The decision-making process on any of the functionalities listed under principle n° 12 or on other functionalities must be mutually agreed by Agents and Airlines.
14. The Agreement should provide that at each decision level (international, regional and national), any dispute regarding the implementation of the Agreement must be settled by an out-of-court dispute settlement procedure, unless one of the parties to the dispute disagrees.

III. The Agreement

1. Form

The Agreement should be mutually agreed by Agents and Airlines.

The Agreement should include all provisions that are necessary for the functioning of a fair, balanced, neutral and business oriented distribution system. The contract will no longer incorporate resolutions by reference that would be adopted and/or amended after the Agreement has been concluded, unless mutually agreed by both parties.

2. Parties

The Agreement should be signed between all IATA Airlines, represented by the IATA national representative and the accredited Agent.

The accredited Agent is entitled to sell the services of all IATA Members, unless otherwise agreed on an individual basis.

3. Territory

As far as Agents of the EU, the EEA, Switzerland and the European countries involved in the accession negotiations to the EU are concerned; the Agreement should apply to the entire European market. EU Agents should be entitled to sell all tickets offered for sale by Airlines within the European Union, irrespective of the place of departure. The same principle can also apply to defined regional areas, as mutually agreed.

Explanatory note

The European Commission will not accept that Agents would only be allowed to sell tickets offered for sale in their national country because it would be in contradiction with the EU Treaty provisions on the Single Market. It could be analysed as an attempt to partition the European market of sales of air tickets, by preventing Agents of a Member State, and ultimately travellers, to buy air travel services in another Member State.

4. Services

The services concerned are services provided by Agents to Airlines for the sale of air transport services (reservation, information on behalf of the carrier, issuing of tickets, collection of monies, etc.).

5. Good faith and fair dealing

In carrying out their obligations under this Agreement, the parties will act in accordance with good faith and fair dealing. All provisions of the Agreement shall be interpreted in good faith.

6. Fair competition

Airlines shall undertake to comply with rules of fair competition. Among others, Airlines shall allow Agents' bookings at the same conditions as those offered to the traveller if he books directly with the Airline or through any other distribution channels.

Explanatory note

Airlines are also, to a certain extent, Agents' direct competitors, through the development of direct sales strategies. This provision aims at preventing Airlines from offering different sales conditions when a ticket is booked through an agent or through other distribution channels developed by Airlines.

7. Accreditation

If the Agent meets the criteria, the competent national body⁵⁴ shall accredit the Agent. The competent national body shall determine the accreditation procedure.

The competent national body has sole competence to suspend and/or terminate an accreditation.

The decision of the competent body concerning the accreditation shall be subject to arbitration.

8. Standard Traffic Documents and Carrier Identification Plate

The accredited Agent may hold Standard Traffic Documents and Carrier Identification Plate. He shall use them in accordance with the rules determined by the national competent body and the carrier.

9. Billing and Settlement Plan

The accredited Agent participates in the Billing and Settlement Plan. Both Agents and Airlines in each BSP territory shall jointly agree the reporting and remitting period.

10. IATA logo

The IATA Accredited Agent may use the IATA logo on its letterhead and publicity materials.

11. Agent's information

The Airline shall provide the Agent with all necessary information related to the services offered for sale⁵⁵ as well as with the information needed by the Agent for carrying out his

⁵⁴ It is proposed that the competent national body be the APJC.

⁵⁵ Sales conditions, Flight schedule, fare types, seat availability, code shares, taxes, aircraft configuration, etc.

obligations under the Agreement. The Airline is responsible for the availability and accuracy of the information, including their entries in the CRSs.

The Airline shall keep the Agent informed of any relevant communication he may have with the Agent's customers.

12. Agent's remuneration

The Agent is entitled to remuneration on all sales of air tickets, which are made during the life of this Agreement.

The level of remuneration should be related to the services that the Agent is required to provide on behalf of the airlines at any time⁵⁶.

If an Airline wishes to modify the level of remuneration, it shall notify the Agent within a reasonable period of time and no less than 180 days before the new level of remuneration is due to apply.

Each individual Agent may charge service fees. Airlines may not state in their sales conditions that an Agent cannot charge service fees.

13. Remuneration basis

The remuneration shall be calculated on the total fare paid for the air service.

The term "total fare" refers to the price actually charged, including any charges related to the service provided. Taxes levied in accordance with government regulations shall not be included.

14. Term of the Agreement

The Agreement shall be in force for a fixed period of five years. It may be revisited at the expiration date or before, if specific conditions are met (mutual agreement of Agents and Airlines, new legal requirement, important change in the market structure, force majeure).

15. Indemnity in case of termination

In case the Airline terminates the contract for undue reasons, the Agent shall be entitled to an indemnity.

The amount of indemnity should be related to the remunerations that the Agent could have expected if the contract had remained in force until the date of expiry.

⁵⁶ Any additional services requested from an Airline to an Agent shall be remunerated accordingly.

16. Dispute settlement

Unless one of the parties disagrees, parties to a dispute arising out of or in connection with the present Agreement undertake to submit their dispute to an out-of-court dispute settlement procedure⁵⁷. The procedure should be free and easily accessible to both parties.

17. Law applicable

The Agreement shall be interpreted and governed in all respects by the law of the main place of establishment of the Agent. If a dispute arises solely in connection with the activities of a branch office situated in a place other than of the Agents principal place of business, the law of the place where the branch office is situated shall apply.

