Collaborating with Competitors: Mechanisms That Mitigate Coopetitive Tensions Among Member Firms in Accounting Associations and Networks

Kenneth L. Bills  
Sam M. Walton College of Business  
University of Arkansas  
kbills@walton.uark.edu

Christie Hayne  
Gies College of Business at Illinois  
University of Illinois at Urbana-Champaign  
hayne@illinois.edu

Sarah E. Stein  
Pamplin College of Business  
Virginia Tech  
sestein@vt.edu

Draft Date: April 2018

Acknowledgements: We would like to sincerely thank the many members of the accounting firms who agreed to participate in this research. We also appreciate the helpful comments from Matthew Cobabe, Jeff Pittman, Kecia Smith, and Delia Valentine as well as workshop participants at Virginia Tech and West Virginia University.
Collaborating with Competitors: Mechanisms That Mitigate Coopetitive Tensions
Among Member Firms in Accounting Associations and Networks

ABSTRACT

Many organizations take a partnering approach to address resource constrains and global challenges by forming alliances with other organizations that are traditionally viewed as competitors. In the accounting industry, many small firms align themselves with other small firms in accounting associations and networks (“AANs”). However, AAN membership creates a paradoxical environment where member firms face simultaneous incentives to foster cooperative relationships and share information and expertise while also protecting core competencies that could increase the competitiveness of their rivals. We conduct 45 interviews with accounting firm partners, AAN leadership, and other professionals to investigate the mechanisms that mitigate these tensions. Our findings, informed by coopetition and IOR theory, indicate that AAN member firms are willing to share resources with rival firms because of the transactional mechanisms (i.e., contractual agreements, governance structure, member firm selection, and monitoring processes) and relational mechanisms (i.e., trust, social ties, and reciprocity) in place. Importantly, transactional and relational mechanisms appear to be complementary in this setting since transactional mechanisms inspire confidence among cooperating firms and allow for the development of relational mechanisms over time. Our research enriches existing accounting literature, provides a new perspective for practitioners, and contributes to an emerging theory of coopetition.

Keywords: coopetition; transactional mechanisms; relational mechanisms; associations and networks; interorganizational relationships; small accounting firms
1. Introduction

The complexity and uncertainties involved in today’s ever-changing globalized business environment encourage organizations to seek new ways of doing business in response to these challenges. Many companies—especially small firms that lack resources to cope with these challenges—take a partnering approach by entering strategic alliances with other organizations that are traditionally viewed as competitors (Devece, Ribeiro-Soriano, and Palacios-Marqués 2018; Levinson and Asahi 1995; Morrison and Mezentseff 1997). Such arrangements create a paradoxical environment in which tensions arise between fostering a cooperative relationship and protecting core competencies that could increase the competitiveness of rivals (Fernandez and Chiambaretto 2016; Gnyawali and Park 2009; Le Roy and Czakon 2016). This study explores strategic alliances between small accounting firms—often referred to as accounting associations and networks (“AANs”)—to gain an understanding of the mechanisms that enable cooperation and add insight to this interesting puzzle of why firms are willing to share information and expertise with other member firms that are considered competitors while expecting uncertain benefits in return.¹ We use field study methods based on interviews with 45 accounting firm partners, AAN leadership, and other professionals to investigate this research question.

Prior interorganizational relationship (“IOR”) research suggests that strategic alliances can help organizations overcome skill and resource gaps, enhance their legitimacy, and gain access to new markets (Morrison and Mezentseff 1997; Oliver 1990; Varadarajan and Cunningham 1995). In the accounting industry, Bills, Hayne, and Stein (2018) provide evidence on how small accounting firms leverage their AAN membership to address these issues and discuss the related implications for audit quality. In this study, we do not address firms’ decision to enter into AANs

¹ Approximately 40 AANs exist in the market for small accounting firms, with cumulative revenues approaching $50 billion (PAR 2015). On average, these AANs have existed for over 30 years and more than 90 percent of the top 300 accounting firms in the U.S. elect to join an AAN. As an indication of their significance, member firms audit approximately 75 percent of the market share of publicly traded companies that engage small accounting firms (Bills et al. 2018).
or how they are used, but rather we seek to understand the paradox that arises in this type of strategic alliance and the mechanisms that enable firms to manage the tensions between cooperation and competition. In doing so, we draw upon coopetition research, which is a developing organizational theory (Bengtsson, Kock, Lundgren-Henriksson, and Näsholm 2016; Le Roy and Czakon 2016), to perform our analysis and understand our data. In addition, we also draw on IOR research more generally in areas related to the distinction between transactional and relational mechanisms that may be used in AANs to mitigate the coopetitive tensions (Cao and Lumineau 2015).

Whereas each of the Big 4 and Second Tier firms operate as one legal entity with city-based practice offices across the U.S., small accounting firms only have offices in regionally-based locations. The Big 4 and Second Tier firms are also members of international networks that use a common brand name worldwide, while smaller U.S. firms that are members of AANs seldom adopt the AAN brand in their firm name and maintain their autonomy from other firms. Consequently, small firm AANs represent a unique setting to examine coopetition given that independently owned firms in the U.S. come together as members of the same AAN to collaborate while also competing with one another in the marketplace. We note that these coopetitive tensions can occur within both the audit and tax functions of these small accounting firms.

Despite small firms’ ability to access necessary resources and enhance their legitimacy through AAN membership, competition among member firms is the most prevalent challenge described by partners of these AANs (Bills et al. 2018). Specifically, respondents cited various

---

2 The Big 4 accounting firms include Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP; while the Second Tier firms include BDO USA LLP, Crowe Horwath LLP, Grant Thornton LLP, and RSM US LLP.

3 The AICPA indicates that firms are deemed to be part of a “network” if they share one or more of the following characteristics: (1) common brand name, (2) common control, (3) profits/costs, (4) common business strategy, (5) significant professional resources, or (6) common quality control procedures (AICPA 2014, Section 1.220.010). Member firms of a network must be independent of the financial statement audits and review clients of other firms within the same network. Alternatively, small accounting firms in the U.S. do not share common procedures or systems and they generally retain their own brand identity (e.g., CliftonLarsonAllen and Rehmann are both independent U.S. member firms within the AAN called Nexia International). Refer to Table 1 for further information about small firm AANs.
instances of competition with one another directly (i.e., proposing on the same client, recruiting employees) or more generally (i.e., operating in similar markets or regions). Respondents also noted that competition is on the rise due to organic firm growth as well as merger and acquisition activity, which both increase the likelihood of operating in the same market or region as another member firm. Our interviews identified instances when partners expressed hesitancy to share too much information with professionals at other firms with whom they were directly competing.

Given this tension in small firm AANs, we explore the mechanisms that foster a willingness to work together and share information in the presence of both competition and collaboration. Existing IOR research suggests that transactional and relational mechanisms facilitate the coordination of resources across parties in an IOR while also mitigating the risk of opportunistic behavior (Bouncken, Clauß, and Fredrich 2016; Hoetker and Mellewigt 2009). Transactional mechanisms include the rules and incentive systems that govern interparty exchanges (Devece et al. 2018). These mechanisms specify the rights and obligations of IOR members based on characteristics that can be defined, monitored, and enforced (Bouncken et al. 2016; Poppo and Zenger 2002). In contrast, relational mechanisms refer to the extent to which the IOR is governed by social relations and shared norms (Cao and Lumineau 2015; Devece et al. 2018). Relational mechanisms operate in the moment rather than requiring the parties to stop and reference the formalized “rules” (Hoetker and Mellewigt 2009; Uzzi 1997). While both mechanisms receive significant attention in the IOR literature, less is known about the role of and interplay between these mechanisms in coopetitive settings (Bouncken et al. 2016; Grafton and Mundy 2017).

Our interview data reveal several transactional and relational mechanisms that respondents describe as being contributors to their willingness to collaborate and share information with other member firms. The transactional mechanisms include contractual agreements between member firms and the AAN, the vetting process that occurs before firms are permitted to join an AAN, and
the monitoring process that takes place after firms join an AAN. Additionally, an AAN’s governance structure includes leadership teams and liaisons tasked with overseeing the interactions between member firms and encouraging collaborative efforts over competitive actions. Alternatively, the relational mechanisms commonly identified by respondents include trust, social ties, and reciprocity. Trust refers to the partner’s confidence that professionals at another member firm will perform in a predictable and mutually acceptable way (Dodgson 1993; Nooteboom, Berger, and Noorderhaven 1997), while social ties involves the relationship-building between partners that creates a sense of obligation between them. Finally, reciprocity arises when a partner responds to friendly behavior with friendly behavior without expecting a benefit in return (Fehr and Gächter 2000). Since it would be impossible to specify all of the transactional details and terms of member firm interactions, our interview data indicates that relational mechanisms are also important for balancing cooperation and competition among AAN member firms. Importantly, transactional mechanisms appear to provide a starting point in initial AAN exchanges that inspires the confidence of member firms in their collaborations. Since relational mechanisms take time to develop, these transactional mechanisms provide the foundation for trust, social ties, and reciprocity in AANs. As a result, relational mechanisms appear to be complementary to transactional mechanisms in this setting (Cao and Lumineau 2015).

Our research provides several contributions to existing literature and practice. First, it enriches our understanding of the coopetitive tensions involved in AANs and provides evidence of the mechanisms that foster a willingness to share information in the presence of both competition and collaboration. In doing so, we introduce theory related to coopetition that has not previously been employed to understand the accounting industry. The accounting industry provides a unique setting not previously examined in related research as it is in a service industry
which emphasizes the values of integrity and professionalism.\textsuperscript{4} Relationships and human capital are important features of this environment that may influence how professionals interact when dealing with coopetitive issues. Second, our study responds to calls for research that tests predictions from the IOR literature (Bouncken, Gast, Kraus, and Bogers 2015; Le Roy and Czakon 2016) and explores theory on managing the coopetition paradox (Fernandez and Chimbaretto 2016). For example, Le Roy and Czakon (2016, 5) indicate that a “closer examination of ways of managing coopetition is critical to develop a theory of coopetition” highlighting that “research on these questions has been mainly theoretical… [and, hence,] empirical studies to date are very rare.” Moreover, relatively few empirical studies focus on coopetitive arrangements involving small and medium-sized enterprises, despite the potential benefits of coopetition to this type of organization (Bouncken et al. 2015). We expect this study to be of interest to researchers as it helps bridge the gap between practice and theory by providing rich descriptions of “real-life” challenges directly from practitioners. Finally, we expect this study to be of interest to practitioners considering joining an AAN or currently facing the coopetitive tensions associated with AAN membership as well as AAN leadership concerned with fostering collaborative environments within their AANs.

2. Context and Theoretical Lens

Cooperation theory

Within IOR research, cooperation and competition were historically viewed as opposite ends of a continuum. However, over the past two decades, studies began to conceptualize cooperation and competition as distinct but interrelated dimensions of IORs (Lado, Boyd, and Hanlon 1997). This shift was greatly influenced by the business practices of Ray Noorda, the former CEO of Novell, and his coinage of the term “coopetition” (Brandenburger and Nalebuff 1996; Dowling, Roering, \textsuperscript{4}The two relevant studies that explore mechanisms to reduce coopetitive tensions are Bouncken et al. (2016) and Grafton and Mundy (2017). Bouncken et al. (2016) examine vertical alliances in the German medical device industry while Grafton and Mundy (2017) examine a sales alliance in the U.K. trade publishing sector.}
Carlin, and Wisnieski 1996; Fisher 1992). Existing literature defines coopetition as “a paradoxical relationship between two or more actors simultaneously involved in cooperative and competitive interactions” (Bengtsson and Kock 2014, 182). Coopetition theory is emerging as a relatively new organizational theory that explores the coopetitive tensions arising from this paradoxical relationship (Bengtsson et al. 2016; Devece et al. 2018; Le Roy and Czakon 2016; Poole and Van de Ven 1989).

