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MARTIN SEPPÄLÄ

A MODEL FOR CREATING STRATEGIC
ALLIANCES

A STUDY OF INTER-FIRM COOPERATION IN THE
NORTH EUROPEAN ICT SECTOR

Helsingfors 2004

A Model for Creating Strategic Alliances. A Study of Inter-firm Cooperation in the North European ICT Sector

Key words: alliance, strategy, strategic alliance, alliance creation, trust in alliance creation, learning in alliance creation, inefficiency elements, ICT sector

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Foreword

In the foreword to *Reframing Business* (2001, p. ix) by Richard Normann, Henry Mintzberg writes about Normann and his work in the intersection of academia and practice:

“...it stands in especially stark contrast to the pedantic nature of so much of the academic writing on one side today and to the breeziness of so much of popular writing on the other. While the latter is prone to offer superficial advice without much backup, the former collects masses of data to offer few shreds of theory...[Normann’s work can be characterized as]...a kind of protest movement against academia with [its] traditional methods and [for] the idea that research and innovation could be united.”

It is in no way my meaning to compare my study with the work of established scholars like Mintzberg or Normann, nor is it to suggest that “traditional research” would not be needed. My view –following the thoughts of the two authors mentioned– is that also the power of non-positivistic, more qualitative research approaches should be taken seriously, and also that a PhD thesis can aim to be more than just a project structured by the thesis supervisor and “the right to enter” into the academic playground. Further I feel that I need to express the need for a combination of the practical and the theoretical sides of management. Both are needed, and especially valuable is a close cooperation between the two. Gummesson (1991) suggests that the challenge is that so-called practitioners often look at scholars as eccentric, but nice schoolboys often without much consideration for the benefits of cooperation. An equally big challenge seems to be the bias of certain scholars towards practitioners –e.g. consultants– who are just in it for the money and perhaps also abusing or invading the scientific field of the scholars. This view is biased, I am afraid, and it is helpful to neither the practitioners nor the scholars.

Even so, the over-simplification and popularization of theories and much used ‘*best practices*’ were one of the key reasons for me to pursue a PhD. Without proper rigor, the advice used in business life can be seen as nothing more than the opinion of the person providing it (Bonoma 1985). Again, the solution to this problem is not to abandon giving this kind of advice all together, but rather to combine it with academic thoroughness.

Following this thought, Normann writes:

“There is no answer to everyone’s problem. Indeed, searching for the answer is the problem. The job of the writer is to bring insight, to open up the reader’s mind so that he or she can approach unique problems thoughtfully...Thus, the theory of organization and strategy [should move] from its quest for ‘the one best way’ to recognition that ‘it depends’, and...from a belief in rational decision making stemming from a Newtonian view of the world as a rational mechanism to the first steps of belief in social process, learning, and ‘emergence’.” (Normann 2001, p. 6)

It is with these words in mind I hope the reader of this study reads it; as a story that opens up new questions and which describes a certain way of looking at strategy, alliances and alliance creation. It is not *the* way, but it is *a* way. Hopefully it can help practitioners approach “*unique problems thoughtfully*” while also helping scholars find interesting topics to discuss and study further.

Acknowledgements

Pursuing a PhD can be a fairly time consuming and wearing process, with all its various tasks related to writing, transcribing, data analysis and numerous iterations related to these. Even so, I warmly recommend pursuing a PhD to anyone who has a genuine interest in a management topic and who sees the value in being able to focus on a certain topic for a long time, without any major time constraints. Above all, I recommend pursuing a PhD for all analytical practitioners, who come across many interesting thoughts and events in their professional lives and wish they had more time to explore why and how these things happen.

When I began this journey in early 2001, I could not foresee where the process would take me. It has been an interesting three and a half years, and during this process I have been surrounded with amazingly positive and supportive people, without whom I would not be writing these acknowledgements now.

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During my research process, I had the opportunity to have a seat in an office at Hanken for a year, which was very valuable. I wish to thank the department of management and organization and Hanken as well as its other PhD students for creating a fun and supportive working environment and for helping me to also see the value in the world outside of academia.

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Finally, I want to express my gratitude to my family and friends, from whom I get my energy. I am lucky to have such great friends to provide a counterweight for all the work. I am also lucky to have such a great father who serves as a role model both in my professional and private life. I finally dedicate this thesis to my mother, my brother and of course Linda, who has been extremely supportive throughout the process and is just generally an amazing person. The world could learn a lot from the sincerity and good-heartedness of these three people.

Helsinki, December 6th, 2004

Martin Seppälä

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1. INTRODUCTION

Alliances and other forms of cooperation between companies are central topics in today's academic and business literature. Strategic alliances have during the last decades become an important way for top management to pursue the strategic goals of the company (Lorange and Roos 1993). The aim of this study is to further develop this aspect of strategic management by exploring some of the gaps in the current scientific literature in the field.

This chapter gives an overview of the problem field and the structure of the study. Section 1.1 introduces the background and a view of why alliances are important in today's business environment. Section 1.2 then briefly presents existing research and a gap that can be identified in it. This gap is transformed into research objectives, as presented in section 1.3. The following sections (1.4 and 1.5) then present the structure and the key definitions of the study.

1.1. Today's business environment, strategy and alliances

Alliances and inter-firm cooperation are today recognized as central aspects of strategic management. The rate of alliance formation has been growing dramatically in recent years (Lorange and Roos 1991b, Das and Teng 2003). Several authors (Doz and Hamel 1998, Noteboom 1999) have suggested that companies will increasingly in the future be dependent on the capability of creating and managing alliances. There are a few key drivers behind the development towards this "alliance intense" business environment (Culpan 2002, pp. 5-15 and Das and Teng 2000, pp. 33-34, Ireland et al. 2002).

First, globalization. Globalization makes it impossible for any company to precisely define the "market" in which it operates or "competitors" against which it competes. Globalization is also driven by privatization and liberalization of economies, such as the former Soviet states and China.

Second, technological advances. As technology is developing and spreading at an increasing pace it enables companies to interact with each other at a constantly decreasing cost, and constantly increasing effectiveness.

Third, consumer exposure. As a result of globalization and technological advances consumers are exposed to a larger amount of product and service information and options to choose from. Consumers e.g. travel and use the Internet, which means they can more easily compare prices and quality of products globally. Increasingly it is also possible for people to purchase products and services either online or from a local outlet of a global service provider.

All of the above amounts to *increased competitive pressure*. It is impossible for a company to sustainably differentiate or shield itself from global (or local) competition (Singsuwan 1995). This means that the product or service a company produces has to be world-class in every aspect, which in turn means that the offerings need to be produced efficiently (low cost and high quality) and they need to meet the exact need of the customer (differentiated from the competition).

Obviously a single company cannot be world-class in every aspect. Local companies need to find a way to produce the basic services and support functions according to a global cost–quality–leadership benchmark. Global giants in turn need e.g. channels to local markets and knowledge on local market conditions or specific segments.

No company has unlimited amount of resources, and even if it had, it would not make sense to build up resources or capabilities which can be acquired externally at a lower cost (Williamson 1985, Cobiachi 1994). Also, in many cases a company's ability to create value depends greatly on other companies with complementing resources and in such cases cooperation is the only sensible option (Hamel 1990). Whether the cooperation is in maximizing operational efficiency through outsourcing IT operations or e.g. a product development partnership in the food industry, alliances are becoming necessities for every company (Das and Teng 2000, call this "*collaborative advantage*" and a "*key to success*").