IV. Decision-making structure

The current IATA decision-making structure (PACConf) does not correspond to the needs for the implementation of an Agreement between Agents and Airlines and should therefore be revised.

ECTAA and UFTAA propose to have a three level system: international, regional and national. At each level, a bilateral body, equally composed of Agents and Airlines would be competent to manage all issues relevant to their decision level. You will find hereunder a table summarizing the proposed new structure.

⁵⁷ An out-of-court dispute settlement body, equally composed of Agents and Airlines representatives, will be set up at each decision level.

| Level | Competences | Composition | Decisions |
|--|--|---|---|
| International: This body would replace the current PAConf. It is proposed that the current GCC replaces the PAConf. | - All issues related to the general Airline/Agent Agreement - Amendments to the general Agreement | - 50% Airlines representatives - 50 % Agents representatives | Decisions are adopted if approved by: - The majority of Airlines representatives - The majority of Agents representatives |
| Regional This body would be established within defined legal entities. At European level, it is proposed to maintain the current Euroforum. | Specific regional terms Proposals for amendment to the general Agreement Election of representatives to the international decision body | - 50% Airlines representatives - 50 % Agents representatives | Decisions are adopted if approved by: - The majority of Airlines representatives - The majority of Agents representatives |
| National This body would be established in each country. It is proposed to maintain the current APJCs. | Specific national terms Accreditation BSP rules (reporting, remitting, etc.). Proposals for amendment to the general Agreement and to regional terms Election of representatives to the international decision body | - 50% Airlines representatives - 50 % Agents representatives | Decisions are adopted if approved by: - The majority of Airlines representatives - The majority of Agents representatives |

Appendix III: Example of Airline member input into GCC for the redrafting of the Agency program and PSAA

AGENCY AGREEMENT ESSENTIALS FROM AN AIRLINE PERSPECTIVE

1. What the agent is authorised to do and that sales are made as the agent of the airline and must be in accordance with the airline instructions, tariffs, rules, etc.
2. Airlines and IATA own the traffic documents, plates etc. and when a traffic document is issued the money belongs to the airline and is held in trust until properly accounted for.
3. Reporting of sales and remittance of monies to airlines and what happens when things go wrong.
4. Agent cannot use airline monies to fund other aspects of business.
5. Agent is responsible for the safe custody of the travel documents and they must be issued at the approved location.
6. The agent agrees to be bound by the rules regarding the BSP, continuing as an IATA agent, issuing tickets, keeping accounts and records, etc.
7. Airline and Agent rights and obligations (e.g. service quality levels, security and financial requirements).
8. Legal agreement must cover all types of remuneration and are often subject to other contracts between the airline and agent and that some fares have no remuneration payable e.g. net fares.
9. Legal notices covering terminations, liabilities, etc.

Discussion Points

Equitable trading environment

What becoming an IATA Agent means

- iii Fair treatment for agents
- iv Service quality – e.g. refunds, airline failure
- v Airline risks and regulation

Appendix IV: Jointly agreed principles that should guide the redrafting of the PSAA

The following principles, especially the notion of fairness guided the GCC members when producing an updated Passenger Sales Agency Agreement

Principles:

- The parties shall undertake to comply with the principles of fair competition.
- The airlines shall provide fair remuneration for the sale of air transportation.
- The agreement shall include provisions that are necessary for the functioning of a fair business orientated distribution system.

Appendix V: Event history negotiations Dutch Travel Sector after rescission of resolution O16a

This event history details the process of negotiation between a travel agency representative organization and the dominant in a national economic framework. The rescission of resolution O16a preceded by unilateral commission cuts lies at the root of the renegotiations.

2000

June PAConf agrees to the rescission of resolution O16a. This makes it no longer possible to negotiate a worldwide binding agreement on levels of remuneration or commission. Such agreements are now relegated the nation state level or regional level as in the case of the EU. Depends on the relative economic and political integration of a region.

September Sales director KLM en KLM-Benelux general manager do not preclude: “zero commissions or fees a la BA’ will become the future reality. KLM Benelux General Manager says in meetings with corporate accounts and ‘leisure’ agencies that commission will remain on average at the 7% level but also makes it clear that: ”A good agency still has a future, but it needs to develop or tap into new revenue flows and services.” And he continues with the remark that it is: “unavoidable that large companies will negotiate separate direct contracts with KLM....”.

November The Guild of European Business Travel Agents commissions an investigation that aims, through a comparison of reward- (commission) and cost-structures in Europe, to establish the average minimum costs an agency has to make in order to provide a customer with an international ticket. In the same week the KLM ‘Passage top man Mr. H. Essenberg acknowledges that the new reward structures will probably consist of a mixed bag of net fares, fees, lower commission levels and is dependent on the specific agencies KLM negotiates with. To cover the costs of an average two-leg ticket agencies must receive a compensation of 35,5 Euro according to now published GEBTA-report.