The primary motivations for coopetitive relationships include the development of competitive advantages and technological innovations, exploration of international opportunities, and access to needed resources (Bengtsson and Kock 2014). Cooperation through IORs is especially important to smaller firms because they can join together to overcome resource disadvantages relative to larger competitors while also retaining their own specialization and flexibility (Bouncken and Kraus 2013; Devece et al. 2018). Bengtsson, et al. (2016, 5) suggest that “[t]he idea behind coopetition is that dual benefits can be achieved as a result of the driving forces of competition while simultaneously gaining access to resources through cooperation.” However, coopetition is a source of additional risk for firms as collaborating with rivals increases their competitiveness and may result in the costly transfer of proprietary information (Fernandez and Chiambaretto 2016; Gnyawali and Park 2009). The competing incentives of sharing knowledge to obtain the benefits of collaboration and protecting knowledge to prevent the progress of competitors creates a challenging dynamic for organizations to maneuver.

**Coopetition in AANs**

We focus on small firms with AAN membership in this study and, as a result, we exclude the networks of Big 4 and Second Tier firms. While the latter is the focus of much research attention (Brown, Cooper, and Greenwood 1996; Cooper, Rose, Greenwood, and Hinings 2000; DeFond and Zhang 2014; Greenwood, Hinings, and Brown 1990), coopetition does not exist within these
networks because each of the Big 4 and Second Tier firms operates within the U.S. as a single legal entity with multiple practice offices. In contrast, AANs comprised of small accounting firms are strategic alliances that collaborate for personal gain but retain their independence and individual identity. Approximately 40 small firm AANs exist in the marketplace, with more than 5,400 member firms worldwide (1,500 member firms in the U.S.) (PAR 2015). This type of AAN can vary on several dimensions including its mode of governance, geographic coverage, topical emphasis, member firm size, and geographic exclusivity as detailed in Table 1.

[Insert Table 1 here]

AANs geared toward smaller firms play an important role in the accounting industry by helping these firms mitigate challenges arising from their limited size, geographic reach, and visibility by providing access to necessary resources and enhancing their firms’ legitimacy (Bills et al. 2018). Firms belonging to AANs gain mostly private benefits from their membership (i.e., benefits that accrue to individual partners of a firm), such as learning from the expertise and best practices of other member firms and using the manpower of other firms to address the needs of their own clients. Member firms also obtain some common benefits (i.e., benefits that accrue to all member firms in the AAN), such as working with other member firms to jointly serve a client. Despite these benefits, AAN membership poses a significant challenge to member firms. Specifically, sharing information and expertise with other AAN members improves the capabilities of the firm’s direct competitors. Firms within the same AAN typically compete in the same market segment (e.g., audits of middle market companies) and in similar industries. Member firms may also be located in the same geographic region or city in the U.S. Therefore, these paradoxical tensions within AANs offer a rich opportunity to examine coopetition theory.

Reflecting on small accounting firms alongside coopetition theory highlights various concerns. Many firms invest significantly in their AAN through both time/effort and membership
fees/costs. At the same time, they are at risk of uncooperative and opportunistic behavior. In particular, accounting firms and their partners may be concerned about unintended transfers of expertise and know-how, the loss of current and prospective clients, or reputational effects of substandard work performed by other member firms (Das and Teng 1998; Hoetker and Mellewigt 2009). The preferred outcome in an AAN arrangement would be for member firms to balance competition and cooperation. Ideally, a firm pursues its own best interests while also supporting other member firms and the overall operation of the AAN. Because AANs have enjoyed long tenures and apparent success—despite relatively high IOR failure rates in other industries (Lunnan and Haugland 2008; Kale and Singh 2009)—we seek to understand the mechanisms that allow cooperation and collaboration among member firms even though these firms compete with one another for clientele and human capital.

**Transactional and relational mechanisms**

Governance mechanisms facilitate the coordination of resources across parties in an IOR while also mitigating the risk of opportunistic behavior (Bouncken, Clauß, and Fredrich 2016; Hoetker and Mellewigt 2009). Existing research suggests that these mechanisms take two distinct forms—transactional mechanisms and relational mechanisms. While these mechanisms receive significant attention in the IOR literature (Cao and Lumineau 2015), less is known about the role of and interplay between them in coopetitive settings (Bouncken et al. 2016; Grafton and Mundy 2017).

On the one hand, research drawing on transaction cost economics argues that increases in exchange hazards in IORs will lead to greater use of transactional mechanisms to reduce these risks (Hoetker and Mellewigt 2009; Poppo and Zenger 2002). These transactional mechanisms

---

3 Prior research provides evidence that the rate of strategic alliance termination ranges from 30 to 70 percent (Dyer, Kale, and Singh 2001; Kale and Singh 2009; Kogut 1989; Lunnan and Haugland 2008; Park and Russo 1996; Park and Ungson 1997).

6 IOR and coopetition research often refers to these mechanisms as “governance” or “governance mechanisms.” We focus on the term “mechanism” throughout to distinguish from AAN governance structures such as shared or lead organization governance models discussed in Table 1. As noted in Hoetker and Mellewigt (2009, 1027), governance mechanisms include the actual operative practices and activities that support the overarching governance structure.
often focus on the short term and include “arm’s-length, depersonalized exchanges, a reliance on financial parameters, and the drafting and implementation of formal contracts” (Ferguson, Paulin, and Bergeron 2005, 217). To reduce opportunism and increase control in alliances, transactional mechanisms govern interparty exchanges by specifying the rights and obligations of alliance members based on characteristics that can be defined, monitored, and enforced (Bouncken et al. 2016; Poppo and Zenger 2002). Prior research indicates that contractual agreements, the governance structures, as well as member firm selection and monitoring processes are transactional mechanisms that help mitigate coopetitive tensions (see Table 2). For example, the “rules” outlined in contractual agreements or formalized in selection/monitoring processes prescribe how firms belonging to IORs should engage with and support one another, and how issues will be managed. Prior research also identifies the governance structure of IORs, including particulars such as how it is structured and managed, as another transactional mechanism minimizing coopetitive tensions. Accordingly, in the AAN setting, we expect participants to identify and share examples of their reliance on these transactional mechanisms as they describe the challenges associated with AAN membership and opportunities to collaborate with competing member firms.

[Insert Table 2 here]

On the other hand, relational mechanisms are based on reciprocal exchanges that are embedded in social relationships (Granovetter 1985). Relational mechanisms require that “the enforcement of obligations, promises, and expectations occurs through social processes that promote norms of flexibility, solidarity, and information exchange” (Poppo and Zenger 2002, 710). Therefore, in contrast with transactional mechanisms, relational mechanisms take time to develop and rely on interactions between parties that cannot be measured or pre-specified. Relational mechanisms operate in the moment or “on the fly” (Hoetker and Mellewigt 2009; Uzzi 1997, 49), rather than require the parties involved in a collaborative relationship to stop and
reference the formalized “rules.” Key relational mechanisms noted in prior research include trust, social ties (i.e., personal relationships), and reciprocal exchanges (see Table 2). These relational mechanisms—when two parties develop a trusting relationship, are familiar with one another due to prior or personal relationships, or feel a sense of obligation to help one another—help minimize coopetitive tensions. Accordingly, in the AAN setting, we expect AAN participants to identify and share examples of their reliance on these relational mechanisms as they describe the challenges associated with AAN membership and opportunities to collaborate with competing member firms.

Prior research indicates that IOR success depends on the types of mechanisms in place (Cao and Lumineau 2015). For example, certain coopetitive alliances may focus on either transactional or relational mechanisms as a singular form of governance while others may employ both mechanisms simultaneously as a plural form of governance (Bouncken et al. 2016). The singular view suggests that transactional and relational mechanisms are substitutes such that the use of one type decreases the need for or benefits of the other (Huber, Fischer, Dibbern, and Hirschheim 2013; Li, Xie, Teo, and Peng 2010). Alternatively, the plural view indicates that transactional and relational mechanisms are complements such that the use of one type increases the need for or benefits of the other (Poppo and Zenger 2002; Cao and Lumineau 2015; Liu, Luo, and Liu 2009). In our setting with AANs, we expect that both types of mechanisms will be mutually reinforcing to manage the coopetitive tensions.

3. Research Method

We leveraged recent interview-based field studies (Bills et al. 2018; Cohen, Krishnamoorthy and Wright 2017; Griffith, Hammersley and Kadous 2015) as well as guidance on field study methods (Power and Gendron 2015; Malsch and Salterio 2016) to inform the design of our study.

Sampling strategy

We referred to the 2015 Annual Directory of CPA Firm Associations and Networks as published
in the *Public Accounting Report* for the full population of 40 AANs that exist for small accounting firms (PAR 2015). From this database of accounting firms, we identified a set of small firms with membership in a wide range of AANs in which to conduct our interviews. Our objective was to recruit two member firms in each AAN to minimize the risk of one member firm having a non-representative view of the AAN (e.g., a member firm that is larger than other members might rely less on other firms). We sought to diversify as many characteristics as possible in our selection, including member firms from varying states in the U.S.; smaller and larger member firms according to revenues, number of partners, and number of offices within the same AAN; older and more recent AAN foundings; and AANs that labeled themselves as associations or networks. While we selected firms of varying sizes, we intentionally avoided selecting extremely small firms (e.g., sole proprietorships) since these firms may not offer a variety of services or have a need to reach outside their local area for resources.

As is common in field research, we obtained most of our contacts through personal interactions or snowball referrals. Upon exhausting our own contacts and any introductions that respondents provided to other firms, we carefully identified and cold-called remaining target firms to fulfill our intended sampling strategy.\(^7\) Table 3 provides descriptive data for each firm and the AAN to which it belongs.

[Insert Table 3 here]

From this list of firms, we invited participants that we believed would have sufficient exposure to their firm’s AAN. We interviewed at least two partners within each firm to minimize the chance of collecting biased or extreme views.\(^8\) Though the majority of our interviewees include partners currently focused on client service (audit or tax), our sample of partners also includes

\(^7\) During our recruiting, one firm declined to participate and two firms did not respond to our invitation.

\(^8\) Early on, we had several conversations with individuals who held other ranks (e.g., staff accountant, manager) or other roles (e.g., director of information systems, chief human resources officer) in these firms and determined that such positions did not afford them sufficient exposure to or familiarity with their firms’ AAN membership. We also formally interviewed a senior manager to confirm this assessment and learned that partner insights were much richer.
representation from chairman/CEOs, managing partners (of offices; of firms), founding partners, board members (of member firms; of AANs), and AAN liaisons. On average, these participants had 26 years of public accounting experience and 15 years of experience as a partner across various industries and areas of expertise. To gain additional perspectives, our sample also includes representatives from the AAN leadership, a representative of a professional organization, and a former managing partner of an accounting firm that does not currently belong to an AAN. Table 4 provides additional details for our interview participants.

[Insert Table 4 here]

**Interviews**

We conducted interviews with 45 participants for this study. Interviews were semi-structured and averaged 55 minutes in length (see Table 4 for details). Eight of the interviews were conducted face to face (the remainder by phone) and 31 of the interviews were conducted by two coauthors (the remainder were conducted by a single coauthor). During each interview, we noted key insights and additional comments made by the respondent once the recorder was turned off. Five of the interviews were not recorded due to interviewee preferences; in these instances, we took detailed notes during the interview. We employed professional transcription services for the recorded interviews and each transcript was carefully reviewed for accuracy and completeness by two members of the research team.

During interviews, we aimed to minimize our words and, instead, actively listened to participants. We prepared a semi-structured interview script with prompts and follow-up questions, but our objective was to encourage participants to talk about the subject in detail and without interruption. Our prompts and follow-up questions enabled us to obtain elaborations and clarifications on key themes. Our interview scripts were prepared by integrating ideas and themes.

---

9 All researchers listened to, read transcripts, and took notes on the interviews for which they were not present and, particularly for early interviews, provided detailed feedback to each other to ensure consistency in approach.
from theory and preliminary insights obtained from early interviews.