Finally, companies that create strategic alliances can draw major benefits from doing so. An ability to cooperate successfully might be a key source of competitive advantage, and for some companies this might be even close to what could be called a core competence (see Hamel and Prahalad 1990). Or as Hamel and Doz put it:

“No company can go it alone. For industry giants and ambitious start-ups alike, strategic partnerships have become central to competitive success in fast changing global markets. More than ever, many of the skills and resources essential to a company's future prosperity lie outside the firm's boundaries, and outside management's direct control”. (Doz and Hamel 1998, preface ix)

At the same time, however, many authors¹ argue that the success rate of alliances remains low, and many alliances are terminated without achieving the desired result. According to the managers in Draulans et al's (2003) study at least half the alliances entered into may be described as a failure within four years, while some research has even indicated a failure rate of as high as 60-70% (Ibid, p. 151). This makes alliances an essential field for research both from an academic and from a business point of view.

¹ E.g. Bitran et al (2002, p.3) state that up to 70% of all alliances fail to meet their initial objectives. Campione (2003) suggests that over half of all alliances fail.

1.2. Past research and research gap

For a long time, strategic alliances have been of major interest to scholars in the field of strategic management. A wide variety of literature has been written on the topic. Early discussion was mainly focused on different types of joint-venture-derivative alliances, but according to e.g. Mintzberg et al. (1998, pp. 256-257) the 1980's and 1990's has been the "take off" decades for different forms of cooperative agreements, in which new creative forms of alliances are invented constantly. During recent years several books and studies (e.g. Lorange and Roos 1993; Doz and Hamel 1998; Contractor and Lorange 1988 and 2002; Das and Teng 2000, Ireland et al. 2002) have tried to grasp the whole life cycle and various aspects of alliances. Studies have also been made that e.g. present different types of alliances (e.g. Pekar and Allio 1994; Cobianchi 1994; Kuglin 2002), alliance motives (Eisenhardt and Schoonhoven 1996, Gulati et al. 2000; Pekar and Allio 1994; Doz 2000) and risks related to alliances (Arino and Doz 2000; Das and Teng 1999).

However, different aspects of inter-firm alliances have received different amounts of attention (Doz 1996). Few researchers have analyzed how alliances are formed (Ireland et al 2002, p. 414). It has also been suggested (Ring 2000) that much effort has been put on studying *formal processes and e.g. governance structures* and their effects on the performance of strategic alliances. What is less understood according to Ring are the "*relationships that may exist between formal and informal processes and evolutionary dynamics that arise during the formation phase of an alliance*" (2000, p.152). Similarly Lin and Darling (1999, p. 126) suggest that future research should focus more on "*...analyzing internal and external contextual factors that facilitate or hamper changes in strategic alliance formation*". Doz (1996, p. 55) argues for the need of more studies related to the "*evolutionary processes*" of alliances.

Das and Teng (2003, p. 279) further claim that "*the determinants of strategic alliance performance*" i.e. the "*key antecedents*" of strategic alliance performance (such as partner analysis and alliance conditions) have not been explored adequately in the literature.

A literature review shows that some authors have, however, earlier studied factors that affect the dynamics of alliance processes. Cobianchi (1994) studied "*strategic alliance factors*" and their effect on alliance success in American aerospace/electronic-oriented companies, and found evidence of impact of several factors. Lorange and Roos (1991a) suggested ten "*obstacles*" for strategic alliances. Forrest (1992) studied different stages of alliances in dedicated biotechnology companies, and suggested a number of "*factors*", Lewis (1990) provided an integrative view of some "*uncertainties*" related to alliances and Iyer (2002) made a theoretical suggestion for the role of learning and evolution in the early stages of an alliance. Even so, following the suggestions of Ireland et al. (2002), Ring (2000), Doz (1996), Lin and Darling (1999) and Das and Teng (2003), it is clear that a gap in the academic literature exists and that the early stages of an alliance life cycle (alliance formation, and particularly different kinds of factors that may affect this process) should be further studied. The previous studies have shown that there are several elements that influence the different activities related to alliances. In these studies, the elements have been called *risks, uncertainties, success*

factors, obstacles, etc. Still, these studies have not been able to bridge the suggested research gap primarily because of two reasons. First, because these studies have not concentrated specifically on the alliance creation process, but rather on the entire alliance life cycle. Second, because these studies have not empirically studied and analytically reviewed the impact of these factors or linked the factors into any sort of an alliance creation model. It is hence one of the aims of this study to further explore these elements, which are here collectively called *inefficiency elements*, following the thought that elements may affect an alliance creation process to the extent that it becomes inefficient in terms of not meeting the goals set for it.

Furthermore, few studies have looked at alliances from the point of view of companies' strategic intents and the strategic contexts they operate in (and how the outcome of alliance creation links to the strategic intent and the strategic context). This study will hence focus on alliances from an expansive, strategic perspective. In other words, collaboration with other companies is ideally seen as a tool for implementing strategy, or as a manager in Mitsuhashi's (2002, p. 112) study of biopharmaceutical organization put it:

“The company systematically uses alliances and collaboration in order to achieve its strategic goals.”

As such the study will emphasize the strategic intent (Cobianchi 1994, Hamel and Prahalad 1989) of companies as a key antecedent of entering into an alliance and concentrate on the alliance formation process. Also why an alliance is considered or called “*strategic*” is central in this context because in some studies (e.g. Lorange and Roos 1993; Doz and Hamel 1998) “strategic alliance” seems to be a synonym for just “alliance” or even “cooperation” without any analytic consideration of what makes an alliance “strategic”. A review of the discourses of the strategic alliance field is hence also needed.

The aim is also to explore the factors that may affect the alliance creation process and the nature of their impact. As existing models (Mitsuhashi 2002; Whipple and Frankel 1998) do not consider these factors, a further aim is to explore whether these factors can give birth to a new model for better explaining the alliance creation process and the inefficiencies that may be caused by the factors, and how this links to the strategic intent of the company. Central in this aspect is also the dynamic nature of alliance creation (Iyer 2002) and strategy (Teece et al 1997, Eisenhardt and Martin 2000). I.e. as the nature of markets is bound to be dynamic, strategies can change and this will inevitably affect the alliance creation process(es) of the company.

Following the discussion above, the aim of this study is to contribute primarily to the theories around alliance creation. Further, as alliances are an increasingly important part of strategy, the aim is also to make a scientific contribution to the more cooperative and dynamic side of strategic management.

1.3. Purpose of the study and research questions

It has been suggested (Saarnio et al. 2000) that given a long enough time period all activities in a company must aim at implementing the strategic intent, which in turn must aim at creating value for the owners of the company (while optimally sharing this value with other stake holders). In a similar way, I suggest that academic research in business topics should –*while primarily aiming to make a scientific contribution*– later lead to information, which can be used in companies to achieve this goal. Given the previous discussion about the fact that alliances seem to be central in today’s business environment and that a research gap in alliance creation can be identified, the following purpose statement is similarly suggested to meet both these goals.

