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FLAT WORLD KNOWLEDGE: PAYING AUTHORS TO WRITE FREE TEXTBOOKS

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ABSTRACT

Jeff Shelstad, together with Eric Frank, founded Flat World Knowledge (FWK) in 2007 with the intention of disrupting and reinventing the college textbook market. FWK's business model was designed to deliver quality college textbooks for free and then charge for alternative methods of access. Jeff had argued that one of the most revolutionary aspects of FWK's business model was the potential to make the process of writing textbooks cumulative. He envisioned a situation in which the company would produce one textbook for a particular subject or class that would be modify in different ways by the faculty who adopted it. Derivative versions of the text would then become part of FWK's catalog and could be adopted by future faculty. The critical incident focuses on Jeff's decision to provide incentives to faculty to modify existing FWK textbooks and make those modifications available to other faculty.

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. Describe FWK's business model.
2. Explain what it means to make the process of textbook writing "cumulative."
3. Analyze different possible approaches to providing incentives for faculty to create a modified version of FWK's textbooks.
4. Evaluate the likelihood that implementing an incentive system for modifying (or adapting) existing FWK textbooks will give the company a competitive advantage in the college textbook market.
5. Evaluate the relationship between Open Stories Foundation's mission, vision and strategy, and comment constructively on how these elements should be aligned.

APPLICATION

This critical incident is written for courses in Strategic Management. It is also appropriate for Entrepreneurship courses.

KEY WORDS

College Textbooks, Open Textbooks, Disruptive Change, Business Models, Competitive Advantage

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Jeff Shelstad, co-founder and CEO of Flat World Knowledge, Inc. (FWK), needed to decide how to pay authors to write free textbooks. The issue had been discussed for several months, both formally and informally. There had been meetings, reports, consultations with the company's advisory committee, presentations, and informal discussions in the hallways, and at company grill-outs and volleyball games. He had hoped that over time a consensus would emerged, but it hadn't, and a decision was overdue. As CEO, it was his job to make it. The question was simple in a way, but surprisingly complex, and it would have long-term ramifications for the company. Although he knew the decision wasn't irreversible, it would be difficult to modify down the road, so it was important to get it right from the outset.

Background

Jeff Shelstad, together with Eric Frank, had founded FWK in 2007 with the intention of disrupting and reinventing the college textbook market (Weir, 2009). FWK was a publisher of open textbooks—textbooks that could be accessed by anyone on its website for free. Its business model was designed to deliver quality college textbooks for free and then derive revenue from charging for alternative methods of access. Students could view its textbook for free using a standard browser. They could purchase a physical copy of the textbook or purchase the textbook in a downloaded PDF format. Other formats included ePub, .MOBI (Kindle), mp3, and abridged mp3.

Both Jeff and Eric had experience working for other large textbook publishers, including Pearson, McGraw-Hill, and Cengage. They understood the traditional textbook business and the college textbook market. It was characterized by oligopolistic competition by both publishers and distributors. The college textbook market was approximately \$4.5 billion in 2010. The founders designed FWK to function like a traditional publisher in some respects. For example, FWK contracted with authors to write textbooks and paid authors a percentage (or royalty) of the revenues stream associated with the content they produced. FWK typically paid authors a 20

percent royalty on this revenue stream, while traditional publishers generally paid authors between 7.5 and 15% of the list price of their textbooks. FWK recognized the need to provide an attractive educational product, complete with test banks, lecture outlines, and other ancillary materials to university faculty.

Once FWK developed a textbook, however, similarities between FWK and traditional publishers ended. After FWK produced a textbook, they provided free access to it on their web site. Even more revolutionary than this aspect of FWK's business model, however, was their effort to transfer control of the textbook content to the faculty that adopted it. Textbooks were published under a Creative Commons Non-commercial Share-Alike license. In contrast to traditional copyright, this type of license allowed faculty that adopted a textbook to adapt and/or revise it as they saw fit. The faculty member could then "adopt" their own modified version of the text, and students in their classes would receive the revised version.