**Data analysis**

Since our aim was to use theory to explain our observations, we entered the field with “broad knowledge of potential theories that can provide potential explanations of the patterns observed” (Malsch and Salterio 2016, 5). Early on, our research team met regularly to discuss the fit between theory and data. Iteratively, we focused in on the theoretical lens that appeared to be most helpful for addressing our research question and understanding our data. After identifying our theoretical lens (see Section 2), all three researchers individually coded the first five interviews, after which we discussed and reconciled any differences. The same two coauthors individually coded the remaining interviews. Coder agreement, measured using Cohen’s kappa (κ), was 63.9 which indicates a “good” level of initial agreement (Cicchetti 1994; Cohen 1960). Differences were identified by the third researcher and then reconciled through discussion and agreement among all three researchers.

We conducted our analysis with the aid of NVivo to code the interview transcripts and facilitate the sorting and extraction of data. We moved constantly between data and theoretical ideas to test and validate our findings. First, we compiled an “on average” understanding of the relationship between a member firm and its AAN by consolidating all interviews related to one AAN. We prepared a short summary of each AAN including an overview of the key issues identified by respondents of both member firms. Then, we conducted additional comparisons and patternmaking between each AAN through the lens of our theory (Yin 2014). We tested and challenged insights from our theoretical lens, retained (rejected) insights when they were (were not) supported, and remained alert to anomalous data. Our extensive patternmaking was in pursuit of fit between data, theory, and analytical generalizability (Yin 2014).10

---

10 We do not intend to generalize to the population; instead, our findings are generalizable through theory. Analytic generalization is not possible through procedures akin to conducting an experiment (e.g., obtaining a certain “cell size” or employing random
4. Analysis

We begin this section by highlighting the nature of competition between AAN members as described by respondents during interviews. Following this discussion, we provide details of each of the transactional and relational mechanisms used to mitigate coopetitive tensions in AANs.

**Competition between AAN member firms**

Small firm AANs represent a paradoxical setting in which members must balance the cooperative and competitive nature of interactions with other member firms. One respondent’s narrative reflected this tension as a member of an AAN:

*It really is a balancing act; you really want to be a good participant and member of that alliance while recognizing that these are literally your competitors as well, so you’re always walking the line. I think any [AAN] that you participate in is going to be very similar; there has to be a lot of trust and respect, and healthy competition is going to be there.* (P-18)

Globalization and business sprawl continue to increase the number of instances when member firms of the same AAN find themselves in competition with one another directly (i.e., proposing on the same client, recruiting employees) or more generally (i.e., operating in similar markets or regions). Indeed, respondents highlighted that if competition within the AAN was not already a challenge, it was quickly becoming one (Bills et al. 2018). In addition to globalization, respondents noted that competition between member firms was on the rise due to firm growth as well as merger and acquisition activity (Christensen, Smith, Wang, and Williams 2017), both of which meant firms could expect another member firm to enter its market or region.\(^\text{11}\)

We include a few quotations here in the narrative to provide a description of competition between firms belonging to the same AAN, but also refer readers to Table 5 where we include several categories of additional evidence. One partner described that competition is a key challenge

---

\(^\text{11}\) This issue is consistent with the discussion in Das and Teng (2002, 733) when they state that “even though the partners may find mutual interests in the alliance, potential conflicts may arise very easily, such as when there are geographic overlaps.”
between member firms “even though we’re affiliated in [the AAN] and we try to work well together” (P-18). He elaborated:

As the whole global economy shrinks because of the technology and things, you’ve got firms, it doesn’t matter if they’re in Louisiana or wherever, they very well may be trying to compete to try to get into this market. There’s nothing in that group that says we can’t go somewhere and compete. Obviously, any data you’re getting is part of being a part of that [AAN]—you’re not supposed to use it against another firm, just like if you peer review a firm, you shouldn’t be pulling data out and going and doing things like that. ... The challenge is, if you’re doing a lot of things right, you don’t want to share so much—you want to be a good team player—but you don’t want to share so much that you’re in essence building up your competitors. (P-18)

Referring to a particular niche area of expertise for the firm, the same respondent continued:

The [anonymized niche] is one, for example, that is very hesitant to do too much helping. If someone calls and says, “We’re working on a particular [anonymized niche] proposal, we’d like to talk with you some about what you do,” and things like that, he [the lead partner] is very hesitant to do too much. He’ll help to a certain degree, but there’s things we do that we feel set us apart, and he’s not willing to go into that kind of proprietary stuff. And it makes sense, because he’s in essence saying, “Well, why in the world are we going to turn over our products to our competitors who are bidding on the same prospect that we’re bidding on?” ... We don’t typically respond to those requests because, you know, we’re not going to turn that [proprietary know-how] over. So that’s the dilemma: being as open and sharing as you can without, in essence, educating, teaching and growing your own competitors. (P-18)

[Insert Table 5 here]

Other respondents also became reluctant to share information and expertise with AAN firms that they perceive as direct competitors. A respondent, who highlighted that another member firm was now operating in the city in which his/her firm originally held geographic exclusivity, described:

You don’t want to share too much information sometimes if you know that one of the representatives is going to be there, because you don’t want to give away too much information about how you approach audits and stuff like that, ... because they figure out, for example, how you’re pricing and all that. That would be one of the big challenges. You’re not affiliated, so they can gather intelligence in some of those meetings if you’re not careful. (P-21)

Some AANs also have unique arrangements whereby certain firms are able to brand their firm with the AAN’s affiliation while other firms belonging to the same AAN are not able to do so.
Such occurrences heighten competition within the AAN and, as one respondent stated, result in a “lot of turmoil” since member firms “feel like they are helping [Named Member Firm], their competitor, so it’s created some tension between the U.S. firms” (P-2). Therefore, competition among AAN firms has the potential to create negative outcomes that reduce the benefits of membership.12

Despite this competition and the resulting tensions within the AAN, the success of the AAN is ultimately important to the member firms’ success. Respondents often highlighted efforts to remain friendly when reflecting on the increasing competition and resulting actions their firm or other firms had taken:

*We have healthy competition and cooperation. So far, it’s worked very well. We have issues from time to time and we resolve them and everybody’s happy. … We do have to recognize that we’re friends, and we’re part of the same international group, but we also are going to compete with each other and that’s okay.* (P-12)

Therefore, the ideal outcome is a careful balance between cooperation and competition in which a member firm pursues its own best interests while also supporting other member firms and the overall AAN operation. This balance is highlighted in the following quote from an AAN leader:

*The basic premise of our program, a fundamental tenet of our [AAN] philosophy, is the theory of abundance. We think there’s a lot of work out there for a lot of accounting firms. If you, as an accounting firm, are not our primary competition, let’s help each other out. We agree that we can compete for a piece of new business, but we’re going to agree not to take each other’s existing clients and people.* (P-41)

In the subsequent sections, we discuss the mechanisms identified by respondents that enable member firms to manage the coopetitive tensions in the AAN, and ultimately, provide opportunities for this type of IOR to succeed.

---

12 One alternate data source would be to conduct interviews in firms that terminated AAN membership due to competition between member firms. When interviewees highlighted member firms that exited the AAN, they noted other reasons for their departure (e.g., being asked to leave due to quality concerns, desire to join a different AAN that is larger or provides different niche/geographic opportunities). Though one might expect member firms to exit due to competition between member firms, in fact, this challenge was highlighted as either contemporary or emerging and, hence, firms are trying to find ways to manage the coopetitive paradox before terminating membership.
**Transactional mechanisms**

Transactional mechanisms include the rules and incentive systems that govern interparty exchanges (Devece et al. 2018). In this section, we describe the transactional mechanisms that exist in AANs—contractual agreements, governance structure, member firm selection, and monitoring processes—as determined from our interview data and other evidence gathered from the field.

**Contractual agreements**

AANs establish formal contractual agreements to ensure smooth, equitable exchanges between member firms. The contractual agreements may include: (1) a core license agreement, (2) an agreement detailing the operating guidelines of AAN membership, and (3) contract terms for protecting intellectual property as well as permissible use of the AAN’s brand (see Appendix A for details). Further, these documents include membership expectations and requirements, operating guidelines and by-laws, membership fees, and other joint financing arrangements. Quality control programs for entry and continuing membership, which we discuss separately in the sections that follow, are also incorporated into these contracts.

The first contractual term that respondents mentioned regularly was that AAN membership did not compromise their firm’s independence. As one AAN leadership respondent described:

>I want to reiterate these are independent firms. A big part of our [AAN] license agreement makes sure that we maintain that independence. They [member firms] want to be independent, and we [the AAN] want them to be independent. We don’t require them to do very much, if anything, in terms of how they run their firm. They make their own decisions, management decisions, etcetera. (P-41)

This factor is important if an AAN wants to maintain its classification as an association rather than a network under the AICPA’s definitions (e.g., not sharing a common brand or significant professional resources—refer to Table 1). AAN member firms are required to communicate this detail on their websites as well as in other firm marketing materials including client proposals.
The second contractual term that respondents mentioned regularly was geographic exclusivity, which was more commonly provided to member firms in the early years of IOR arrangements in accounting. Though some AANs still offer geographic exclusivity, corporate growth and geographic expansion make it difficult to maintain these terms.\textsuperscript{13} One respondent shared that “while they’re not totally exclusive, everybody appreciates some exclusivity within your [U.S.] state but it’s getting real difficult now with the growth of firms” (P-8). Respondents described instances when another member firm operates in close proximity (e.g., the same U.S. city or state) and, as a result, these respondents described their unwillingness to openly share information as highlighted in the previous section.

While contractual agreements may no longer promise geographic exclusivity to member firms, instead, they specify the steps for dealing with related issues. For example, one respondent described that if his/her AAN receives an application from a candidate firm that is within 50 miles of an existing member firm, the existing member firm has the right to “voice an objection to membership” (P-39). Importantly, such an objection must be based on “business reasons.” The board of the AAN hears the objection and makes a decision based on the specific details of each situation. Otherwise, the contractual agreements specify how contract breeches should be handled and what penalties should be applied.

Another key finding from respondents’ descriptions about contractual agreements is that they appear to be important as a starting point to inspire confidence and allow for the development of relational mechanisms among member firms. For example, as respondents spoke of the contractual agreements between member firms and the AAN, the impression we received was that, although enacting the agreements was important for establishing a shared understanding of each party’s obligations, the agreements are not regularly called upon in practice. In fact, respondents

\textsuperscript{13} Importantly, geographic exclusivity relates to the location of the firm and not the markets in which they seek clients. Therefore, even when geographic exclusivity exists, opportunities for competition between member firms are not altogether eliminated.
of AAN leadership described the contractual agreements employed by their AANs more as “guidelines” and “suggestions” than an explicit rulebook (P-39). Respondents from member firms also provided similar perspectives of these AAN guidelines such as references to “gentlemen’s agreements” that arose throughout various interviews (P-1, P-30, P-34). Specifically:

They [professionals at other member firms] know the rules are don’t steal my employees and don’t steal my clients. Obviously, if you know you’re going to cross paths on a proposal, try not to throw them under the bus; don’t make them look bad. I mean, it’s just trying to be more of a friendly competitor. (P-28)

Relatively, after acknowledging the formal rule calling for a $50,000 penalty in instances when a member firm poaches an employee from another firm, a partner indicated that his firm agreed to waive the fee but “told them, if it happens again, it’ll be $100,000” (P-37). These examples highlight how members appeared to be flexible with their application of the rules, creating an opportunity for other mechanisms to play a role in mitigating coopetitive tensions.