The main purpose of this study is to identify the elements that have an impact on alliance creation processes and to create a model, which better explains the complex and dynamic nature of these processes. To achieve this, the purpose is further broken down into the following research questions:

1. What are the inefficiency elements in creating strategic alliances?²
2. How do the inefficiency elements contribute to the success or failure of alliance creation³?
3. Is it possible to – based on the identified elements and their effect on the process– create a model which would more accurately capture the essence of the creation of strategic alliances?

Through these research questions, the study attempts to make contributions related to resource based (see e.g. Wernerfelt 1984, Eisenhardt and Schoonhoven 1996), evolutionary (Aldrich 1979, Doz 1996) and learning (Huber 1991, Hamel 1990) theories in an alliance creation context.

The research questions are left relatively open ended to allow an inductive approach to the problem. For the same reason an *inefficiency element* is defined broadly as a factor, event or process that impacts the alliance creation process. To support the research questions, a few postulates that work as guidelines for the study are formulated. These postulates are not hypotheses that are tested by this study, but rather the purpose of them is to sum up my personal pre-understanding and beliefs and to provide a background and a high-level framework for this inductive research approach.

1. Alliances, strategic collaboration and alliance creation are complex ventures, which are increasingly important “management tools”.

² See section 1.5 for definitions.

³ See section 1.4.1 for discussion and problematization of causality in this aspect.

2. All alliances are not strategic, and some alliances are seen as strategic by only one of the alliance parties.
3. The strategic context and intent behind strategic alliances play (or should play) an important role in the creation of strategic alliances.
4. Understanding inefficiency elements in alliance creation (and linking these into a model) will help companies create more successful alliances.

The postulates are also intended to help the reader understand my presuppositions as a researcher, as these are bound to affect an inductive research approach (Yin 1994, Gummesson 1991). The following sections will further continue this guidance, by presenting the philosophical standpoints and the structure of the study.

1.4. Methodology and structure of the study

The purpose of the study is to contribute to existing theories by creating new models for alliance creation. This study uses the qualitative, multiple case study method (Yin 1994, p. 13; Perry 1998; Stiles 1995; Voss 2003), which along with other more practical methodological concerns are discussed in more detail later. I argue that for the type of research objectives presented above, where the purpose is to identify *new elements in a process* and create a model that better explains *how* this process works, an inductive, theory building and qualitative research methodology is well suited. The philosophical standpoints –as presented next– are also aligned with this methodology.

1.4.1. Philosophy of science: standpoints

It is recommended that a researcher presents his or her underlying assumptions of the study because these are bound to have an impact on the research itself (Miles and Huberman 1994). Hence, this section gives an overview of the philosophical background of the study, by discussing issues related to the ontology and epistemology, researcher subjectivity, the choice between qualitative and quantitative approaches and finally critical realism.

The basis for understanding any scientific study is to position it according to the ontological, epistemological, methodological approach it takes (Westwood and Clegg 2003). Also how the study or the researcher sees the human nature is in this aspect interesting.

As mentioned earlier, it is the aim of this study to find out what actually happened, and hence the *ontological* approach can be seen to be closer to realism than nominalism. In the realism approach a reality exists independent of the mind of the people involved (Perry 1998). This is also the view of this study; there were alliance agreements written, strategies made, meetings held etc, which can be objectively verified. On the other hand, also the nominalistic side is of interest for this study. E.g. the opinions of the

people involved and the discourses used are also believed to have an impact on the “reality”.

Epistemology is often said to have two extremes: positivism and anti-positivism. Following what was said about ontology, I strongly believe that the individuals who are part of the organization studies are also central in any process. I.e. a positivistic approach (using the methods of natural sciences) would not give a proper picture of this type of social phenomena. Hence the epistemological standpoint of this study is closer to anti-positivism. This also means that this study is seen at least partly as a unique venture, and the search for positivistic, universal truths is perhaps not even desirable (see e.g. Little 1991).

My personal view of *human nature* is very much voluntaristic, which means that people are and should be in control of their own actions. Therefore, it would be very hard for me to do a study where I would try to use a totally deterministic point-of-view. On the other hand, I do recognize that all people are also functioning in larger structures, which limit the chances of exercising free will.

The *methodological* choices I have made for this study are derived from the ontological and epistemological views and the view of human nature as explained above. It could be argued that the methodological choices are also “somewhere in the middle” and that the methodology is neither purely ideographic nor purely nomothetic. I.e. on one hand I aim to *explore* and describe events related to alliances and how people have felt about these events, but on the other hand I am also trying to find some sort of ideas and structures that would make it easier for other companies *to learn from* the cases researched.

One of the key issues with this study and its chosen methodology is my role as a researcher and my own *subjectivity* (see e.g. Walkerdine et al 2002). I believe it is not possible for me to fully separate myself from the research. To claim that would just be self-denial, which would lead to big risks in this type of qualitative case research. I also strongly believe there is no such thing as an objective researcher, and that even in deduction, there can be a bias towards certain kinds of questions or variables to test. Even though the goal of this study is to be realistic, I keep in mind that that the “realistic world” I am creating in the cases is still to at least some extent “my world” and the world of the interviewees and people who have participated in the research. A central question therefore, is that if the qualitative research approach chosen for a study is always subjective, then why not choose a quantitative, deductive and positivistic approach instead, when aiming at some sort of “realistic” conclusions.

The positivistic research tradition has its roots and methods in natural sciences and is hence often seen as more objective (Donaldson 2003) and might thus better fit a realistic approach. Further, (according to Donaldson) a positivist believes that the “*real world*” exists independently of the mind of the observers and that a researcher should search and test for cause-and-effect relationships where a cause produces a specific effect. There exists a wealth of critique towards this positivistic approach in organizational studies. An observation itself is always theory-laden (Potter 2000). According to Tilley (1980) positivists who think that they can obtain objective data by trying hard not to be biased are only deluding themselves. In this view, an organization study is an “*essentially subjective enterprise where multiple perspectives are important for better*

grasping the objective world" (Wicks and Freeman 1998, p. 128). Following this, and the fact that the research objectives call for an inductive approach, I have decided not to follow a positivistic research approach.

In my view, the key to doing valuable organizational research is not to use any of the "extreme" approaches but rather to find approaches that consider both the "objective" and the "subjective"⁴. Patomäki and Wight (2000) suggest that *critical realism* could provide a potential solution to the controversy between positivism and interpretive approaches. Critical realism suggests that the material and ideational should be viewed as a whole that is necessary to investigate as an integral system with all its necessary interconnections, not as isolated fragments torn out of context.

"According to critical realism the world is composed not only of events, states of affairs, experiences, impressions, and discourses, but also of underlying structures, powers, and tendencies that exist whether or not detected or known through experience and/or discourse."
(Patomäki and Wight 2000, p. 223)

According to this view science is then not a deductive process that aims at proving some eternal causalities, but rather a process that aims at illuminating certain "*relatively enduring*" structures and tendencies, which structure the cause of events. In this view, a research aim can be to develop "*a model of some...thing, structure, or condition that, at least in part, is responsible for the phenomenon*" (Ibid, p. 224).