December Mr. H. Bakker CEO of the Dutch Branch of the tourism company Preussag called Travel Unie comments in a trade-journal that he expects vertical integration to increase in the tour-operating branch. Decrease of transaction costs through the eradication of double bookkeeping systems (perfect control or trust) and thus trying to eradicate passive opportunism (shirking). The KLM and VLZ announce that they’ve reached an agreement on the appropriate height and conditions of a fixed fee for international travel. Director of KLM states that this is the first global agreement at the national level after the rescission. The VLZ spokesman complimented the airline on being open and co-operative. Agreement has been made conditional that agents do not change their booking behaviour in favour of other airlines (who might pay more commission)

January Mr. Onno van den Brink from KLM Benelux restates that the continuation is dependent on whether or not other airlines around the world will follow suit with a similar agreement. The rationale provided is that the KLM would otherwise suffer a competitive disadvantage. A new round of negotiations commences between the VLZ and KLM to 'iron-out' details within the already agreed to, Zwaan-covenant. A number of issues had been 'parked' and need to be settled before the implementation date of January 2002. The focus, at this stage of the negotiations, is based on technical and exchange related administrative details and exploring and safe-guarding possible future contingencies. For instance: how to process the fixed fee via a BSP or what do we do if the implementation leads to a reduction in the volume of bookings for the KLM?

March The ANVR announces that the fee-negotiations with airlines are slow to develop and characterised by lots of friction. The KLM has made the implementation dependent on the condition that the VLZ actively promotes and encourages other airlines to follow suit. If this effort does not deliver success the whole Zwaan-covenant has to be re-negotiated.

April The negotiations proceed apace, but it becomes clear that it is hard to convince other airlines of the advantages of the Zwaan-covenant. The major stumbling block still is the ambiguity of the relationship. Or as the, then secretary of retail within the ANVR, Mr. Walter Schut puts it: "During the talks with other carriers we stressed that that an Agent wants to be compensated for the activities/services he renders to customer on behalf of the carrier." and he continues: "That current compensation is dependent to a limited extent on the price of the ticket....The fact of the matter is that expensive carriers subsidise cheap carriers....We have informed the airlines that agencies are no longer prepared to suffer a loss on cheap tickets." [If the current commission structures disappear: author's note]

May LCC Basiq air offers a 6 Euro compensation fee for tickets booked via an agent. VLZ and agents refuse to accept such an offer. CEO L. van Wijk (KLM) makes it clear that the low-cost strategy of Basiq air (transavia) has his and the companies full support. In his own words: "Low-cost operations grow rapidly in Europe. They create their own market as a supplement to what network-carriers offer. ... Transavia can therefore develop Basiq Air independent of KLM."

June The European (EU) association and world association of travel agencies (ECTAA and UFTAA) support the proposal for a Passenger Protection Plan. This fund and insurance scheme is a joint venture between IATA, UFTAA and ECTAA. CEO of Transavia (Basiq Air) states that they cannot give higher compensations because of the fact that they are operating in a low-cost fiercely competitive market. VLZ responds with a resolute no to the offer and warns the KLM (Transavia is a full daughter company of KLM, 80% ownership) that such offers endanger the Zwaan-Covenant. The retail secretary of the ANVR reflected the sentiments among travel agencies in the following way: "KLM and Transavia may say that they each have their own commercial policy, but we don't buy that. KLM even shifts routes to Transavia who, subsequently, transforms them into Basiq

Air routes that deliver agencies with a 12 Euro (6 Euro per leg) compensation instead of the agreed to 34 Euro. This is something that agencies do not accept.”

August The VLZ seriously considers withdrawing its support for the ‘Zwaan covenant’. Unsatisfactory progress during the negotiations, the hesitancy of other airlines to join, the unwillingness of the KLM to promise that the new reward structure will not be changed after a few months, the ongoing dispute about compensation from Basiq Air and the lack of support from within the agency sector are cited as the main reasons that have contributed to the considerations. KLM responds that they are not unwilling but unable to promise that they will not revert to another reward structure. If the market position of KLM deteriorates they feel they are forced to find alternative arrangements. Secondly, they felt had emphasized this point before the VLZ signed the contract. They were aware of this clause for quite some time. The chairwoman of VLZ resigns. According to her the biggest barrier to an agreement is the attitude of the big business travel agencies who feel pressured by Cortass, which is a pressure-group/interest representative of big multinational clients of business travel agencies. The chances that an agreement will be reached become slimmer and slimmer. The KLM sales manager reserves the right to introduce the fixed-fee scheme unilaterally. While at the agency side turbulence seems to prevail, the recently appointed interim-chairman already signals that he wants to leave but refuses to say why. The trade press rumours that this is due to internal tensions within the board. Headline of an article in the main travel agency trade journal reflects these rumours: “Board of VLZ is hopelessly divided.” Other airlines, European based and international ones are waiting to see if the covenant will be signed and how it works. Only if it proves to be a successful new reward structure they will consider joining the agreement. At the end of the month, the trade press announces the demise of the Zwaan-covenant. The most cited reason is the discrepancy of interests and bargaining power between the big travel agencies and small and medium sized businesses. The tension within the board of the VLZ is interpreted as symbol of this tension and the board will explain their position to their members at a general meeting on the 6th of September. KLM does not accede to the demise and argues that other airlines will adopt the new agreement quickly if they see that it works.

September The general meeting of the VLZ, held at the 6th of September, does not accept the fact that the board bailed out of the negotiations with KLM. They unanimously want the board to re-enter the negotiations, but only if the KLM is prepared to re-negotiate 4 points. Business travel agents will accept the covenant if they are compensated 100% by the KLM. In the words of the new chairman of the VLZ: “If the corporates ... will be fully compensated by the KLM for their loss of income then it will be possible for them to approve the new reward structure and contract and:

- administrative and technical problems involving ADM/ACM procedures;
- compensation problem Transavia (6/12 Euro) should be solved;
- the indicators that would induce the KLM to reverse to the old commission system should be made crystal-clear.”