Governance structure

In addition to the contractual agreements between an AAN and its member firms, certain governance structures and arrangements exist to facilitate coopetitive behavior. First, the mode of governance of AANs (see Table 1) is intended to facilitate collaboration while mitigating the tensions that arise between competing firms (Provan, Fish, and Sydow 2007; Provan and Kenis 2008). On the one hand, a shared governance model promotes collaboration since the member firms own and manage the AAN. Specifically, member firms appoint their own executives to serve on the AAN’s board and other committees. By design, a spirit of collaboration and sharing emanates from the top. On the other hand, the lead organization model has a single, larger firm that is responsible for managing the AAN and the relationships among member firms and, in

---

14 We also note that part of the reason for enacting guidelines instead of strict rules revolves around maintaining the AAN’s designation as an association instead of a network under the AICPA classifications. For example:

We are an association. Our member firms are independent. So while we have these things in place around guidelines to use our brand, as an example, member firms are not required to use our brand. ... Members are not required to leverage the [AAN] resources. So it’s there and available for them if they do choose to use it. That’s why we call them guidelines more so than operating rules per se. (P-42)
particular, the collaboration and sharing among such firms. Though different from the shared governance model, a collaborative spirit still emanates from the top since one firm is charged with this duty. A respondent belonging to the leadership of an AAN described one of its key initiatives:

The two big initiatives for the [AAN] this year, what we are working on is community and collaboration. So it is finding ways to connect. Connect firms to each other, firms to [AAN], that type of thing. ... How do we work together in our markets? How do we pursue targets that, where the relationship may be at the [AAN] firm but the client is too big for them to serve on their own? How do we collaborate together to make that happen? And then, there’s collaboration between [AAN] firms. I see a lot of it in the Northeast, because they are geographically close, where they work together. They do joint CPE, they share staff at these firms if they need them. We’re trying to build that community and that collaborative spirit. (P-40)

Regardless of type, a governance structure that includes a leadership team tasked with overseeing the interactions between member firms ensures that someone is responsible for encouraging collaborative efforts over competitive actions. Further, as noted in our discussion of the contractual agreements in place, a leadership team is also needed to oversee contractual breaches (e.g., “[Member firms] know they can bring us in and we then become arbitrators” [P-40]).

Second, the role of a liaison is a key part of the governance structure of AANs. On occasion, respondents described a liaison located within the AAN but, usually, liaisons were located directly within member firms. A respondent who fulfilled such a role described:

I serve as liaison to [AAN], our international network of accounting firms, in assisting our clients when they have needs throughout the globe. ... In my role, I am the conduit between our partners and clients when our clients have needs abroad, or even to member firms within the U.S., to coordinate the delivery of that service to the right people as well as when our member firms need our services to assist with their clients as the conduit between those firms and our partners in serving their clients. (P-6)

Other respondents, as they described the liaison role, made references to “go-to people” (P-1), “somebody that … champions it [the AAN]” (P-31), and “a key part of building the relationships with the network” (P-9). In most cases, firms seemed to have area-specific liaisons (i.e., audit liaison, tax liaison) in addition to someone who is the overall liaison with the AAN. A respondent who held a newly created liaison role describe that “the reason for that [the new liaison role in the
firm] is totally about collaboration …, so the selling opportunities, [and] collaboration between the different regions” (P-3). When the need to consult an expert or partner at another member firm arises, a liaison is able to identify the appropriate contact and, often, provides the introduction. “We try to do a set up for the partners again, so [they] don’t have to figure out how to steer through the alliance and all that” (P-1). In addition to linking partners from different firms, liaisons also help to ensure quality service between firms so that collaborations continue. For example:

   Everyone has a contact partner, so there’s a liaison partner between all the firms. If I call the manager that did some work for me a year ago and I call him again and something’s not going right, I’d call that liaison partner and say, “Hey, you know what? I’ve got this problem.” They [the other member firm] would do something about it because they want to be viewed within the membership as a quality firm; one to be relied upon. (P-15)

Having liaisons in place who know the ins and outs of the AAN resulted in what appeared to be smooth coordination and facilitation of paths to expertise and, therefore, helped manage some of the coopetitive tensions.

Third, as noted in Table 2, research indicates that a dedicated information system helps aggregate and share critical and/or appropriable information between competitors (Fernandez and Chiambaretto 2016; Seran, Pellegrin-Boucher, and Gurau 2016). All but one of the AANs in which we conducted interviews identified an information system or helpdesk as they described the interactions and exchanges between member firms. In particular, these systems appeared to be mediums through which member firms could gain information and advice from other would-be competitor member firms. On occasions when a firm does not have the necessary expertise, the partner leverages its AAN membership by contacting either another member firm or the AAN leadership (see Appendix B for details on the consultation process). Depending on the AAN, inquiring partners can send an email to a related listserv or post questions on the AAN’s intranet. In describing their use of these dedicated information systems, respondents did not specifically indicate that these systems mitigated coopetitive tensions. Instead, respondents described instances
when they did not respond to a request for help through the system because they wished to protect
knowledge and expertise or because they had reason to believe the other member firm intended to
compete on the same proposal. For example,

You put your name in that particular SIG [Special Interest Group]. Then, what would
happen, if I sent an email out, I would say what SIG I want it to go to, and so everybody
on that email distribution list would get it. ... Those emails go out, someone has a question,
if we see it coming from—and I’ve had this happen for a proposal—“Hey, we need help
with a proposal,” and we look at it, and we’re like, “Wait, we’re proposing on that same
thing.” It puts you in an awkward spot. You now know that there’s somebody in your state
that you’re in an [AAN] with that you might be bidding against. (P-19)

In contrast to research indicating that an information system facilitates sharing between
competitors, we observed that AAN’s helpdesks enabled partners to ignore certain requests and,
hence, protect specialty knowledge and expertise. Therefore, the leadership team and liaisons in
the AAN governance structure—which require intentional intervention when issues arise—appear
to be more effective at mitigating coopetitive tensions between member firms.

Member firm selection

Respondents regularly identified carefully vetting candidate firms before formalizing an invitation
to join the AAN as a key process for ensuring successful operation of the AAN. Attracting and
retaining the best member firms is challenging for AANs as described by a partner:

I can speak to this in general for networks and associations, because I do have a lot of
experience with that. The biggest challenge pretty much all networks face is maintaining
or establishing a quality group of firms worldwide. In other words, everybody is always
competing for members in various places. Firms will change their affiliation, their
association often. Some are even affiliated with multiple networks, and that is always a
challenge. Another challenge is maintaining quality firms in good locations. (P-26)

When asked for a description of an ideal candidate firm, respondents often referred to the desire
to secure a member firm in a particular geographic location or described a firm with characteristics
such as “thoughtful, self-aware, strategic… interested in collaboration… [and] participative” (P-
41) but also insisted there would be “a lot of focus on quality of the firm” (P-2). The candidate
firm either initiates its own expression of interest in AAN membership or is recommended by an
existing member firm; however, AAN leadership respondents also described actively recruiting firms as a “location strategy” to fill particular geographic needs (P-40).

Once a potential firm is identified, respondents described a structured process for reviewing and vetting the candidate firm that was relatively similar across AANs. First, the candidate firm completes an application form to confirm or express their interest in AAN membership. Second, this form, which includes a significant amount of firm information protected via a nondisclosure agreement, is shared with a team designated by the AAN (some AANs have a membership committee, other AANs create an ad hoc team in the relevant region, and some AAN leadership prefer to conduct their own review). A conference call or site visit often accompanies these early steps to confirm that the member firm meets certain standards, fulfills a geographic need, and, hence, qualifies for potential membership. Third, the AAN or designated team conducts “significant due diligence on the firm, [including] partner background checks” (P-41), “looking at the integrity of the firm” (P-42), and “rigorous quality control inspection… that they’ve met the quality standards” (P-12). One respondent suggested that this step is “almost like a mini peer review to look at the quality of both your audit and tax practices” (P-36). Contemporaneous with this review, candidate firms are often invited to a partner or national AAN conference to facilitate the firm’s own vetting of the AAN.¹⁵ This process culminates with an admission vote by either the AAN’s board or the member firms’ managing partners. Successfully admitted firms then undergo a thorough onboarding and orientation process—in some cases, this was described as a multi-year undertaking—that permits the AAN to continue emphasizing its quality standards and how the firm can remain a member in good standing.

Respondents shared that their AAN’s careful member firm selection process was a key

---

¹⁵ In fact, respondents of member firms described that they had already or were currently conducting their own vetting and research of the AAN. Respondents described comparing the offerings and services of several AANs and hosting formal presentations by phone or in-person to provide different AANs the opportunity to market themselves. The geographic exclusivity that some AANs try to retain can mean that a candidate firm sometimes has very few options to consider for membership.
reason they could work alongside and share expertise with other member firms. For example, one respondent emphasized the overall importance of selecting and retaining high-quality AAN firms:

We want to belong to a good quality network, we want to have good quality firms. If you do not have that same attention to quality or service, then the good firms will then leave. The good firms want to have other firms in the network that have that same commitment to quality and service. (P-2)

Another respondent noted that his/her AAN is “committed to having high quality firms—the standard or bar is high enough that firms can provide high quality work” (P-25). This respondent also believed that a careful lens is required when looking at the information shared by other member firms since a firm needs to learn with whom it is dealing. Related, a respondent indicated:

There’s so many firms, and it is a little scary when you’re reaching out, just trying to give your client someone to talk to. It’s better, I feel, at least [the AAN] screened them [the other member firm] ahead of time. Before, you were just blindly telling them [the client] to go call somebody. (P-17)

Therefore, knowledge of the AAN’s careful selection process for member firms seemed to alleviate some concern for collaborating and sharing expertise with other firms in the AAN.

Monitoring processes

Monitoring member firms also seemed to be an important process for facilitating collaboration among competitors for nearly all of the AANs in which we conducted interviews. The fact that an AAN has implemented monitoring processes allows partners to more easily collaborate with or refer work to other member firms. In our data analysis, we noted variation across AANs’ monitoring processes. For example, some AANs are very detail-oriented:

We obviously have a record of where they’re participating, which conferences they’ve gone to. We witness whether they’re contributing to the group. We talk to other member firms and get a sense or a feeling from them about whether the broader membership feels like they’ve been a good addition. … We do ask for copies of their peer review. We do monitor if there’s been any kind of PCAOB work, they are involved in PCAOB work and register with the PCAOB. Are they maintaining their licenses? We do monitoring, you know, occasional checks. We may monitor their websites and do occasional checks on how they’re leveraging and utilizing our brand. (P-42)

In contrast, other monitoring processes are more informal such that “there’s enough interaction
amongst [U.S.] firms that it’s probably more of a self-reporting” to the AAN as issues arise (P-14). One partner who had been chairperson of his/her AAN’s board even suggested that, “as long as they [member firms] pay their dues, it’s okay” (P-29). This same respondent indicated that the AAN to which his/her firm belonged “had intended to monitor for members in good standing” but indicated that “this did not really pan out.”

Concerning the actual process through which AANs monitor member firms, a managing partner provided some detail:

*Every three years, every firm has to go through what we call a re-underwriting process, which basically we go through the same procedures as we would if they were joining then, from a quality standpoint, financial stability, and such. Every year a certain amount of firms are going through their re-underwriting process. That’s the way we would monitor it. Another way, of course, would be through the work that a firm is doing for another firm’s clients. If we have problems, they surface very quickly. If we saw something that was a problem, we could certainly take more direct action without waiting for the three year underwriting period. (P-12)*

Other respondents indicated either that their AAN (1) assigns relationship managers or champions to oversee quality control and general AAN participation, (2) relies on self-reporting by firms if they are having issues with another member firm, or (3) approaches firms to gain an understanding for whether the broader membership believes a member firm was a good addition.

Though AANs monitor a wide range of information from member firms (e.g., level of participation in the AAN, financial and nonfinancial performance indicators), it is the existence and monitoring of quality control standards that enables firms to “comfortably” work with other member firms. Furthermore, though rare, respondents did refer to instances when member firms were dismissed from the AAN due to quality issues, signaling the significance of these monitoring processes. For example:

*If you’re in this alliance, we trust that the [AAN Board Members] and other managing partners are keeping good quality firms in there. I know there’s been a couple cases where we’ve kicked a firm out of [the AAN]. We kicked them out for not having good quality, not*

16 Responses suggest that the AAN monitoring process is more formal “for those offices or countries that don’t have the robust oversight” as firms in the U.S. through peer reviews and PCAOB inspections (P-9).
When considered jointly with member firm selection, these transactional mechanisms provide confidence to member firms that they will be collaborating with other high-quality firms to derive the most benefit out of their AAN membership.