Central in this view is the role of causality. Traditionally, causal effects are either seen as deterministic or probabilistic. This means that either a single or a general cause is claimed to certainly produce an event (deterministic) or that a cause is likely to or relevant in producing an event (probabilistic) (Little 1991). E.g. Bhaskar (1978), who is a strong proponent for the Critical Realist view on causality, argues for the openness of the world and the plurality and *contingency* of causation. In this view, it may be useful to assume that there is not just one cause producing one effect. It is rather likely that many causes interact with each other, often in complex ways, producing a variety of effects in different circumstances. I.e. "*In open systems, outcomes might be the result of many different causes and the same cause might lead to different outcomes.*" (Patomäki and Wight 2000, p. 229, following Suganami 1996). This links directly back to the second research question i.e. how the inefficiency elements contribute to success or failure in alliance creation. To definitely prove that certain elements inevitably lead to either success or failure in alliance creation would be impossible. Hence a more contingent form of causality is claimed for the relationship between single elements and the alliance creation outcome. Instead several elements may jointly contribute to the success or failure of alliance creation in a form of complex causality (Miles and Huberman 1994).

⁴ This is also why I did not consider a purely constructivist /constructionist approach. According to this view, knowledge is "constructed," it does not reflect any external "realities", but is dependent on convention, human perception, and social experience (see e.g. Burr 1995).

Critical Realism can be argued to be close to ontological realism (i.e. that there is a reality independent of the mind, see also Hunt 1990) and epistemological relativism (i.e. that all beliefs are socially produced and can be fallible) (Patomäki and Wight 2000, p. 224). Further, the view on the human nature of Critical Realism is that agents cannot be separated from structures, i.e.

“Men...do indeed make their own history but not in circumstances of their own choosing.”
(Ibid, p. 230, following Marx)

In summary it can be said that the type of realism in this study is closest to what could be called Critical Realism. Hence, in this study there exists *both* an objective world which can be measured *and* a world in the minds of the managers, workers, interviewees (and also the researcher). These two worlds are not mutually exclusive, but rather help to create the most valuable account of certain phenomena. Further, this study is not seeking for any 100% certain causal effects in alliance creation, but rather it seeks many different types of inefficiency elements –such as structures, powers and tendencies–, which collectively and correctly understood, may contribute to more successful creation of alliances.

1.4.2. *Realism, theory generation and abductive research*

There should be a clear link between the aims of the study, the philosophical standpoints and the chosen methodology of the study (Miles and Huberman 1994). As the aim of this study is to contribute to theory by creating models (Yin 1994) related to the alliance creation, a qualitative case study methodology was chosen. This choice of methodology is also aligned with a critical realist approach, since an in-depth qualitative study of a limited number of cases allows the researcher to get a sufficient view of both the more objective and subjective sides of the alliance creation processes.

There are two major approaches to creating scientific theory: deductive theory testing and inductive theory building (e.g. Bonoma 1985; Parkhe 1998; Romano 1989). According to Perry (1998), both approaches can also be viewed as paradigms, and the inductive paradigm can similarly be divided into three, of which one is realism. Further, according to Perry (1998, p. 787), realism is the preferred paradigm in case research because:

“case study researchers expect that their knowledge claims can and will be evaluated through some common measures, like reliability and validity issues, careful evaluation of research topic and methodology, and through review by examiners....In brief, realism is the appropriate scientific paradigm for case study research.”

One of the options in the beginning of this research project was to pursue a study based on pure induction. Grounded theory, which is at one extreme of the induction versus deduction continuum, and emphasizes generating theory from data alone (Glaser and Strauss 1967; Strauss 1987), was very close to this view. Strauss (1987, p. 253) has later “refined” their position and suggested that in practice it is difficult to ignore the theory

accumulated in one's mind before starting the research process, in fact it may not even be desirable. According to Perry (1998, p.789) "*pure induction might prevent the researcher from benefiting from existing theory, just as pure deduction might prevent the development of new and useful theory*". Following this, Parkhe (1998, pp. 252, 256) suggests that "*both extremes are untenable and unnecessary*" and that the process of ongoing theory advancement requires "*continuous interplay*" between the two.

For this study, there were especially two issues that constituted the benefits of a "*mixed approach*". *First*, the fact that I had a wealth of "pre-understanding" because of my professional experiences and knowledge of previous studies, which prevented me from being purely inductive. *Second*, because I realized that I could not study several cases in a purely inductive manner, since I would always have the knowledge from the previous case as I proceeded to the next one.

What a mixed approach meant in practice was that this study was done by going back and forth between theory and practice, which can best be described as an *abductive* research approach (Dubois and Gadde 2002). Dubois and Gadde also talk about "systematic combining", which describes the approach quite well. The idea of this iterative approach is that empirical tests influence the theory need, which influences the further empirical tests and so on. The starting point is some sort of pre-understanding, but not a full literature review.

"In systematic combining, the researcher would not be able even to identify 'all the literature' since the empirical fieldwork parallels the theoretical conceptualization. Hence, the 'need' for theory is created in the process." (Dubois and Gadde 2002, p. 559)

This theory building approach is aligned with the realism paradigm's search for capabilities rather than regularities (Tsoukas 1989). A realist approach is also especially suitable when studying strategic alliances (Stiles 1995), because in between the positivist and phenomenologist extremes, it offers an option which:

"...provides the facility to gain in depth and richness in the investigation needed in order to establish a clear and true understanding of the characteristics influencing intent within a strategic alliance relationship, whilst enabling the application of objective data analysis to impose clearer validation for the study." (1995, p.13)

1.4.3. *Structure of the study*

Figure 1 depicts the structure and main tasks of the study⁵. As the study was of an iterative nature, a preliminary literature review was made first, followed by a preliminary framework that was then tested with a pilot case study. Later both the framework and the literature reviews were elaborated on, and used with the rest of the

⁵ Due to the iterative nature of the study, Figure 1 does not exactly depict the chronology of the study tasks. For more detailed information of the tasks and the timeframe of the study, see Chapter 4.

cases. The structure of the study reflects the nature of the research questions. To allow an inductive mindset in the beginning it was considered important to start with a limited literature review and a pilot study. Later, as some findings emerged it was seen as beneficial to do a more thorough literature review to ensure the scientific contribution of the study.

Figure 1 also shows that as data analysis was started early on in the process, it seemed beneficial to present the study and its findings at different stages of the research process. This has been suggested to be beneficial for qualitative studies (Lincoln and Guba 1985). Following this I presented this study, in its different stages for several –both academic and practitioner– audiences internationally. The presentations allowed me to get valuable feedback and as a result go back to e.g. data analysis and literature reviews based on some suggestions from the audiences. Pre-understanding was in other words followed by understanding, new problematization, a new pre-understanding and so on. Similarly, also methodological issues were considered and critically reviewed during the process.

Further as displayed by the arrows in the figure, and for the sake of clarity, the structure of the text does not follow the chronology of the tasks of the study. This was seen as a beneficial way of presenting the study, as the chronology of an abductive study is hard to represent in writing and as readers are often more used to research reports that reflect a deductive approach (Dubois and Gadde 1999).