At the same time the KLM negotiator and manager of KLM Mr. O. van den Brink remarks that no one will escape a flat fee environment in the near future he expects a flat-fee environment to evolve within the next 3 to 5 years. Needless to say, that this remark adds to the tension. The VLZ advises their members not to sign the '34 Euro-contract' they did not re-enter the negotiations thus far because the KLM has not indicated they wanted to re-enter the negotiations. The official page in a trade journal of the VLZ announces that the KLM is willing to return to the negotiation table.

October VLZ and KLM negotiate again, it is expected that final results will appear within a few weeks. The Dutch travel agent insurance fund decides not to compensate free (=non-package) tickets anymore. In this way travel agencies do not bear part of the costs of the bankruptcy of an airline. The PPP would take care of this gap.

November VLZ and KLM strike a deal at last. In the spirit of the polder model the secretary of the VLZ remarks that both parties: "added water to the wine and in this way we could reach a compromise." The joint press statement concludes: "all obstacles that obstructed an implementation by January 1 2002 have been resolved."

Appendix VI: Roles and business strategies for travel agencies based on Sarkar et al. 1996.

The roles the agent performs for the customer are:

Search and evaluation: intermediaries make the process of searching and the evaluation of products and/or services easier for the customer;

Needs assessment and product matching: intermediaries can supply the customer with information about the product and/or service itself and its usefulness; moreover they can be of use by identifying the needs of the customer;

Customer risk management: with each transaction, the customer takes a certain risk because of imperfect information. The intermediary reduces the risk, for example, by giving the customer the opportunity to return the product if required (in case of the travel branch in the shape of cancellation insurance);

Product distribution: intermediaries often play an important role by distributing the product and/or service to the customer.

The roles the travel agencies perform for the producer or supplier are:

Product information dissemination: informing the customer about the existence of products and/or services of the supplier;

Purchase influence: convincing the customer to buy products and/or services of the supplier;

Provision of customer information: the gathering of information about, for example, the purchasing behaviour of customers. This can be delivered to the supplier;

Producer risk management: the making of agreements about, for example, sharing risk, taking into account, for example, failures in the product or the service or fraud-prevention.

Transaction of economies of scale: services delivered by the supplier regarding 'service' are liable to economies of scale by making use of IT;

Integration of client and producer needs: a discrepancy exists between the desires of the suppliers and those of the customers. Intermediaries can play a role by matching the desires of both parties.

The last paragraph provides an overview of the strategies, agents can pursue to remain profitable or even capitalize on opportunities that present themselves in a changing environment.⁵⁸

Building blocks for Travel Agency Strategies in a Business to Business environment:

- Become less dependent on airlines by bringing the air portion down in favor of other transporters.
- Become a consolidator or cooperate with one and thus be able to negotiate low fares because of an increase in market power that are then resold with a mark-up.
- Cooperate with other agents in a network and buy as a group. Again a strategy that focuses on the consolidation of demand.
- Cooperate with preferred carriers, thus being able to earn higher levels of remuneration and share knowledge and strategies leading to unique competitive advantages through the development of relational rents.
- Cooperate with preferred big companies with a sizeable travel budget, thus being able to earn higher levels and different forms of remuneration and share knowledge and strategies leading to unique competitive advantages through the development of relational rents.

Building blocks for Travel Agency strategies in an E-Commercial environment

When the partnership between Microsoft and American Express resulted in the online travel agent Expedia an open letter was sent to many travel agents around the world. This letter stated that every Travel-agent needed to re-asses its business depending on which market(-s) they serve and the level of the penetration of IT in these markets. Given the fact that many agents are probably already familiar with the content of this letter we have taken it as a starting point to describe the different strategies open to agents. Four strategies will be discussed.

Become a communicator: interact virtually in a personal way with your customers. Use the new means of communication to reach your customers. Try to establish a more permanent relationship and use database marketing as a mean to retain customers.

Become a navigator: support the search and evaluation of your customer on the Internet. This will be appreciated and actual bookings are what you aim for in the end. Furthermore you can add value. Based on the feedback you get from your customer you can suggest additional information, tailored to the specific needs and expectations of the customer, as

⁵⁸ I am indebted to Robert Govers, the project manager at the Centre for Tourism Management during the start of the 'IATA-project'. He delivered most of the information for this particular sub-section and wrote the first versions of this appendix.

you are the travel expert. The customer will experience this as added value giving you two options: (1) use the adding of value as a strategy to satisfy and retain your customer or (2) capitalize on the opportunity by adding service fees.

Become a compiler: create your own website that connects information of different suppliers in order to create a one stop shopping possibility. Provide additional information on destinations, attractions and issues a customer is interested in. For example, information on cultural rules, inoculation, airport and tourist taxes, etc. This strategy presupposes thorough knowledge of IT-systems and substantial investments. For smaller agents that serve different market segments cooperation could be a viable strategy. The advantages of cooperation are that (1) the customer is provided with a wider range of options, (2) the investment and operational costs are shared, (3) partners can be selected that complement the services and products offered and share the same cultural and linguistic background. This should simplify cooperation and ensure that the common brand, under which all partners present themselves on the Internet, connects well to the markets the site is intended to serve. A note of caution, it is to be expected that only a small number sites per market will be profitable. In the words of Mr. Pierre Kleinhans (CEO of Leisureplanet.com, a Belgium cybermediary cooperating with Yahoo): “The merger of these two major US online travel services providers (SABRE holdings and Preview Travel) reinforces the fact that online travel is one of the fastest growing and most dynamic segments in e-commerce. It also validates our assumption that online travel will be dominated by two or three major players in each market.” Developing such a site in conjunction with IATA could be a way to restore the working relationship and give it a new impetus.