Summary of transactional mechanisms

Our analysis indicates that transactional mechanisms play an important role in mitigating coopetitive tensions in AANs, in particular, in the early interactions between members of an AAN before relational experiences have developed. One exception is that the use of an AAN’s information system, a component of the governance structure mechanism, did not always facilitate the sharing of information between competitors because the system’s impersonal nature permitted experts to ignore certain requests and protect their specialty knowledge and expertise.

Another key finding is that a contractual agreement that respondents frequently discussed as significantly contributing to their willingness to share within their AAN—geographic exclusivity—is under pressure due to firm mergers and geographic expansion. The deterioration or loss of this fundamental contractual agreement is a primary concern of AAN members and risks hampering cooperative behavior between AAN member firms.

Relational mechanisms

Relational mechanisms refer to the extent to which the IOR is governed by social relations and shared norms (Cao and Lumineau 2015; Devece et al. 2018). Since it would be impossible to specify all of the transactional details and terms of member firm interactions and exchanges, our interview data indicates that relational mechanisms are also important to balance cooperation and competition among AAN member firms. This section provides details for the following relational mechanisms cited by respondents: trust, social ties, and reciprocity.
Trust

Arising in most of our interviews, trust is a relational mechanism that encourages collaboration and information-sharing between AAN member firms. Trust has multiple components including a party’s confidence that other parties in an exchange relationship will not exploit its vulnerabilities (Dyer and Chu 2003; Li et al. 2010; Zaheer, McEvily, and Perrone 1998). Trust also relates to the expected satisfaction from exchange transactions with another party and confidence that another party will perform in a predictable and mutually acceptable way (Dodgson 1993; Doney and Cannon 1997; Nooteboom, et al. 1997). Importantly, trust develops over time through repeated interactions between parties (Doney and Cannon 1997; Ganesan 1994; Poppo and Zenger 2002).

When respondents provided narratives relating to trust, they commonly perceived the AAN as a “safe environment” that reduced perceptions of competition between member firms:

*You could be in a safe environment where you weren’t worried about having to hold your tongue or [that] something was going to come back into your marketplace as you were talking to firms that did the exact same thing that you did, because they’re not perceived as competitors at all.* (P-14)

Moreover, a managing partner indicated that he would much rather experience competition from an AAN member firm because “there’s a general understanding that you’re going to treat people right” and he trusts that “they [employees of the other firm] are not going to trash him or his firm” in the marketplace (P-29). Another partner described the “respect” among member firms that keeps them from going after one another’s clients (P-30).

When prompted to identify whether anything surprised him about his firm’s AAN membership, a partner referred to a higher than expected level of trust between firms. In contrast to the previous quote, this partner also highlighted that trust does not necessarily lead to unencumbered access:

*I’m pleasantly surprised by the stuff that [Lead Organization] does share with us. They share a lot; there’s a lot of trust between the two firms. They do share a lot of—I wouldn’t call them trade secrets but a lot of their methodology for doing business and strategies.
There are some things they hold pretty close to the vest, some things they’re proprietary about—that’s understandable—but they share more than I would expect them to. (P-37)

Relating back to the transactional mechanisms of member firm selection and monitoring, some respondents indicated that they trusted other member firms because they went through the AAN’s vetting process before joining and continued to meet the quality standards required in the AAN’s monitoring processes. Other respondents indicated they trusted other member firms due to prior relationships established at meetings/conferences (e.g., “I’ve made some relationships with some people there that I trust that I can bounce ideas off of.” [P-21]) or from previous engagements (e.g., “We’ve found two [member firms] that are our go-to’s that we’re comfortable with, that are a lot like us.” [P-20]). A partner further elaborated:

Most of these firms, I think there’s a bit of trust there because we’ve reached out to them before and they’ve reached out to us regarding issues. People in any alliance typically like to help each other when they can, especially if they know you and you’ve talked to them at these meetings. (P-21)

Similar to members’ initial reliance on contractual agreements during the early stages of member firm interactions, respondents appear to rely heavily on the transactional mechanisms of member firm selection and monitoring where no prior interactions have taken place between member firms, but then evolve to a greater reliance on the relational mechanism of trust once firms gain personal experience with individual member firms.

Collectively, we find that trust encourages information exchange and seems to lead respondents to take interest not just in their own firm’s success but in their AAN’s success as well. Thus, the mechanism of trust appears to promote collaboration across member firms and concern for the overall well-being of the AAN (Dyer and Singh 1998).

Social ties

Social ties also arose as a key mechanism explaining firms’ AAN membership and willingness to share information in many of our interviews. Social ties—also referred to as “personal
relationships”—involves relationship-building between partners that creates a sense of obligation between them (Tidström 2014). What these personal relationships mean for AAN operation is that, “once you meet someone face-to-face, it is so much easier to call them or email them to ask them a question rather than some random email you have no idea who it is” (P-30). Similarly, “when you do need to reach out to somebody, you’ve got a face with a name and someone you could call” (P-17). The corollary to having previously interacted with partners of other member firms is that, “because we’ve met him, we know him, and the door will open quickly that way” (P-5).

Several respondents emphasized that membership involved “making friends, and professional friends” (P-24). As evidenced by this statement, social ties are not just about the friendship but, instead, are converted into access points for expertise and best practices. A managing partner provided context to this idea:

*We obviously have a lot of time and effort invested in the network since we were a founding member, and we’ve spent a lot of time building relationships with other firms in the network. I view it the same way as trying to get your partners and staff to work with people in our other offices. The more things you can do to get to know each other, other than just by a name and a directory, the better opportunity you have to have a good working relationship with that firm. And it gives you a better feel about their capabilities.* (P-2)

As a result, these relationships serve as a mechanism underlying AAN success and lead firms to (1) extend invitations to partners of other member firms to visit and learn from their firm and (2) refer work to these firms more easily. Based on our interviews, these social ties appear to be important since respondents received, or felt compelled to deliver, preferred treatment (e.g., speed or extra effort) to retain the advantages of personal relationships over typical ones (Uzzi 1997).

*Reciprocity*

Reciprocity is another relational mechanism that most respondents described as encouraging collaboration between member firms. Reciprocity arises when an actor responds to friendly behavior with friendly behavior, even if no material gains are expected (Fehr and Gächter 2000). These friendly actions are more cooperative in nature than would be predicted by a pure self-
interest seeking model (Fehr and Gächter 2000). Oftentimes these friendly actions are associated with significant effort or considerable risk by the provider (Das and Teng 1998). As such, reciprocity can also be a key element in building trust since the recipient of friendly behavior tends to be motivated to respond in a trustworthy manner (Das and Teng 1998; Larson 1992).

One aspect of AAN operation that was surprising to several respondents was the willingness of members to disclose information and best practices that are considered risky to share with potential competitors. A respondent summarized this experience:

“One of the things that surprised me is the openness amongst each other as far as sharing, data, and being able to benchmark with each other. That’s surprising because you would think firms are real secretive on that, and it seems that the collaboration and sitting down and analyzing how you manage your practice, that’s been surprising, that firms are pretty open about that stuff.” (P-19)

Another common response included the appreciation that partners had for other member firms responding to their clients’ needs in a timely manner. For example, one respondent indicated:

“So that really is the benefit, and when I pick up the phone I’m calling someone [at another member firm] that I know and I trust and they understand our client needs. They understand the importance of quick response, and they understand the importance of being able to handle something small because it’s part of something much bigger—but in their jurisdiction it’s a small piece—and give it the right priority and service that would keep the service delivery consistent throughout the network, and then to our client.” (P-6)

Many of the respondents also discussed their own willingness to quickly respond to requests from other member firms even though the work is often very small and inconvenient, but very important to a member firm’s client. Relating to this type of referral work, one partner said:

“We refer to it a lot of times as inbound and outbound services. Inbound services, meaning, there’s a [AAN] firm somewhere in the world that’s probably contacted us to go do the same thing we would contact them for; for example, to do a small audit and some agreed-upon procedures for one of their client’s subsidiaries that operates here in the U.S. That’s an inbound service. We’re as much worried about inbound services as we are outbound services because they’re both beneficial to our clients. It [the AAN] seems more like a consolidated group that’s more worried about clients’ service than just an alliance whose individual members are so independent they’re just worried about themselves.” (P-3)

Finally, it was also common for respondents to describe the passing of entire engagements
to other member firms through referrals. As described by one partner:

*If I’ve come across an opportunity that is not a fit for us because it’s either in a different area in the country and they don’t want to hire someone who would have to travel or maybe an industry that we don’t work with very often, we’ll send referrals to either the other alliance members or the [Lead Organization] depending on where the best fit is and they’ll do the same for us.* (P-36)

Ultimately, these types of interactions can benefit both parties given the long-term nature of AANs. As a result, member firms want to be known as “one to be relied upon” because they can “expect that [favor] to be reciprocated if they need something down the road as well” (P-15).

**Summary of relational mechanisms**

From our analysis, we note that the relational mechanisms are not always easy to distinguish or may be complementary to one another. For example, a managing partner discussed both social ties and trust when he said “the better you know the person, the better you know how well the solution is that they are describing.” Proclaiming that not all advice can be taken at face value, he concluded there is “absolutely a trust aspect” (P-25). Though individually important, we view the interrelated nature of these relational mechanisms as beneficial since they are mutually reinforcing. Partners of member firms that perceive more overlapping mechanisms may be more willing to access other partners/firms for support on critical tasks. For example, an AAN leadership respondent indicated that his/her AAN is developing initiatives related to community and collaboration because “the ability to work together and trust each other makes everybody better” and it “seems to open more doors when [member firms] feel like they’re a part of a team” (P-40).

In another example, a partner discussed the reciprocal desire to refer work to another member firm based on the trust established from prior interactions:

*If there’s an industry that we don’t know or have the depth of talent and resources in, we would look to [the AAN] first to see if there is another firm that has expertise in that area. We’ve collaborated with other [AAN] firms on doing work. But, again, you do that because you get to know the firms and you have a comfort level of working with them.* (P-2)

Therefore, relational mechanisms may work together to jointly improve cooperation among
member firms. This scenario also allows an AAN to operate more smoothly and with less reliance on contractual agreements, thereby increasing the extraction of benefits and reducing the challenges and risks of coopetition (Bouncken et al. 2016).

Overall, our analysis confirms that relational mechanisms facilitate collaboration between members of AANs. A caveat is that while relational mechanisms do facilitate cooperation, sharing of proprietary information between members was not unreserved. Our data also provide evidence that transactional and relational mechanisms are complimentary; however, a key finding is that while transactional mechanisms appear to be very important in the early stages of interactions between member firms, there is an evolution to a greater reliance on relational mechanisms as relationships between members develop. These results contribute to prior research on the interplay between transactional and relational mechanisms (Bouncken et al. 2016; Cao and Lumineau 2015; Ferguson et al. 2005; Poppo and Zenger 2002).

5. Discussion and Conclusion

AAN membership presents accounting firms and their members with opportunities to learn from the knowledge and expertise of other firms. However, because member firms are also considered competitors, tensions arise from fostering a cooperative relationship while protecting core competencies that could increase the competitiveness of rivals. Respondents frequently identified this coopetitive tension as the most significant challenge of AAN membership and one that continues to grow and intensify along with globalization. Drawing on coopetition and IOR theory, we use field study methods to explore the mechanisms that foster a willingness by AAN members to work together and share information in the presence of both competition and collaboration.

Our findings indicate that firms are willing to work with and share information and expertise with rival firms even though the benefits in return are uncertain because of the transactional and relational mechanisms in place. The transactional mechanisms—the contractual
agreements between the AAN and member firms, the governance structure of AANs, and the selection and monitoring processes of member firms—reduce the risks of coopetitive behavior by formalizing and specifying the rights and obligations of member firms in ways that can be carefully defined, monitored, and enforced. The relational mechanisms—trust, social ties, and reciprocity—reduce the risks of coopetition through interpersonal interactions and more informal processes. We provide rich detail from our interviews on each of these mechanisms based on our data and theory, along with conclusions on the interplay between transactional and relational mechanisms. An important caveat to these findings is that the sharing of proprietary information between member firms was not completely unreserved despite the existence of mechanisms to facilitate cooperation.