Jeff argued that one of the most revolutionary aspects of FWK's business model was the potential to make the process of writing textbooks cumulative. He envisioned a situation in which the company would produce one textbook for a particular class, for example, an introductory management course, and then thirty or forty different management faculty would modify the initial text in different ways. Then each of these faculty would make their versions of the original textbook available as part of FWK's catalog. In this way, new faculty would build on and improve existing textbooks over time, and the cumulative nature of this process would be much more efficient and effective than the existing environment in which each new textbook author started from scratch (Shelstad, 2011). Faculty considering adopting an FWK management textbook would then have numerous different versions of the text to choose from. Each version would be designed to meet different learning objectives or would approach the content from a different perspective. Each version would receive its own ISBN number and would be treated as a distinct product. Jeff believed that this "crowd-sourcing" approach to textbook publishing was potentially the most revolutionary aspect of FWK business model (Shelstad, 2011).

The Decision

How should FWK create incentives for faculty to modify existing textbooks and then make their modified versions available to other faculty for adoption in FWK's product catalog? The specific question Jeff was struggling with was how to pay what he referred to as "derivative" authors? Several members of the management team had argued that identifying derivative modifications of existing textbook as separate products might make it difficult for FWK to convince future textbook authors to contract with the company. FWK currently paid a 20% royalty (Chin, 2011), but existing authors were also motivated by the attribution of authorship. Being recognized as the author of a textbook often had significant professional and reputational benefits. Allowing other faculty to adapt original authors' textbooks and then claim a degree of authorial credit could be threatening to potential authors of original texts. On the other hand, if faculty that created modified version of texts weren't given some authorial credit, they would have less incentive to put in the time and effort required to produce quality adaptations of existing texts. Jeff needed to decide how authorship attributions would be handled.

Jeff had to address more than attributions of authorship. There was the related issue of monetary compensation. Should the authors of derivative versions of existing textbooks be paid? Several members of the top management team had made the case that monetary compensation was

essential if FWK were serious about getting faculty to modify existing textbooks in ways that would be beneficial to FWK. Absent compensation, these individuals argued, faculty simply wouldn't have enough incentive to invest the time and effort required to produce modified versions of textbooks worth promoting as separate educational products.

If derivative authors were to be compensated, how should FWK do it? Should compensation be based on the amount of content modified? Because FWK was a self-described "digital-first" publisher, it had developed a flexible enough platform to allow it, with a little effort, to come up with a way of comparing a derivative work to the original text and deriving some sort of numerical measure of how much of the derivative product was new. If a derivative product were determined to be 30% "new" content, then should the derivative author received 30% of the royalties for revenue associated with the modified version of the textbook? In this scenario, how much credit should be given for contributions related to "organization" (or "re-organization") of the original material? If, for example, a text were modified by simply re-arranging existing content, and the modified version were preferred by new faculty, then how much of the royalty payment should be paid to the derivative author? How should authorship be handled in this case? If both the original authors and derivative authors were given credit, it would then be unclear which sections of the book should be attributed to which authors. What if a derivative work included paragraphs (or sections or chapters) that the original author perceived to be of poor quality, or objected to for other reasons? How would original authors react to be informed that they would be splitting royalties with faculty that modified their original work?

Still others members of the management team have argued that a flat percentage of revenue should be paid to derivative authors and that this payment should be independent of the 20% royalty paid to original authors. In other words, the company would bear this cost as an additional expense. If FWK decided to pay a flat royalty to derivative authors, then should it establish some sort of modification threshold? If any amount of customization would qualify a faculty member that modified a textbook for the flat payment, then what would stop someone that adopted a book from simply moving a couple chapters around in order to collect the payment based on sales, at minimum, to their own students?

Jeff knew that FKW needed a relatively simple way to provide enough incentive to get faculty to create quality modifications of its existing textbooks. Ultimately it was his decision. He had given himself an informal deadline of 5:00 p.m. today to announce a policy. What was it going to be?

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