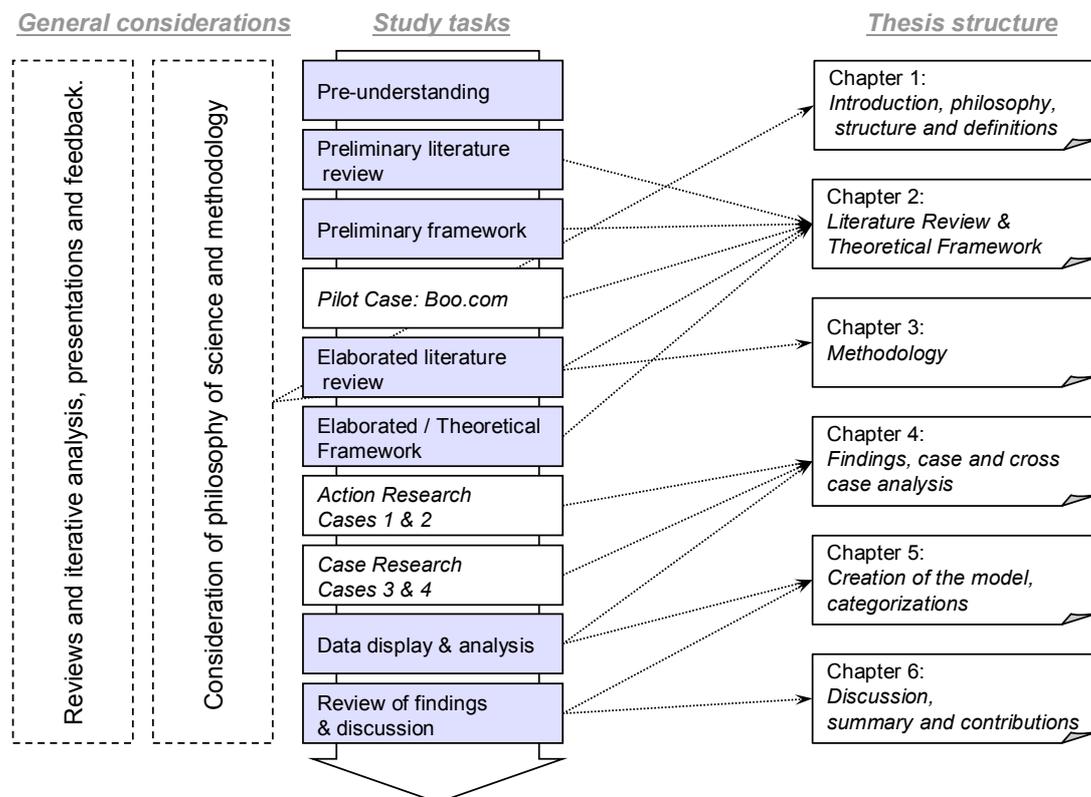


Figure 1. Structure of the study

The first chapter introduces the background of the study, the theory gap, research objectives and definitions. Establishing philosophical and methodological standpoints already early in the text was considered important in order to create a context for the reader. The second chapter then goes on to present a literature review of the main theoretical areas related to alliance creation; strategy and alliances. The goal is to first build a foundation for the whole study, by presenting an overview of strategic management and its links to alliances. As is shown in this chapter, strategy has been studied from many different angles, many of which also consider alliances as key parts of strategy. The presented views on strategy are then later in the chapter used to understand the “strategic context” of strategic alliances. The second chapter also presents literature written on alliances. In this review several aspects typically linked with alliances are presented, but two particular aspects of alliances are highlighted; first *alliance strategy* (or *motives* for alliances) as this is the link between alliances and the strategic intent. Second, *alliance creation*, as this is the first and immediate step of implementing a strategic intent based fully or partially on alliances.

Chapter two further presents a short summary of the pilot case, which helped direct the research early in the process. The chapter then draws together this insight combined with relevant literature and introduces the *theoretical frameworks* for the study. This is done by first showing how the existing strategy literature can be drawn together into a single framework, through which alliances and networks can be understood as a critical part of strategy formulation. Second, the integrative approach to strategy is combined with a discussion of the alliance creation literature to produce the theoretical framework, with the help of which the main cases are studied. A synthesis of the factors that were found in previous literature and could commonly be called inefficiency elements is also presented.

The third chapter presents the methodology of the study, and discusses issues related to validity and reliability of the study. This chapter also lays a foundation for understanding the findings and conclusions drawn in cases 1, 2, 3 and 4. The fourth chapter then presents the case descriptions and individual case findings. Chapter four also presents cross case findings and a discussion around the findings.

Chapter five builds further on the cross case findings and links the inefficiency elements into a model for alliance creation. An attempt is also made to suggest what role the strategic intent behind the alliances could play and how this links to alliance strategy. Finally, chapter six presents further limitations of the study, discusses the significance of the findings in light of previous research, and makes suggestions for further research. A short summary of the study and its findings is also given in chapter six.

1.5. Definitions

Some of the most central concepts in this study are briefly defined below. A more in-depth discussion about the concepts can be found in the literature review chapter. Especially the distinction between alliance, partnership and cooperation is discussed in greater detail later.

Alliance. An alliance is:

1. An agreement (either formal or informal)
2. To share resources and cooperate in one or several areas of business
3. Between two (or more) parties (firms or other organizations)
4. Designed for a short- or a long-term period

(Based on synthesis of Cobianchi 1994, Forrest 1989, Contractor and Ra 2000, Das and Teng 2000)

Strategic alliance. In addition to the four points above, a *strategic* alliance is also:

1. Either of such significant (and not easily replaceable) magnitude that it is of special importance for the company
2. Or clearly linked to the strategic intent of the company
3. Or both 1 and 2.

Partnership. “Partnership” is in this context seen as a synonym to “alliance”. A strategic partnership is correspondingly the same as a “strategic alliance”.

Cooperation (inter-firm). “Cooperation” is in this context seen as a synonym to “alliance”. Strategic cooperation is correspondingly the same as a “strategic alliance”.

Strategic intent. Strategic intent is defined as the long-term (future) business direction of the company (adapting Cobianchi 1994 and Hamel and Prahalad 1989⁶).

Strategic context. The strategic context is the business environment in which the company operates, consisting not only of the industry and its players, but also the resources available to the company and all other relevant elements and events such as geography and government policies and laws⁷.

Alliance Success. Alliance success is measured as outcomes compared to expectations and goals for the alliance, set primarily before the alliance. Alliance success also measures the alliance process itself (Adapted from Arino and Dos 2000, pp. 174-176).

⁶ The chosen definition of strategic intent is only partly aligned with the original definition of Hamel and Prahalad (1989), which has a stronger emphasis on competition and winning.

⁷ Not to be confused with Strategic context of Burgelman (1983), which has a more internal emphasis.

Alliance goals. Alliance goals are business objectives set for a specific alliance before the cooperation is started (or re-started) (Adapted from Roos and Oijord 1992, and Arino and Dos 2000).

Alliance strategy. Alliance strategy is defined as the objectives and plans regarding the company's alliances in general ("*General Alliance Strategy*") or regarding a specific alliance ("*Specific Alliance Strategy*"). The alliance strategy is derived from the company's strategic intent.

Inefficiency elements. Inefficiency elements in alliance creation are elements (e.g. factors, events, processes), which have an effect on the outcome of the alliance creation, and which can be found directly within or outside of the alliance creation activities. The word "inefficiency" refers to the notion that elements may affect an alliance creation process to the extent that it becomes inefficient in terms of not meeting the business goals set for it (primarily) before the process.

Northern Europe. Finland, Sweden, Norway, Denmark, Iceland, Estonia, Latvia, Lithuania

PSP. Professional Service Provider. A company that is in a business-to-business industry selling one or several services related to e.g. consulting, outsourcing, financial auditing, IT or business processes.

ASP. Application Service Provider. A mode of business in which a company leases the user rights to applications and services, updating, maintenance and construction in package form directly from the application service provider.