Rather than observe an emphasis on one set of mechanisms over the other, we find that transactional and relational mechanisms are complementary. Further, we observe that transactional mechanisms appear to be very important to fostering collaboration in the early stages of exchanges, while there is an evolutionary shift to a greater reliance on relational mechanisms as relationships between members develop. For example, in settings where relationships with other members are established, we find that relational mechanisms facilitated exchanges between member firms and the “rules” of contractual agreements would be drawn upon only as issues or grievances arose.

Our research makes several contributions. First, we provide evidence on the paradox that arises in an IOR arrangement that is pervasive in accounting—associations and networks of small accounting firms—and the mechanisms that enable these firms to manage the tensions between collaboration and competition. In doing so, we draw upon coopetition theory to understand the mechanisms that mitigate coopetitive tensions among member firms. To the best of our knowledge, this article is the first to introduce coopetition theory to the accounting industry.

Second, our study responds to calls for research that tests predictions from the IOR literature (Bouncken et al. 2015; Le Roy and Czakon 2016) and explores theory on managing the
coopetition paradox (Fernandez and Chimbaretto 2016). To date, most research on coopetition has remained theoretical and includes various research propositions but no empirical tests (Le Roy and Czakon 2016)—and so our study contributes by formally testing predictions with empirical data. While much of the early theoretical literature is agnostic on whether coopetition theory is a formal theory, more recent studies are beginning to confirm that the literature has arrived at a formal theory (Bengtsson et al. 2016; Devece et al. 2018; Le Roy and Czakon 2016). Following guidance in Bacharach (1989) indicating that theories have constructs and/or variables, propositions and/or hypotheses, and empirical refutation is possible, our study continues to push the ideas relating to coopetition towards a theory of coopetition. This aligns with Le Roy and Czakon (2016, 5) who indicate that a “closer examination of ways of managing coopetition is critical to develop a theory of coopetition.” Our examination of the transactional and relational mechanisms, which mitigate the tensions arising from coopetition, responds to this call.

Third, this study provides practitioners with several important insights. Practitioners of accounting firms that are considering joining an AAN or already belong to an AAN learn that, although the benefits of such membership are significant, they do not come without challenges. Since sharing knowledge and expertise with another firm may prohibit a firm from protecting its core competencies, it is important to recognize that AANs formalize transactional mechanisms and cultivate relational mechanisms to reduce the risks and coopetitive tensions. Awareness of these mechanisms may improve information sharing and collaboration among member firms. Moreover, practitioners of accounting firms with existing AAN membership should support activities that cultivate the relational mechanisms between member firms and their partners, for example, by encouraging conference attendance, hosting social get-togethers, or developing mentor/mentee relationships. Such activities will not only expedite the shift from transactional to relational mechanisms but are also likely to further reduce coopetitive tensions and the costs associated with
reliance on formal, transactional mechanisms. Finally, AAN leadership should be aware of the effect that deterioration of geographic exclusivity may have on the collaborative environment within AANs such that proactive approaches to encourage further development of relational mechanisms may be warranted. Despite the challenges in this type of coopetitive arrangement, AAN member firms receive significant benefits in the form of access to resources and new future opportunities such that collaborating with competitors is a viable strategy for small accounting firms.
References


TABLE 1
Dimensions of AANs

<table>
<thead>
<tr>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>– According to the <strong>AICPA’s definition</strong>, an accounting association would be considered a “network” if member firms share one or more of the following characteristics: 1) a common brand name, 2) common control, 3) profits or costs, 4) a common business strategy, 5) significant professional resources, or 6) common quality control policies and procedures (AICPA 2014, Section 1.220.010). Collections of accounting firms that do not meet the definition of a network are often distinguished as “associations” (or even “alliances”); however, the AICPA does not provide a formal definition. Members in a network must comply with the AICPA’s independence rules with respect to the financial statement audit and review clients of the other network firms while members in an association are not subject to this rule.</td>
</tr>
<tr>
<td>– Whether an association or network, AANs are organized as collections of accounting firms that operate as <strong>separate legal entities</strong>. For example, the Big 4 and Second Tier accounting firms organize themselves as international networks with a common brand but with independent national firms serving in their own countries (ACAP 2008). In contrast, small U.S. firms that are members of other AANs generally do not adopt the AAN brand in their firm name while the international member firms are more likely to do so. For example, CliftonLarsonAllen is a U.S. member firm and Nexia Smith &amp; Williamson is a U.K. member firm, both belonging to the AAN called Nexia International.**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mode of governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>– <strong>Shared governance model</strong>: This model occurs when the organizations in the IOR collectively make decisions about how the IOR operates and is a decentralized form of governance (Provan et al. 2007; Provan and Kenis 2008). Within the shared governance model, AANs are generally self-governed by a board of elected members representing the AAN firms and/or a formally established “headquarter” organization with staff responsible for coordinating AAN interactions and exchanges.</td>
</tr>
<tr>
<td>– <strong>Lead organization governance model</strong>: This model occurs when a more powerful or larger organization (“lead organization”) plays the lead role by coordinating activities, making decisions, and managing relationships in the IOR (Provan et al. 2007; Provan and Kenis 2008). In AANs, the lead organization is a large national accounting firm that services its own clients while also allowing member firms to access the resources of a much larger firm.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographic coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Whereas each of the Big 4 and Second Tier firms operate as one legal entity with city-based practice offices in the U.S., small accounting firms only have offices in regionally-based U.S. locations. Therefore, AANs outside of the Big 4 and Second Tier may be an aggregation of many U.S. firms or may include both U.S. and international member firms.</td>
</tr>
<tr>
<td>o <strong>National</strong> AANs consist of U.S. firms with a focus on domestic resources and collaboration. These national AANs often also have an international affiliate that members can access if desired (e.g., DFK USA with access to member firms in the international affiliate called DFK International; BDO Alliance with access to the lead organization’s international network called BDO International).</td>
</tr>
<tr>
<td>o <strong>International</strong> AANs include both U.S. and international firms in the same IOR (e.g., Nexia International; PrimeGlobal).</td>
</tr>
</tbody>
</table>
- Some AANs may have geographic exclusivity requirements in the U.S. such that member firms cannot be located within a certain distance (e.g., 50 miles) of each other.

**Topical emphasis**

- While most AANs focus solely on coordinating and offering support for the provision of *accounting services* (audit and assurance, taxation, consulting and advisory), some AANs also have members that are *law firms* (e.g., Abacus Worldwide, MSI Global Alliance) or provide *other services* (e.g., BDO Alliance has a “Business Resource Network” of non-CPA firms and other vendor firms).
- An AAN might also be singularly focused on providing support for a specific *industry or niche* (e.g., the National Alliance of Auto Dealer Advisors is an association of accounting firms).

**Member firm size**

- Whether by design or the natural evolution of an AAN, some AANs support primarily *larger firms* (e.g., Nexia International, Praxity) while others support primarily *smaller firms* (e.g., Allinial Global, BKR International). AANs with a lead organization also tend to support smaller firms (e.g., RSM US Alliance and Firm Foundation; CPAmerica International). Refer to the distinction between LF-AANs, SF-AANs, and LO-AANs in Bills et al. (2018).
- Regardless of the size of a typical member firm, some AANs also have one or two *“anchor” firms*—these firms are typically in the Top 100 accounting firms based on size and may have “grown up with the association” such that the firm feels a sense of loyalty to the AAN (P-43). These anchor firms seem to provide more of the expertise and resources to the smaller member firms but also receive more of the referrals from international member firms.

**Note:** AICPA interpretations provide the following information: “If only a subset of firms in an association use a common brand name, then only that subset of firms would be considered a network, if none of the other characteristics of a network were met by the other firms” (AICPA 2017). Therefore, U.S. firms that are members of international *networks* but do not share the common brand—or meet any other characteristics in the AICPA definition—may only need to follow the independence requirements for networks on international assignments.
### TABLE 2
Mechanisms that facilitate the management of coopetitive tension

<table>
<thead>
<tr>
<th><strong>Transactional Mechanisms</strong></th>
<th></th>
</tr>
</thead>
</table>
| Contractual Agreements            | - Poppo and Zenger (2002, 712-3) indicate that “the specification of contractual safeguards promotes expectations that the other party will behave cooperatively and thus complements the informal limits of relational governance.”  
- Contractual agreements can help manage the contradicting perspectives of collaboration and competition (Fernandez, et al. 2014; Cassiman et al. 2009); however, “a legal framework offers little help as the relationships are evolving over time and have multiple dimensions” (Fernandez, et al. 2014, 224).  
- IOR and coopetition research occasionally refer to contractual agreements or rules in passing but rarely provide any details (e.g., Tidström 2014; Fernandez, et al. 2014). |
| Governance Structure              | - A “Coopetitive Project Team,” on which both dyadic competitors place representatives, is created to co-manage the IOR. Separate from the leadership of a firm, such a team is assigned a common goal/task and allocated dedicated human, financial, and technological resources. This organizational arrangement permits team members to collaborate while still protecting their firm’s interests—essentially, the team is responsible for collaborating while the leadership focus on competing (Le Roy and Fernandez 2015).  
- Applying similar principles, Fernandez et al. (2014) demonstrate how a shared governance model among four firms is another way through which the tensions of coopetition can be managed.  
- The development of a dedicated information system between coopetitors is another governance structure through which critical and/or appropriable information is aggregated and shared (Fernandez and Chiambaretto 2016; Seran et al. 2016). |
| Member Firm Selection             | - Though member firm selection has not been examined specifically in coopetitive settings, we include it as a potentially important mechanism since researchers indicate it is critical that potential partners “fit” the needs of the IOR (Cummings and Holmberg 2012; Bierly and Gallagher 2007). Cummings and Holmberg (2012, 126) suggest, “even superior alliance management may not be sufficient to overcome poor initial partner screening and selection efforts.”  
- Member firm selection should consider task-related factors (e.g., opportunity for synergies, specializations, capabilities, or efficiencies), learning-related factors (e.g., gain new knowledge, learn more quickly), partnering-related factors (e.g., develop shared goals, administrative/personal practices), and risk-related factors (e.g., share risk, reduce performance risk) (Cummings and Holmberg 2012). |
| Monitoring Processes              | - Like member firm selection, monitoring has not been examined specifically in coopetitive settings. If confirming partner “fit” prior to admittance is critical, then monitoring and maintaining this fit should also be an important mechanism. |

<table>
<thead>
<tr>
<th><strong>Relational Mechanisms</strong></th>
<th></th>
</tr>
</thead>
</table>
| Trust                             | - Trust refers to one party’s concern that another party will perform in a predictable and mutually acceptable way in accordance with the expectations of the relationship (Dodgson 1993; Nooteboom, et al.1997). Moreover, trust helps resolve conflicts, reduce tensions, deter opportunistic behavior, and make coopetitors’ behavior predictable (Czakon and Czernek 2016; Das and Teng 1998; Kumar and Das 2007).  
- Though various types of trust help establish collaboration (Czakon and Czernek 2016; Czernek and Czakon 2016), calculative trust is suggested as “far more important than any other” (Czakon and Czernek 2016, 67). Calculative trust refers to a firm’s evaluation of the costs/benefits of another firm acting untrustworthy and whether this risk is worth collaborating with a competitor.  
- Trust appears to be the most frequently studied mechanism in IOR research (e.g., Ring and Van de Ven 1992, 1994; Young-Ybarra and Wiersema 1999) as well as in coopetitive |
environments (e.g., Czakon and Czernek 2016; Czernek and Czakon 2016).