Transform your business: this strategy is particularly suited to the business travel segment. Help your business customers to handle the new technologies that are available. Create systems suiting the needs and demands of the customer and choose the right platform. Offer continuous support, guidance and advice. In other words become a travel consultant.

The strategies described in both paragraphs should be viewed as complementary and overlapping, they are building blocks. In day-to-day business reality a mix of two or more strategies will be apparent. It is precisely the combination of different strategies that can give agents competitive advantages they did not possess before.

There remain, of course, many possibilities to compete as an agent that are in use right now and will remain important in the future, the most prominent ones are:

- The ability to have personal contact with your customer, which is still the most efficient way of exchanging information.
- Facilitating the pleasure many customers get from browsing through catalogues and brochures.
- The design of the front office.

- Supplying the customers with multi-media presentations in the pre-sale and after-sale phases. This will enhance the experience, add value for the customer and increase the likelihood of repeat purchasing.
- Investing in specialized, professional and highly skilled employees.

LIST OF FIGURES AND TABLES

| | |
|---|------------|
| <i>Table 1.1: Research Tasks, activities and research phases in main case study.....</i> | <i>19</i> |
| <i>Table 1.2: Level of analysis, sensitising concepts and research techniques.....</i> | <i>21</i> |
| <i>Figure 1.1: Example of a jointly developed qualitative SD-model.....</i> | <i>22</i> |
| <i>Figure 2.1: Resource and Competence transformation.....</i> | <i>37</i> |
| <i>Figure 2.2: structural hole.....</i> | <i>42</i> |
| <i>Figure 2.3 Cycle of discovery and integration and disintegration combined.....</i> | <i>47</i> |
| <i>Figure 2.4 Differentiation in Tourism.....</i> | <i>49</i> |
| <i>Figure 4.1: Network type 1.....</i> | <i>78</i> |
| <i>Figure 4.2: Network type 2.....</i> | <i>78</i> |
| <i>Figure 4.3: Network type 3.....</i> | <i>80</i> |
| <i>Figure 4.4: Network type 4.....</i> | <i>81</i> |
| <i>Figure 4.5: IATA's international distribution system.....</i> | <i>83</i> |
| <i>Table 4.6: Rising Commission Rates.....</i> | <i>86</i> |
| <i>Figure 4.7: The distribution network of the international travel sector.....</i> | <i>91</i> |
| <i>Figure 4.8: Network level structural properties that influence the formation of interorganizational trust.....</i> | <i>95</i> |
| <i>Figure 4.9: The distribution system: a structural hole?.....</i> | <i>103</i> |
| <i>Figure 4.10: The distribution system: a 'Simmelian' Triad?.....</i> | <i>104</i> |
| <i>Figure 5.1: Problem definition Task Force.....</i> | <i>109</i> |
| <i>Figure 5.2: Service Fees in Singapore: riding the tiger.....</i> | <i>113</i> |
| <i>Figure 5.3: Successful co-operation at the national level.....</i> | <i>115</i> |
| <i>Figure 6.1: Cooperation and innovation in the Dutch Travel Sector.....</i> | <i>146</i> |
| <i>(source: Dutch Trade journals: Reisrevue, DIT-magazine).....</i> | <i>146</i> |
| <i>Figure 6.2. Minimum amount of relationships of an accredited IATA-agent.....</i> | <i>152</i> |
| <i>Figure 6.3: Power of a Principal.....</i> | <i>153</i> |

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NEDERLANDSE SAMENVATTING

Coördinatie van mondiale interorganisatiele toerisme netwerken:

veranderende vormen van coördinatie tussen reisagenten en luchtvaartmaatschappijen.

De centrale vraag van dit onderzoek luidt:

Hoe verandert de reissector, ingebed in de toerisme sector, als gevolg van veranderingen in de sector en de omgeving van de sector en hoe beïnvloeden de veranderingen de verschillende relaties die uitwisselingen tussen netwerkbedrijven mogelijk maken op het mondiale, interorganisatiele en bedrijfsniveau?

Deze brede richtinggevende vraag wordt voor twee deelgebieden uitgewerkt: coördinatie en innovatie. Daarbij wordt ook aandacht besteed aan de samenhang tussen vormen van coördinatie en innovaties. Per hoofdstuk wordt de algemene vraag toegespitst en aangepast. Deze samenvatting zal proberen de antwoorden op de centrale vraag zo goed en kort mogelijk weer te geven. Dit boek bevat zeven hoofdstukken.

Het eerste hoofdstuk begint met een schets van de achtergronden van dit onderzoek, het introduceert en bakent de onderzoeksvragen af en gaat in op de methodologie. In dit hoofdstuk (paragraaf 1.4) staat ook een Engelse samenvatting van het onderzoek.