ICT. Information and Communication Technology. A business or an industry related to Information Technology, Communications or the combination of the two.

Endogamy. Endogamic alliances are formed between companies in related environments that pool similar resources (Jolly 2002).

Exogamy. Exogamic alliances are formed between companies from different backgrounds, who are pooling "*differentiated*", specific resources (Jolly 2002).

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This chapter presents a review of the relevant academic literature and draws it together to create a theoretical framework for the study.

There are two major theoretical areas in this study. The first area deals with different aspects of strategy, which serves as the basis for the approach to study alliances in this study. In order to understand why alliances are central in today's business environment it is critical to understand different aspects of strategy. Depending on "*through which lenses*" one examines strategy, it also determines the mindset of alliance creation. If e.g. the focus of strategy should be to position the company in the market, alliances could be seen e.g. as a way of attacking competitors. If on the other hand, the focus of strategy is on the optimal use of resources, alliances can be seen as a valuable way of getting access to strategically important resources from outside the company. The strategy can also be the origin of, or closely related to, the possible inefficiency elements a company encounters in alliance creation. The different aspects of strategy are presented in section 2.1 and its subsections.

The second theoretical area is inter-firm cooperation, which in academic literature is usually labeled "*alliances*" or "*strategic alliances*". Here different aspects of alliances are presented. Section 2.2 starts with a discussion around the alliance types and alliance motives that can be found in current literature. This discussion is presented as a background for understanding alliance creation. I.e. it is believed that understanding e.g. the alliance motives or the type of alliance created can help understand the alliance creation process. Section 2.2 then more thoroughly presents different aspects of alliance creation and different elements which previous research has found to influence alliance creation. Alliance management and the results of alliances are also discussed.

The aim of this chapter is further in section 2.3 to present a theoretical framework, which draws together the relevant literature and which will be used as a guideline for studying the four main cases of this study. A framework for understanding strategy in an alliance context is presented in section 2.3.1, followed by a discussion around strategy, alliance creation and inefficiency elements which are drawn together into a single theoretical framework. Finally section 2.3.3 presents a summary of the elements from previous research that can be seen as particularly relevant in alliance creation.

2.1. Strategy

Strategy and strategic management have been around for a long time. Perhaps the earliest documented strategy work is the military strategy written by Sun Tzu in the fourth century B.C. Until about the year 500 B.C war was conducted strictly according to a certain code (Karkkolainen / Sun Tzu 1988, p. 41). Sun Tzu believed that not only physical strength and the size of the army, but also moral strength and an intellectual factor were key factors in winning wars (Karkkolainen / Sun Tzu 1988, p. 49). Sun Tzu

wrote about politics, diversion and timing as key elements in military strategy. His work presents many ideas that can be found also in today's strategy literature.

Also Carl von Clausewitz (1780-1831), who wrote about the Napoleonic wars, has been mentioned as one of the early strategists. In his book *On War* (1832) Clausewitz e.g. suggested that warfare was not a chess-like mathematical activity, but rather required creativity and flexibility. Besides von Clausewitz and Sun Tzu's writings on military strategy, modern strategy literature is generally dated back to the mid-1960's⁸. Some of the pivotal books written in this period include Chandler's (1962) *Strategy and Structure* and Ansoff's (1965) *Corporate Strategy*.

It was not until the 1980's that strategic management formed into an academic discipline of its own (Mintzberg et al. 1998, p. 18). Strategic management is also still far from a very clear-cut discipline. Hence, it is possible to identify a number of different approaches to what strategy really is.

2.1.1. Different views on strategy

One of the premiere strategists of the last decades, Michael Porter, has written, "*The essence of strategy formulation is coping with competition*" (1979, p. 2). Porter has also stated that "[a] competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value" (1996, p.64). Porter sees a deliberate analysis, called "*strategic positioning*" to be the heart of strategy formulation (1996, p. 61) and continues: "*Strategy is the creation of a unique and valuable position, involving a different set of activities*" (Porter 1996, p. 68).

There are, however, many different views on what strategy is and how it is formulated. E.g. Wright et al. (1992, p. 3) suggest that "[*Strategy is*]...*top management's plans to attain outcomes consistent with the organization's missions and goals*". Strategic management is in other words often seen as a form of analysis and "*direction pointing*", but for example Mintzberg et al. (1998, pp. 3-21) try to emphasize that strategic management is in fact much more than that, and that it includes cultural, organizational and human performance aspects as well. Also Normann and Ramirez (1993, p. 65) avoid the use of the word *competition* in their definition of strategy and simply state that "*strategy is the art of creating value*".

As can be seen from the definitions above, there is no one simple and widely accepted definition of strategy. Over the years, the perceived importance of different strategy theories has also changed many times (Hoskisson et al. 1999).

Mintzberg et al. (1998) have attempted to make sense of the field, and group the different views and definitions of strategy. The authors have further suggested that the main differences in the views of the different schools can be described by two dimensions. On one hand, this division considers how *complex the external world is seen* as, and on the other it looks at how *structured and rational the internal strategy*

⁸ And perhaps also back to a 1951 book by William Newman.

formulation process is. As also suggested by the definitions of Porter (1979, 1996), as described earlier, he and the highly influential positioning school see the outside world as relatively controllable and the process of creating strategy as rational. At the other extreme, strategy can also be seen as something that involves a complex and uncontrollable outside world and an internal process, which is characterized by learning and an “*emerging*” strategy (Burgelman 1983, Nonaka 1991, Mintzberg 1987).

I will in this study argue that for the purpose of utilizing alliances efficiently, none of the extremes alone are sufficient. On one hand, it is important for a company to consider the role of resources possessed by it and others when it pursues alliances. In addition, valuable in this view is to allow some space for learning and scenarios related to both the strategy and the alliance. On the other hand, also the planning and positioning considerations are critical. Being dependant only on “*learning*” and hoping that a good strategy and good alliance opportunities will “*emerge*” is hardly an optimal way of creating alliances. Central for this study are also the different inefficiencies that can be found by approaching strategy from different angles. Hence, a combination of the different views is needed.

The next sections will introduce some of the most influential approaches (schools) to strategic management and how they relate to alliances. I have chosen to present four “traditional” strategy schools (Positioning, Resource Based View, Evolutionary perspectives and Transaction Costs) and three “other” approaches (Networks, Game Theory and Knowledge Management), which help create a proper strategic base for understanding the creation of strategic alliances.

2.1.2. *Strategy theory*

This section does not intend to be a full review of all strategic management literature. Rather it briefly presents influential schools in strategic management, which are interesting from an alliance perspective. The emphasis is on discussing the schools, what they could be criticized of, and how they can contribute to understanding alliances. In addition to this discussion a summary of the schools and their view on alliances is presented. The discussion and the summary are then later in this chapter developed into an integrated strategy framework.

2.1.2.1. *Positioning (Industrial Organization)*

The industrial organization (IO) or positioning perspective suggests that a firm’s strategic behavior is controlled by its external environment. According to Porter (1981, p. 611) the industrial organization perspective is “*a systematic and relatively rigorous*” approach to industry analysis combined with empirical tests. This view emphasizes that the industry in which the firm operates has a great impact on the firm’s strategy and its performance. Further, industry properties, such as barriers to entry, product differentiation or degree of integration determine a firm’s performance (Culpan 2002, p. 21).