| Social Ties                                                                 | – This relational mechanism is also referred to as “personal relationships” (Dekker 2004; Tidström 2014) or the “social context of alliances” (Gulati 1995).
|                                                                           | – Though infrequently considered in coopetition research, Tidström (2014) finds that personal relationships increase cooperation in coopetitive environments and, thus, reduces opportunistic behavior.
|                                                                           | – In IOR research more generally, social ties are said to “shift the logic of the transaction from one of economic behavior to one of social relationship” (Uzzi 1997; Scott and Cable 2002, 368). Moreover, social ties encourage exchange partners to behave both fairly and generously by creating a sense of obligation between partners (Gulati 1995; Scott and Cable 2002).
| Reciprocity                                                              | – Reciprocity is characterized as “an acknowledgement and acceptance of mutual dependency” (Fyall, Garrod, and Wang 2012, 13). A firm performs a beneficial act for another firm without pre-negotiating or knowing whether the receiving firm will reciprocate. The recipient firm can choose not to reciprocate; however, norms of reciprocity usually compel the two firms to engage in a series of exchanges.
|                                                                           | – Reciprocity is seen as a trust-building process in Czakon and Czernek (2016) and Czernek and Czakon (2016) and is referred to as the “continuity mechanism” of trust by considering the coopetitor’s positive intentions to (continue to) collaborate (Czernek and Czakon 2016, 383).
|                                                                           | – Though norms of reciprocity certainly appear related to the concepts of trust and social ties, Molm, Whitmam, and Melamed (2012) provide evidence that neither are a necessary requirement for reciprocity and, hence, they should be viewed as separate, independent variables. For example, though reciprocity can evolve into trust, the norm relies more on past exchanges and the prospect of future ones (Rindfleisch and Moorman 2003).
### TABLE 3
Details of Research Sites

<table>
<thead>
<tr>
<th>AAN</th>
<th>Number of Member Firms</th>
<th>Net Revenue of Member Firms</th>
<th>Percentage of non-North American Firms</th>
<th>Member Firm</th>
<th>Number of Offices</th>
<th>Number of Partners</th>
<th>Net Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>151 – 200</td>
<td>&gt; $3,000 M</td>
<td>75% or more</td>
<td>Member Firm 1</td>
<td>11 – 20</td>
<td>&gt; 50</td>
<td>&gt; $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>5 – 10</td>
<td>25 – 50</td>
<td>$25 M – $50 M</td>
</tr>
<tr>
<td>B</td>
<td>&gt; 200</td>
<td>&gt; $3,000 M</td>
<td>Less than 15%, but has an int’l affiliate</td>
<td>Member Firm 1</td>
<td>&gt; 20</td>
<td>&gt; 50</td>
<td>&gt; $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>11 – 20</td>
<td>&gt; 50</td>
<td>&gt; $50 M</td>
</tr>
<tr>
<td>C</td>
<td>51 – 100</td>
<td>&gt; $3,000 M</td>
<td>75% or more</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>25 – 50</td>
<td>$25 M – $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&gt; 20</td>
<td>&gt; 50</td>
<td>&gt; $50 M</td>
</tr>
<tr>
<td>D</td>
<td>1 – 50</td>
<td>&lt; $1,000 M</td>
<td>Less than 15%, but has an int’l affiliate</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td>E</td>
<td>&gt; 200</td>
<td>&gt; $3,000 M</td>
<td>75% or more</td>
<td>Member Firm 1</td>
<td>5 – 10</td>
<td>25 – 50</td>
<td>$25 M – $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td>F</td>
<td>1 – 50</td>
<td>$1,000 M - $3,000 M</td>
<td>Less than 15%</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td>G</td>
<td>51 – 100</td>
<td>$1,000 M - $3,000 M</td>
<td>Less than 15%, but has an int’l affiliate</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td>H</td>
<td>&gt; 200</td>
<td>$1,000 M - $3,000 M</td>
<td>Less than 15%, but has an int’l affiliate</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>25 – 50</td>
<td>$25 M – $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>&lt; 5</td>
<td>1 – 25</td>
<td>$1 M – $25 M</td>
</tr>
<tr>
<td>I</td>
<td>51 – 100</td>
<td>$1,000 M - $3,000 M</td>
<td>Less than 15%, but has an int’l affiliate</td>
<td>Member Firm 1</td>
<td>&lt; 5</td>
<td>25 – 50</td>
<td>&gt; $50 M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member Firm 2</td>
<td>5 – 10</td>
<td>25 – 50</td>
<td>$25 M – $50 M</td>
</tr>
</tbody>
</table>

**Notes:**

- Confidentiality was promised to participating member firms. Pseudonyms have been used to disguise the firms, and, where necessary, other details have been generalized to minimize the risk of a firm being identified.
- Data points, included as ranges of values to approximate actual figures, are from each firm’s most recent fiscal year end (2013 or 2014) at the time of data collection and are retrieved from various sources including the *2015 Public Accounting Report*, *2015 IPA Special Report*, and member firms’ websites. Our sample includes nine firms in the Top 100, eight firms in the Top 101–300, and one firm not in the Top 300 based on the *2015 IPA Special Report*. Further, our sample includes firms with headquarters located across the U.S. including Arkansas, Colorado, Georgia, Kentucky, Maryland, Michigan, New York, North Carolina, Oklahoma, South Carolina, Texas, Utah, and Virginia.
<table>
<thead>
<tr>
<th>Participant #</th>
<th>AAN</th>
<th>Member Firm</th>
<th>Job Position</th>
<th>Interview Date</th>
<th>Interview Length (minutes)</th>
</tr>
</thead>
</table>
| 1             | A   | 1           | Office Managing Partner  
              Board Member of Member Firm  
              Former Lead Audit Partner (until mid-2015)  
              Liaison to AAN | 11/06/2015 | 80           |
| 2             | A   | 1           | Firm Managing Partner  
              Tax Partner | 11/06/2015 | 100          |
| 3             | A   | 1           | Audit Partner  
              Liaison to AAN | 11/23/2015 | 60           |
| 4             | A   | 2           | Chairman  
              Founding Partner | 12/14/2015 | 45           |
| 5             | A   | 2           | Lead Audit Partner | 01/04/2016 | 50           |
| 6             | B   | 1           | Principal  
              Chief Marketing Officer  
              Liaison to AAN | 02/01/2016 | 50           |
| 7             | B   | 1           | Audit Partner | 06/15/2016 | 60           |
| 8             | B   | 2           | Chairman  
              Former Firm Managing Partner (until mid-2015) | 03/07/2016 | 35           |
| 9             | B   | 2           | Audit Partner  
              Liaison to AAN | 03/21/2016 | 70           |
| 10            | C   | 1           | Audit Partner | 01/11/2016 | 50           |
| 11            | C   | 1           | Audit Partner | 01/29/2016 | 35           |
| 12            | C   | 2           | Chairman  
              Former Firm Managing Partner (until mid-2014)  
              Liaison to AAN | 01/12/2016 | 50           |
| 13            | C   | 2           | Audit Partner | 02/05/2016 | 60           |
| 14            | D   | 1           | Audit Partner  
              Board Member of Member Firm  
              Liaison to AAN | 11/20/2015 | 60           |
| 15            | D   | 1           | Audit Partner | 12/08/2015 | 40           |
| 16            | D   | 2           | Audit Partner | 01/11/2016 | 35           |
| 17            | D   | 2           | Audit Partner | 02/10/2016 | 25           |
| 18            | E   | 1           | Audit Partner | 11/23/2015 | 45           |
| 19            | E   | 1           | Audit Partner | 12/07/2015 | 40           |
| 20            | E   | 2           | Audit Partner | 12/22/2015 | 55           |
| 21            | E   | 2           | Audit Partner | 01/04/2016 | 40           |
| 22            | F   | 1           | Audit Partner | 12/17/2015 | 40           |
| 23            | F   | 1           | Audit Partner | 12/18/2015 | 35           |
| 24            | F   | 2           | Tax Partner  
              Former Firm Managing Partner (until 2009) | 02/24/2016 | 45           |
<table>
<thead>
<tr>
<th>Participant #</th>
<th>AAN</th>
<th>Member Firm</th>
<th>Job Position</th>
<th>Interview Date</th>
<th>Interview Length (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>F</td>
<td>2</td>
<td>Firm Managing Partner Former Lead Audit Partner (until 2009)</td>
<td>03/07/2016</td>
<td>70</td>
</tr>
<tr>
<td>26</td>
<td>G</td>
<td>1</td>
<td>Audit Partner</td>
<td>11/20/2015</td>
<td>40</td>
</tr>
<tr>
<td>27</td>
<td>G</td>
<td>1</td>
<td>Audit Partner</td>
<td>11/23/2015</td>
<td>25</td>
</tr>
<tr>
<td>28</td>
<td>G</td>
<td>2</td>
<td>Lead Audit Partner Liaison to AAN</td>
<td>12/18/2015</td>
<td>60</td>
</tr>
<tr>
<td>29</td>
<td>G</td>
<td>2</td>
<td>Founding Partner Tax Partner Liaison to AAN</td>
<td>12/18/2015</td>
<td>105</td>
</tr>
<tr>
<td>30</td>
<td>H</td>
<td>1</td>
<td>Audit Partner</td>
<td>12/09/2015</td>
<td>70</td>
</tr>
<tr>
<td>31</td>
<td></td>
<td></td>
<td>Audit Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>H</td>
<td>1</td>
<td>Office Managing Partner Audit Partner</td>
<td>12/21/2015</td>
<td>55</td>
</tr>
<tr>
<td>33</td>
<td>H</td>
<td>2</td>
<td>Audit Partner</td>
<td>01/18/2016</td>
<td>50</td>
</tr>
<tr>
<td>34</td>
<td>H</td>
<td>2</td>
<td>Tax Partner</td>
<td>01/20/2016</td>
<td>55</td>
</tr>
<tr>
<td>35</td>
<td>I</td>
<td>1</td>
<td>Audit Partner</td>
<td>11/24/2015</td>
<td>25</td>
</tr>
<tr>
<td>36</td>
<td>I</td>
<td>1</td>
<td>Audit Partner</td>
<td>12/04/2015</td>
<td>50</td>
</tr>
<tr>
<td>37</td>
<td>I</td>
<td>2</td>
<td>Audit Partner Former Lead Audit Partner (until late 2015)</td>
<td>01/13/2016</td>
<td>60</td>
</tr>
<tr>
<td>38</td>
<td>I</td>
<td>2</td>
<td>Firm Managing Partner</td>
<td>02/15/2016</td>
<td>65</td>
</tr>
<tr>
<td>39</td>
<td>N/A</td>
<td></td>
<td>AAN Leadership Audit Partner</td>
<td>05/17/2017</td>
<td>40</td>
</tr>
<tr>
<td>40</td>
<td>N/A</td>
<td></td>
<td>AAN Leadership Tax Partner</td>
<td>05/17/2017</td>
<td>105</td>
</tr>
<tr>
<td>41</td>
<td>N/A</td>
<td></td>
<td>AAN Leadership Tax Partner</td>
<td>05/18/2017</td>
<td>80</td>
</tr>
<tr>
<td>42</td>
<td>N/A</td>
<td></td>
<td>AAN Leadership Tax Partner</td>
<td>05/18/2017</td>
<td>75</td>
</tr>
<tr>
<td>43</td>
<td>N/A</td>
<td></td>
<td>Anonymized Professional Organization</td>
<td>07/20/2016 05/17/2017</td>
<td>35 50</td>
</tr>
<tr>
<td>44</td>
<td>N/A</td>
<td></td>
<td>Firm Managing Partner Audit Partner (member firm recently switched AANs)</td>
<td>12/21/2015</td>
<td>65</td>
</tr>
<tr>
<td>45</td>
<td>N/A</td>
<td></td>
<td>Former Firm Managing Partner (until early 2016) Audit Partner Founding Partner</td>
<td>02/05/2016</td>
<td>35</td>
</tr>
</tbody>
</table>