Hoofdstuk twee introduceert de lezer in een theoretische discussie uit de sociologie. In de sociologie staat de relatie tussen actie en structuur centraal. Ik introduceer het begrip dualiteit om aannemelijk te maken dat een aantal concepten binnen de bedrijfskunde, die diametraal tegenover elkaar lijken te staan, eigenlijk functioneren als dualiteiten. Dualiteit kan omschreven worden als een complementaire tegenstelling, twee schijnbaar tegenovergestelde begrippen hebben elkaar nodig om op een hoger niveau voort te bestaan. Populair gezegd, man en vrouw hebben elkaar nodig om de soort mens te laten voortbestaan. Bedrijfskundige begrippenparen zoals exploitatie en exploratie, zijn nodig om te begrijpen hoe een bedrijf duurzaam succesvol kan zijn en competenties en middelen/bronnen zijn ook een dualiteit in de zin dat een organisatie of individu competent bronnen moet inzetten om tot resultaten te komen.

Daarna gaat dit hoofdstuk in op het feit dat bedrijven steeds meer samenwerken in en door netwerken terwijl ze ook elkaars concurrenten zijn. Deze constatering betekent niet dat bedrijven of organisaties als een eenheid van onderzoek overbodig worden, maar het laat wel goed zien dat bedrijven ingebed zijn in, gerelateerd zijn aan, en mede verantwoordelijk zijn voor het vormgeven van een zeer diverse hoeveelheid instituten en instituties die

economische, sociale en cognitive processen van uitwisseling reguleren en coördineren. Er is veel aandacht voor vormen van coördinatie omdat die organisaties verbinden en controleren en daarmee geven ze er een zekere coherentie en focus aan handelingen van mensen in die organisaties. De beweging om in netwerken samen te werken, leidt er toe dat grenzen tussen verschillende organisaties en organisatieonderdelen steeds vager en doorlatender worden.

We hebben daarom theorieën nodig die ons in staat stellen, vagere en meer permeabele organisaties en organisatieonderdelen op een coherente manier met elkaar te verbinden. Een theoretische benadering die zeer wel in staat bleek alle data in te kaderen was de Gegeneraliseerde Transactie Kosten Theorie (TKT) zoals geformuleerd door Nooteboom (2000). Elementen van deze theorie worden geïntroduceerd in het tweede deel van dit hoofdstuk. Ik heb voor het label gegeneraliseerd gekozen om te benadrukken dat het concept van transactiekosten, ontwikkeld in het veld van de institutionele economie, een veel ruimere toepassing heeft dan de economische discipline. De TKT is zo'n meer algemene theorie, omdat het elementen van economische transactiekosten theorie integreert met sociale-ruil theorieën en onderbouwt die integratie met inzichten uit de cybernetica en filosofie. Zo'n theorie maakt het mogelijk om de data die in de verschillende hoofdstukken worden gepresenteerd, te verbinden. Ook kunnen we hiermee vragen over hoe exploitatie en exploratie, inertie en verandering en bronnen en competenties samenhangen, scherper neerzetten en beantwoorden. Met name het feit dat er een theorie ontstaat waarin begrippen wederzijds aanvullend kunnen zijn en op een hoger niveau als een ondeelbaar concept naar voren komen, maakt het mogelijk om exploratie en exploitatie en bron en competentie als ondeelbaar en aanvullend te conceptualiseren. Competentie en Middel worden in de TKT bendering met elkaar door een script: instructies of kennis die leidt tot een sequentie in het competent aanwenden van resources.

Hoofdstuk drie is een historisch en inleidend hoofdstuk waarin we de interactie tussen verschillende velden in een samenleving worden geïllustreerd. Dit is nodig om te laten zien hoe innovaties in diensten tot stand komen en om tot een verklaring te komen waarom toerisme en reissector ten tijde van de industriële revolutie in Engeland zo innovatief waren. Een historische gevalsstudie, die de eerste decennia van de evolutie van de reisagent Thomas Cook beslaat, laat zien dat de geleidelijke ontwikkeling en integratie van algemene technologieën, zoals stoom en vroege telecommunicatie (de telegraaf), in scripts leidde tot één van de eerste echte mondiaal-opererende sectoren. Thomas Cook was in alle ontwikkelingsfasen een leidend bedrijf en daarom alleen al een goede gevalsstudie. Er zijn zelfs argumenten te bedenken, op basis van deze gevalsstudie, dat Thomas Cook de basis legde voor de kapitalistische produktiewijze die met fordisme wordt aangeduid. De toerismesector exploiteert nog steeds de bouwstenen, normering, assemblage en massaproductie, die Thomas Cook op een incrementele wijze ontwikkelde. De bouwstenen die tot stand kwamen via innovaties, incrementele veranderingen aan scripts, die meestal voorafgingen aan vergelijkbare innovaties in goederen producerende industrieën, zoals de auto industrie. We laten ook zien dat de balans tussen exploratie, wat veel investeringen vergt, en exploitatie, dat zich vooral richt op kosten reductie en rendementsverbeteringen, geleidelijk aan verschuift naar exploitatie met ruimte voor exploratie.