Also the early military strategists' (e.g. Sun Tzu, von Clausewitz) work can be seen to belong quite close to the positioning view on strategy. During the 1960's and 70's the view evolved however, and concepts like the Boston Consulting Group (BCG) growth-share matrix (see Henderson 1979) and Porter's competitive forces (1980) were introduced. The positioning approach starts from the assumption that only a few strategies or positions in a market place are possible. It also suggested that strategy formation is a controlled, conscious process that produces deliberate strategies and that strategy precedes structure. (Mintzberg et al. 1998, pp. 83-84).

The benefit of a positioning approach to strategy is its clear-cut nature. In this view an analysis leads to a strategy, which in turns leads to implementation of the strategic plan created. Following these key points of the IO perspective it could be argued that it sees alliances for a company mainly as a way to compete together with allies against other companies or alliances. An alliance could in this view also be seen as a way to obtain a certain desired position in the markets. Following this, alliance creation would in this view always be a result of a deliberate strategic planning process.

The positioning school has also received much criticism. The primary criticism concerns the fact that strategy is seen as something that can be deliberately created, and that analysis can create superior strategic plans, hence separating thinking from acting and creating a bias towards the quantifiable (Mintzberg 1987, Mintzberg et al. 1998). In an extreme case, creating alliance this way could mean that quantitative goals for an alliance would be set by one party before the alliance, and the process would be carried out without much consideration of inefficiencies affecting it.

2.1.2.2. *Resource-Based View*

The dominance of the positioning school and the growing criticism towards it during the 1980's and early 1990's led to alternative ways being developed (Hoskisson et al. 1999). The *Resource-Based View (RBV)* looks at strategy "inside-out" in opposition to e.g. positioning and Porter's "outside-in" view (Mintzberg et al. 1998, p. 277). One of the key proponents of the RBV, Wernerfelt, summarized its key propositions as follows (1984, p. 172):

1. Looking at firms in terms of their resources leads to different immediate insights than the traditional product perspective. In particular, diversified firms are seen in a new light.
2. One can identify types of resources which can lead to high profits. In analogy to entry barriers, these are associated with what we will call resource position barriers.
3. Strategy for a bigger firm involves striking a balance between the exploitation of existing resources and the development of new ones.

4. An acquisition can be seen as a purchase of a bundle of resources in a highly imperfect market. By basing the purchase on a rare resource, one can *ceteris paribus* maximize this imperfection and one's chance of buying cheap and getting good returns.

The central idea of RBV is that a strong strategy should be based on the resources, competences and capabilities of the firm. These resources should then provide a competitive advantage over rivals. According to Mintzberg et al. (1998, p. 276-277), the resource based theory can be further divided in to two different views. The first is the traditional resource based theory, and the other the dynamic capabilities approach, which emphasizes the development of the resources through strategic learning, introduced by Prahalad and Hamel in 1990. A dynamic view on RBV has many linkages to alliances as explained next.

According to Hamel and Prahalad (1990, p. 82-90), competitive advantage can be found in the capabilities, which lie behind the products and services. This allows the company to e.g. enter new segments, markets or even industries by doing what they do best. This *core competency* can be anything from marketing to billing or manufacturing. Further, according to Hamel and Prahalad, there are three tests that help identify core competencies: *i) they provide "potential access to a wide variety of markets, ii) they "should make a significant contribution to the perceived customer benefits of the end-product" and iii) they "should be difficult for competitors to imitate"* (pp. 83-84). According to this view, non-core activities should not be focused on, and can be handled by e.g. alliance partners.

Concepts closely related to this view of strategy are also *strategic intent* and so called "*stretch and leverage*". According to Hamel and Prahalad (1989, p. 4), strategic intent "*envisions a desired leadership position and establishes the criterion the organization will use to chart its progress...The concept also encompasses an active management process*". Cebianchi (1994, p. 18) has later used the term strategic intent simply to represent "*the future business direction of a company*". This definition simply and elegantly extends the definition of Hamel and Prahalad, who argue for a "*broad direction*" (1989, p.5) and the "*long-term*" nature of this direction (Ibid, p. 4). For the purpose of studying alliances, it seems that using a definition which emphasizes a long-term direction of a company's future may be particularly relevant as argued later in this study.

The "*stretch and leverage*" concept describes the relation between a company's aspirations and its resources. E.g. if there is a gap (either so that the aspirations are "*bigger*" than the resources or the other way around), this means there is a "*stretch*". Leverage on the other hand means that a company must be able to leverage its limited resources. This can be done through concentrating the resources on strategic issues, accumulating resources from e.g. other companies, complementing resources with others to create higher value, conserving resources by e.g. recycling or "co-opting" with another company or recovering resources from the market efficiently (Hamel and Prahalad 1993, p. 78).

To create successful strategies according to the resource based view, a firm should identify the strategic resources that should be developed and exploited. According to

Culpan (2002, p. 25) these resources should be heterogeneous, scarce and relevant. Correspondingly Barney (1991) suggested that these resources should be valuable, rare (and in high demands), inimitable (difficult to imitate) and not easily substitutable.

The Resource Based View and “emerging” strategies have been criticized for being too vague and for the lack of useful practical applications (Priem and Butler 2001). It could still be argued that RBV is a useful component in alliance research. Following the RBV, alliances could be a valuable way for a company to have access to resources outside of the company (see Wernefelt’s fourth point presented above). Also if a firm should concentrate on its core competences, it becomes natural to find partners to take care of other non-critical tasks. Further, this view of strategy enables a more dynamic approach to strategy, which could be valuable when looking at alliances (Eisenhardt and Martin 2000). This dynamic and more evolutionary perspective is briefly presented next.

2.1.2.3. *Evolutionary perspectives on strategy*

While the positioning school is roughly concerned with where to optimally position a company within a market place and the RBV searches for the optimal use of resources, the proponents of evolutionary theory argue for a different approach. Taking an evolutionary approach to strategy means developing dynamic models that allow for random variation as part of the explanation of how strategy is formed (Barnett and Burgelman 1996). Typical research questions from this perspective might hence be “*How does the content of an organization’s strategy come about and how does it evolve?*” or “*How do strategy-making processes take shape over time?*” (Burgelman 1991, p. 239).

The evolutionary perspectives on strategy can also be associated with the RBV-related learning perspective as they both deal with the change that occurs in organizations over time. However, while the learning perspective is more concerned with individuals and groups that learn within organizations (see e.g. Huber 1991), the evolutionary perspective also looks at the market and “external pressures” in which the learning –or evolution– occurs (Child 1997). As such, the evolutionary perspectives have also been closely associated with strategy approaches that emphasize the environment or ecology (see e.g. Hannan and Freeman 1977) in which companies operate. E.g. Aldrich (1979) – one of the early proponents of evolutionary theory– argued that the actual behavior of companies was less a result of strategic choice and control and more a result of changing external conditions. Later Nelson and Winter (1982) further suggested that there are “routines” –i.e. patterns– which explain the evolution of organizations.

From an alliance perspective, evolutionary theory provides an opportunity to understand how alliances evolve over time. It has e.g. been argued that a wealth of alliance failures can be the result of failing to recognize the evolutionary elements, and instead excessively focusing on the initial conditions of the alliance (Doz 1996).