Notes:
- In the paper, we indicate the source of quotations with an alphanumeric code (e.g., P-10) based on the participant number in the first column of this table.
- On one occasion, two partners participated in a single interview (P-30 and P-31). We interviewed a third partner separately at this same firm to ensure our data still contained the perspectives of two unbiased interviewees. Also, in one case, we conducted a second interview with the same participant (P-43) to further explore key topics.
### TABLE 5
**Additional evidence on competition in AANs**

| Competition (general) | Over the years there have been a few times where someone on the [Lead Organization] side, they just disregarded our relationship and our market. Those things, they don’t only surprise us, surprise me; they really create a professional issue that has to be resolved. That’s happened a few times over the years. Where we are independent organizations, they [Lead Organization] have to grow. We want to grow; we want to serve clients. Every now and then, you’ll have someone step outside of the lines. (P-32) I get a call every now and then [from a firm considering AAN membership]. … As a board member, they’ll see my name and call, “How has it been for you, this and that and the other?” It’s always like, “What’s the competition? What are the risks? Am I going to expose myself in a meeting and then someone’s going to come poach my client? Or am I going to give away the cure to cancer and then they’re going to be competing with me on it?” (P-1) We as a firm, [Firm Name], are working very, very closely with [Lead Organization] to decide where each of us fits in this middle market service. I like to refer to our profession like a parfait glass; different firms are different layers. It is important to identify where our layers are and try very, very hard to stay within our lane. Other alliance firms don’t feel the same way or are not proactive, and so some of the friction is the competition. Here, you are part of the same group, and yet [you] have the risk of this larger [member] firm being in the marketplace going after the same clients. (P-38) |
| Geographic exclusivity | When [AAN] was formed, a goal was to intentionally avoid or minimize [geographic] overlap when possible. But there still is some challenge with respect to “competing against ourselves,” more so as each member firm grows. We used to not bump into [Member Firm] much but have been seeing them more and more. … [Also,] they [the AAN] just announced a new firm [joining] that will overlap with one of the smaller alliance firms. (P-13) The [AAN] has been around long enough now that the larger firms, they’re starting to overlap. When they overlap then it starts to cause problems. … that overlapping, if one of your affiliates is in the same city you’re in, you’re kind of competing with your partner. That has been a problem for some. (P-4) For example, the South is very geographically spread out where our offices are. So we just don’t run into each other as much. In the North where I can fly to one place and drive to three or four different [member] firms, they run into each other more. They’re more cognizant of it and they deal with it better. In the South, you may have some blowups because you know, the closest firm to [Southern U.S. city #1] would be [Southern U.S. city #2]. There’s a [Lead Organization] office in [Southern U.S. city #3]. There’s a member firm in [Southern U.S. city #3]. Those are three hours and two hours away. (P-40) |
| Recruitment | It’s created some challenges. The recruiters will call our people—we are not supposed to do that. We are not supposed to hire other member firms’ people, I mean, you just don’t. But the recruiters get carried away and they think that this is a good candidate; they think it’s a good idea to interview the person and then my partners get all mad. Rightly so. So, it’s not without annoyances but it’s not the biggest problem. It’s not keeping us from executing our strategy. (P-2) [Lead Organization] has resources we don’t have. For instance, they have dedicated recruiters that are out soliciting and getting staff. They have dedicated business folks that are out soliciting potential clients. Occasionally one of their recruiters will call or email one of our staff to solicit them without knowing we’re an [AAN] member. Occasionally their business development folks that are really doing cold calling will call one of our clients and solicit them without knowing. That one is even harder. When you’re calling a staff person, you usually know where they work. When you’re calling a client you don’t always know who their service provider is so that’s a little more understandable. (P-36) |
Proposals

Originally, there weren’t any other firms in [U.S. state] that were part of this alliance, and now that there are three of us, and we sometimes might bid against each other—that’s awkward. … [As a result] there may be instances where we’re a little more reluctant to help. I told you, those emails go out, someone has a question, if we see it coming—and I’ve had this happen for a proposal—“Hey, we need help with a proposal,” and we look at it, and we’re like, “Wait, we’re proposing on that same thing.” It puts you in an awkward spot. (P-19)

Domestically? I think the one challenge is … there are areas in the country we overlap. They [another member firm] have an office in [U.S. city], we have an office in [same U.S. city]. I had a client not long ago actually sent out an RFP to the top twelve accounting firms in the world. They Google-searched, one through twelve, dropped off the Big 4, and sent one to the next eight. [Other Member Firm] was part of that. Well, because we knew them, they sent us one too. So then it was [Other Member Firm] and us in the same proposal process. A challenge; however, I will say those kinds of things require collaboration, and that gets … You know, we pick up the phone and we call them, and we’re like, “Who’s neck of the woods is it in?” It’s in our backyard; therefore, in that example, they said, “You guys need to take this one. You’re closer to it.” So, it worked out well. Challenging, but some opportunity for collaboration then. (P-3)

You have to be careful about—when we hear of an opportunity out there, the main goal, obviously one objective would be not compete with the other member firms as much as possible and obviously not to directly compete with [Lead Organization]. From time to time, we get calls about clients that are out there, an opportunity to propose and we don’t know that either it’s already a member firm client or they’re also interested in talking to that prospective client. That’s just a challenge, something we always have to be aware of and mindful of is you know you don’t want to cause any bad blood by competing with our co-member firms or also the [Lead Organization] themselves. (P-3)

Shared branding

I think the bigger challenge is [that the AAN] is trying to grow, obviously. As they grow, they want to have more members in the network. We [have] probably benefited from being a firm in [one area of the U.S.]. Our footprint now is [another area of the U.S.]. We’ve been the fish in that pond or whatever. Then, when you have [Other Member Firm] rebranded [with the AAN name] in our market, and some of our markets are in [U.S. city], they’re there. If you go to [major U.S. city] area where all the firms are lined up in a row, we have our firm [without the AAN affiliation in its name], and we have [Member Firm with the AAN affiliation in its name] network firm down the street. (P-1)

It is an annoyance for [Member Firm] from time to time dealing with the fact that [Other Member Firm] has the branded name. We get [questions like], “Are you a subsidiary?”, “You are part of [AAN] too, are you a subsidiary of [Other Member Firm]?” We compete with them in [U.S. city], they have an office there. They’re literally a half mile down the road from us on the same road. (P-2)
APPENDIX A
Membership Contractual Agreement

AANs enact different types of contractual agreements with member firms. First, a core license agreement is enacted when a firm indicates interest in joining an AAN. This agreement specifies the steps an AAN will take to review a candidate member firm, including general due diligence on the firm, background checks of partners, and an evaluation of the firm’s control environment. These reviews are protected by mutual nondisclosure agreements.

Next, an agreement detailing the operating guidelines is enacted between the AAN and a member firm. This particular agreement covers a wide range of details, including:

- Confirmation that member firms retain their independence; joining an AAN does not change a firms’ independent status and, in fact, firms must disclose this on their websites and in other documents shared publicly.
- Description of the commitments and responsibilities between an AAN and the member firm as well as among member firms; for example, the AAN and other member firms agree not to knowingly recruit another firm’s clients or employees.
- Description of the responsibilities associated with a firm’s membership; for example, some AANs require that member firms participate in a certain number of events (e.g., attend an AAN-facilitated conference once every two years) while other AANs allow member firms to participate in and consume resources at their own discretion.
- Details relating to the ongoing monitoring of a member firm; for example, AANs request copies of peer reviews, monitor PCAOB work, and ensure licenses and registrations are maintained.
- Prescriptions for how engagements should unfold when the AAN and a member firm are serving the client together (e.g., who is in charge, how to share fees).
- Other do’s and don’ts of membership—between a member firm and the AAN as well as among member firms—are also itemized.
- Resolution processes (including the possibility for penalties) are specified for any breeches of contract, including recruitment of another firm’s clients/employees or breeches of geographic exclusivity (for AANs that continue to offer this arrangement).

Also, either within the contractual agreement specifying the operating guidelines or via separate contract, provisions protecting the intellectual property made available to member firms (e.g., licensing of audit methodology) are defined as are provisions regarding permissible use of the AAN’s brand.

Note: We do not identify from which interview participants or member firms this information was received, consistent with protecting each participant’s and organization’s anonymity. Furthermore, we have combined information from more than one AAN to facilitate the description of an “on average” contractual agreement.
APPENDIX B
The Consultation Process

Partners of small accounting firms identified the ability to consult with professionals from another member firm or the lead organization for expertise as a key benefit of AAN membership (Bills et al. 2018). Though access to expertise is an important resource for smaller accounting firms—that is, for the firm that is receiving the expertise—it is one of the core activities resulting in the coopetitive tensions that we examine in this paper. Hence, the overriding objective of our paper is to understand why firms are willing to share information and expertise with other member firms that are considered competitors while expecting uncertain benefits in return. Accordingly, an addendum is required to describe the actual consultation process.

On average, respondents reported that, when an issue arose on an engagement, the partner-in-charge would first consider whether another partner in the existing office might possess the necessary expertise and then, if not, consider whether a partner in one of the firm’s other offices might be able to help. If there was no such expertise within the firm, then the partner would leverage its AAN membership by contacting either another member firm or, alternatively, the leadership at the AAN. Depending on the AAN, contact could be made in several ways. Formally, inquiring partners can contact the designated person responsible for recommending the appropriate individual or member firm (i.e., the liaison within their firm or belonging to the AAN) or, alternatively, they can send an email to a related listserv or post questions on the AAN’s intranet. The effectiveness of this process requires accurate self-reporting of expertise by member firm employees. Depending on individual incentives, an employee may under- or over-report his or her expertise within the AAN. We also learned of more informal approaches in which inquiring partners would research the appropriate individual(s) themselves and make direct contact, meet and establish relationships with individuals they might contact in the future at conferences and networking events, or rely on individuals or member firms with which they had previously consulted and from which they had received satisfactory support.

From respondents’ descriptions of the various paths to expertise—be it through formal or informal means—the objective was to gain access to an expert who is well informed and highly skilled on specific topics (e.g., by service line, industry, or specific issue) and, as a result, are sought after for advice. For example:

Yeah, most would go to the point person. Once someone else gets involved, then they become known; they know who our go-to person is for R&D credits or whatever, and then they’re likely to just contact them directly, which is fine. [...] One thing we’re sharing is what we can do, and these are the people who do it. Anytime, when in doubt, just dial our point person. (P-8)

Whether an individual is formally appointed to one of these roles or fulfills it informally, having certain people in place who know the ins and outs of the AAN as well as professionals who can counsel on challenging issues resulted in what appeared to be smooth coordination of paths to expertise. However, as we highlight in the paper, this path to expertise creates opportunities for coopetitive tensions to arise. Although respondents did describe instances when they were not willing to share information and expertise with rival firms, we learned that respondents seemed willing to help competitors most of the time. We credit the high incidence of cooperative and collaborative behavior—when a competitive market would suggest otherwise—to the transactional and relational mechanisms we describe in the paper.

Some AANs had a more structured process for assigning liaisons and managing the consultation
process while these factors were less formal or non-existent in others. For example, AANs following the lead organization governance model are generally organized by geographic region with partners from the lead organization serving as regional liaisons with overall management responsibility for those areas. Specific to consultations, member firms are instructed to reach out to the help desk or one of the regional liaisons with their question and that this individual will use his/her knowledge of the lead organization to identify the appropriate resource with relevant expertise. A respondent noted that the expectation is to maintain “a 24-hour turnaround time for any request that a member firm has” (P-41). Another respondent indicated that, “once you put someone in touch with an expert, it becomes part of their contact list. Sometimes, they will bypass us [the help desk or liaison] and go straight to that person” (P-40). While this informal process is not necessarily discouraged, the respondent stated:

We would prefer to know [about the consultations that are occurring] because we would like to track and know that those are happening. ... We want to be able to go back at the end of the year to the member firm and say, “Look, here's the value proposition you got from being a member of the [AAN].” (P-40)

As respondents described various instances when they felt the need to access another firm for expertise, we noted two primary outcomes. First, respondents—who, in the examples they provided, were usually the advice-seekers—received responses, be they information, guidance, or support. When we prompted some respondents to tell us how often their issues were resolved, typical responses included, “I think there’s typically people that have dealt with the stuff I see most of the time” (P-16) or “99% of the time, I get the answer to my question in less than five minutes, and it’s free” (P-24). Second, respondents described feeling a sense of comfort or confidence after accessing additional expertise or making a consultation. On one occasion, a respondent reported that he had already determined his opinion on a particular audit issue but appreciated “having that other person who also had a good conceptual knowledge of the issues that we could talk through and come to resolution and feel confident in the answer that I came up with” (P-21). Another respondent referred to the “peace” received from the ability to access other member firms, expressing that “it gives you a nice sounding board” (P-19).