Hoofdstuk vier begint met veel achtergrondinformatie die laat zien hoe de distributierelatie tussen reisagenten en luchtvaartmaatschappijen is ingebed en is geëvolueerd. In paragraaf 4.2 wordt de structuur van de uitwisseling van geld en informatie uiteengezet en staan we stil bij het feit dat toerismesystemen bestaan uit verschillende elkaar overlappende netwerken van onafhankelijke bedrijven en aan de natuur ontleende bronnen. Die netwerken worden op hun beurt gereguleerd in hun gedrag door verschillende institutionele omgevingen en institutionele arrangementen. Verschillende vormen van coördinatie reguleren ook de relaties die de bedrijven met elkaar verbinden. In paragraaf 4.3 wordt dieper ingegaan op het systeem van internationale ticket distributie. Ik geef een gedetailleerd overzicht van de verschillende economische en politieke niveaus en relaties die betrokken moeten worden bij een analyse van de mondiaal gereguleerde distributierelatie. Extra aandacht wordt besteed aan de vormen van coördinatie die de relatie reguleren. We schetsen, in de vorm van scenario's, mogelijke consequenties voor de reissector op mondiaal niveau en het distributiesysteem dat de relatie operationeel ondersteunt.

In hoofdstuk vijf bekijken we dezelfde gevalstudie op groepsniveau. In 1999 werd een werkgroep van diverse hooggeplaatste betrokkenen benoemd met de taak te kijken hoe de relatie tussen reisagenten en luchtvaartmaatschappijen verbeterd kon worden. Als de groep tot consensus over een oplossingsrichting zou komen, moest zij het politieke besluitvormingsorgaan IATA, dat het distributiesysteem en daarmee de relaties controleerde, haar voorstellen tot verbetering van die relatie voorleggen. De werkgroep slaagde er in een vast onderdeel van de overlegstructuur te worden en de onderhandelingen duurden zo'n vier jaar. De werkgroep bereikte na één jaar onderhandelen consensus over de belangrijkste wijzigingen en deze werden unaniem door de luchtvaartwereld geaccepteerd. De uitwerking van die besluiten in een gedetailleerd contract werden niet geaccepteerd door de '2002 Passenger Agency Conference (PACConf)' in Miami.

In het zesde hoofdstuk komt de aandacht voor de relatie tussen innovatie en coördinatie (zie hoofdstuk 3) weer terug maar nu op het nationale niveau. De Nederlandse reissector staat hier centraal. Coördinatie van interorganisatorische relaties, de manier waarop vertegenwoordigers van reisagenten en luchtvaartmaatschappijen met elkaar interacteren, en innovatie komen in dit hoofdstuk samen aan bod. Er zijn meer aanwijzingen en verklaringen waarom de toerimesector en haar cluster van op diensten geïntendeerde bedrijven innovatief zijn. Zulke clusters zijn meer innovatief omdat ze een intermediair zijn. Ze moeten daarom de competentie van het overbruggen van cognitieve afstand en het vertalen van verschillende gedachtenstructuren beheersen. Dit geldt ook voor reisagenten. Zij zitten tussen 'werelden' in en overbruggen deze en zijn dan ook vaak 'structurele gaten' en dat maakt het mogelijk om nieuwe kansen te zien en informatie te gebruiken als een bron om netwerken te herschikken. Een klant of contact op locatie kan leiden tot een nieuwe aanbieder of bestemming.

De vierde paragraaf wijdt zich weer aan de vraag hoe coördinatie van de relatie, namelijk die de internationale ticketdistributie, moet worden vormgegeven. De conclusies komen in sterke mate overeen met de conclusies van de hoofdstukken vier en vijf. Daar concludeerde ik dat simulatie van een hiërarchie tussen verschillende netwerken via een

contract mogelijk is als er compensatie wordt geboden voor de diensten die een reisagent namens of voor een luchtvaartmaatschappij levert. Op het mondiale niveau is het vooral belangrijk om deze vorm van coördinatie te gebruiken om standarisatie, eenheid in procedures en stabiliteit te garanderen. Dit werkt echter alleen als reisagenten gecompenseerd worden voor de diensten. Zij leveren immers zeggenschap in. Als dit contract mondiaal geldt, dat wil zeggen voor alle reisagenten die zulke tickets mogen verkopen, dan is dat ook van toepassing op Nederland. De inertie die deze vorm van coördinatie met zich meebrengt kon hier gedeeltelijk worden voorkomen, of in ieder uitgesteld, door de mogelijkheid om nauwe en intensieve contacten te onderhouden die vergemakkelijkt worden door de kleine afstanden in Nederland. Daarnaast is het zo dat stabiliteit standarisatie bevordert, maar ook dat het diffusie van innovaties vergemakkelijkt. Initiatieven en voldoende middelen zijn belangrijk om de diffusie van een standaard tot een succes te maken. Standarisatie heeft als voordeel dat het de snelle diffusie van innovaties toelaat. Als het MKB in de reiswereld dezelfde standaarden gebruikt als de grote internationale ondernemingen is het makkelijker succesvolle formules te integreren. Grote internationale ondernemingen zijn dus gebaat bij standarisatie maar ze moeten oppassen voor verstarring en daarom is het goed dat er in het netwerk kleinere ondernemingen zijn die kunnen experimenteren. Als een bepaald idee dan succesvol blijkt kan dat makkelijk geïntegreerd worden.

In hoofdstuk zeven laat ik zien dat een Gegeneraliseerde Transactie Kosten theorie in staat is om hetzelfde fenomeen, namelijk dat van de coördinatie van de relatie tussen reisagenten en luchtvaartmaatschappijen en innovatie, op verschillende niveau's te bestuderen. De conclusies richten zich voornamelijk op de beantwoording van de twee deelvragen die wij over het fenomeen stelden.

We beginnen met de vraag naar de coördinatie van de relatie. De omgeving waarin de relatie van de resisector gecoördineerd moet worden, de toerismesector, is zeer concurrerend omdat diensten makkelijk imiteerbaar zijn, er makkelijk van partners gewisseld kan worden en er relatief lage toetredingsbarrières bestaan. Dat geldt sterker in minder gereguleerde economieën. In meer complexe gereguleerde economieën wordt meer van informatie technologie gebruik gemaakt en dat maakt toetreding een stuk lastiger. Met name het internet maakt prijsvergelijking en boeken erg makkelijk. Dit leidt tot een verdere druk op de prijzen in de markt en nog lagere marges voor reisagenten en luchtvaartmaatschappijen. Dit resulteert in sector waar men zich zeer bewust is van de mogelijkheden van opportunistisch gedrag en zich ook daadwerkelijk zo gaat gedragen. Als opportunisme van de ander wordt verondersteld, hoe moet zo'n relatie dan gecoördineerd worden om toch productief te zijn? Codificatie is dan noodzakelijk. Internalisatie door het creëren van een bedrijfscultuur is uitgesloten; de sector is te divers en gefragmenteerd. De wet in de vorm van contracten moet voldoende vertrouwen in de voordelen die relatie oplevert, opwekken. Deze maatregel is echter niet voldoende maar moet aangevuld worden met een verandering in de zeggenschap waarbij alleen een raad van toezichthouders het distributiesysteem controleert. Die raad moet dan wel in staat zijn om vertrouwen van reisagenten en luchtvaartmaatschappijen op te wekken als het wil overleven in een in toenemende mate gedereguleerde economische omgeving.

De toerismesector is innovatief om een aantal redenen. Ten eerste zijn delen van de toerismeindustrie gericht op exploratie of emancipatie. Ten tijde van de industriële revolutie lag de nadruk op het verkrijgen van het recht op mobiliteit. Hedentendage is mobiliteit iets wat vanzelfsprekend wordt gevonden en is de aandacht meer gericht op vraagstukken van duurzaamheid en eco-toerisme. De variëteit van de inhoud van toerisme cripts en de hoeveelheid contacten die daarvoor onderhouden moeten worden is de tweede verklaring. Afwisseling stimuleert creativiteit. De derde reden is de gelijktijdigheid van productie en consumptie. Producenten en consumenten ontmoeten elkaar tijdens gedeelten van het dienstverleningsproces. Het feit dat toerisme fungeert als een ‘doorgeefluik’ naar andere dagelijkse bezigheden zoals werk, ontspanning en omgevingen als de huiskamer is de laatste reden die het innovatieve karakter van de toerisme sector verklaard. We doen nu veel dingen dagelijks die heel erg toeristisch waren in de dagen van Cook.

De reissector is sterk aan verandering onderhevig en het lijkt erop dat een verschuiving van de vormen van co-ördinatie optreedt, onder invloed van nieuwe IT-toepassingen en voortschrijdende deregulering. De oude institutionele arrangementen lijken verder af te brokkelen en vervangen te worden door relaties en vormen van coördinatie die passend zijn voor een markt zoals die zich in de Verenigde Staten heeft ontwikkeld.

CURRICULUM VITAE

Jaco Appelman obtained his MA-Degree at the Faculty of Social Sciences at the University of Nijmegen. The subject of his MA-Thesis was the impact of rapid (uncontrolled) tourism development on two beaches of the Island of Koh Samui, Thailand. After a period of working as a lecturer, study coordinator and advisor at the University of Nijmegen he obtained a PhD Project at the department of Marketing Management and the Centre for Tourism Studies of the Erasmus University. The subject of the thesis is how global interorganizational networks should be coordinated to simultaneously enhance exploitation and stimulate exploration (innovations). His current position is assistant professor at the University of Technology Delft at the section of Systems Engineering and director of the Group Decision Room facilities of the Faculty of Technology, Policy and Management. Concerning research three areas of interest are pursued:

1. how convergence activities using (distributed) GroupSupportSystems can best be designed and facilitated, and;
2. the development of a modelling language based on thinklets to support the design of electronically supported meetings.
3. Input from both streams of research should inform how Simulation (building blocks) and Group Support Systems can be integrated to support the design and the co-ordination of large technical projects and organizations more effectively.

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Governance of Global Interorganizational Tourism Networks:

Changing forms of co-ordination between the travel agency and aviation sector

This thesis has as its object of analysis the co-ordination and evolution of global inter-organizational networks that produce corporeal mobility: the travel agency and aviation sector. These networks are part of one of the largest and oldest global economic sectors, tourism. This thesis tentatively concludes that economic sectors where producer and consumers meet in service encounters are prone to be innovative. However, contrary to the 'accepted wisdom' that networks are flexible, highly adaptive structures that promote collaboration this inter-organizational network is characterized by a high degree of inertia, high levels of tension and conflict and low levels of collaboration. When researched at the national level the same networks were found to be highly innovative and to create many backward linkages. Answers to these seemingly contradictory observations focus on the way the sectors are embedded in institutional arrangements, the forms of co-ordination that govern the distribution relationship and the characteristics and structure of relationships. Conceptually, elements of a generalized theory of transaction costs are tested. One of the main conclusions is that competence and resource based approaches are mutually supportive and not exclusive in explaining change and inertia.

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