The evolutionary perspectives on strategy have been criticized for focusing too much on environmental determinism and ignoring many aspects of strategic choice (Van de Ven 1979). As such, these perspectives have also been argued to present organizations as “purposeless” entities, which drift towards whichever direction the environment is

pushing them (Mintzberg et al. 1988). Even so, an evolutionary approach to strategy and alliances can help explain the process by which an alliance evolves from a need identified in an organization to full blown cooperation between two (or more) parties. A more specific view on the motives of such a process is supported by the Transaction Cost Theory as explained next.

2.1.2.4. *Transaction Cost Economics*

The Transaction Cost Economics (TCE) approach, developed mainly by Williamson (1975 and 1985) is traditionally linked to the discussion of both strategy and alliances. According to Culpan (2002, p.18), the TCE approach by Williamson can be summarized as follows:

“Markets and hierarchies (organizations) are alternative instruments for completing a related set of transactions, and whether a set of transactions should be executed between firms (across markets) or within a firm depends on the relative efficiency of each mode. TCE assumes that firms exchange goods and services in the marketplace by acting in their self-interest while demonstrating an opportunistic behavior. TCE attempts to answer the basic question of how a firm should organize its exchanges and boundary activities with other firms (that is, build or buy decisions).”

According to the TCE approach, markets are an ideal form of exchange, but when markets fail, organizations are more efficient (Williamson 1985). Another way to put it according to Williamson (1985, p. 19) is that “*transaction costs are the economic equivalent of friction in physical systems*”. The logic is that this “friction” determines which strategic option is the best one. Later Chiles and McMakin (1996) have distinguished between two perspectives in TCE. On one hand the authors suggest that there is the long-term perspective, which determines the success of companies based on “make or buy” decision. On the other the authors suggest a more short-term view of TCE, which influences the managerial decision making perspective.

Although TCE has been widely used in alliance studies, the TCE view has been criticized for not taking into consideration e.g. the difference in transaction costs between large and small firms (Noteboom 1999, p. 20). The search costs could be higher for a small firm e.g. because of the lack of resources (personnel) to handle the relations with other companies and lack of reputation (which helps starting cooperation), and this should be considered when looking at decisions from a TCE perspective. Further, TCE can also be criticized for focusing too narrowly on self-interest and opportunism and lacking the role of trust (Ibid 1999, p. 23). Noteboom stresses e.g. that reputation is a factor that has been accepted in the TCE view, but that there is a controversy here, because trust means decreased opportunism and opportunism in turn could be bad for reputation.

Considering such notions as “*build or buy*”, “*search cost*” and “*trust*”, discussion around TCE brings up many themes relevant to alliance creation. Even though it is argued that from a TCE perspective, an alliance would be used only if something cannot

be produced efficiently within a company, TCE remains a central view also in alliance research. Exactly how it fits into better explaining alliance creation is discussed later in this chapter.

2.1.2.5. *The network perspective*

The network perspective is hard to put under any academic “umbrella”. On one hand, it is often mentioned when discussing different views on strategy. On the other hand it has its roots deep within sociology. If looking at it from a strategy point-of-view, the network perspective is also not so much a theory (Culpan 2002, p. 28) as a way to explain the nature of markets and the interaction between companies (Mattsson 2003). Still, as interaction between companies is becoming increasingly important and the world is becoming increasingly “*networked*” (Håkansson and Snehota 1989), it is extremely important to include network approaches wherever strategic management is discussed.

As networks are hard to categorize, there are also many different ways of approaching networks in research. In this study I have chosen to divide the area in two different approaches; *business networks* and *social networks*.

Business networks

The business network approach has its roots in (North) Europe, and the Industrial Manufacturing and Purchasing Group (IMP, see e.g. Håkansson 1982 and 1987) in the 1970’s and 1980’s. According to Mattson (2003), the intention of the IMP Group has been to understand the “*new nature of markets*”, and not to create a theory of how firms should or should not conduct their business (which is something the “business network” approach has later been criticized for). The business network approach has been built on case studies especially on Swedish manufacturing companies (but also e.g. Germany and the UK, see Håkansson and Snehota 2000, p. 36), and it has been particularly interested in the content of the ties between the companies. The IMP and business network approach has four conceptual cornerstones (Håkansson and Snehota 2000, p. 36-42).

1. The first cornerstone is the relationship between buyers and sellers, which is built from interaction in which technical, social and economic issues are dealt with.
2. Second, the fact that business relationships are connected makes them elements of a wider economic organization that takes a network form.
3. Third, a relationship is a combination, and it affects the productivity and efficiency of a firm, and it can therefore be used to exploit complementarities between firms and their resources.
4. The fourth and final cornerstone suggests that relationships imply confrontation. As knowledge is developed “in the border zone between different knowledge areas”, a

relationship and the confrontation make use of the heterogeneity that exists between the parties.

Even though the business network approach –which is usually labeled a marketing approach– discusses relationships between buyers and sellers, many of its themes can be generalized as strategic issues and inter-firm relationships on a more general level. An attempt to –using this approach– link the company, relationship and network level to a single model is presented below.

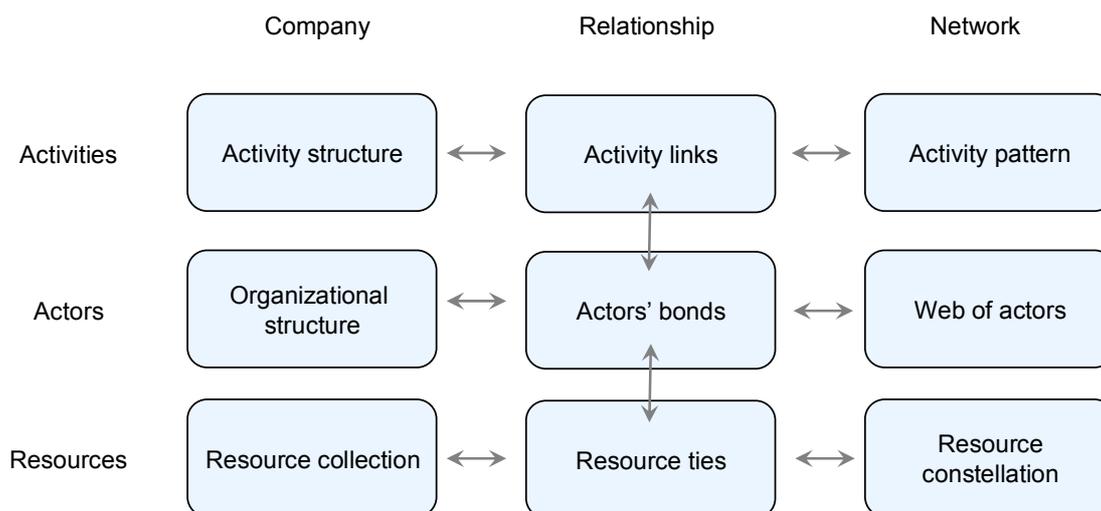


Figure 2. Scheme analysis of relationships and networks (Håkansson and Snehota 2000, p. 45)

Even though the “scheme” might be seen as quite self-evident, it might be valuable because it combines several components that are central when looking at strategy and alliances. First, the fact that the figure emphasizes resources raises some questions. *If companies compete and create their strategies based on resources, then what are the companies’ resources, what role do other linked resources have, and how do resource constellations work as a basis for strategy?* On the other hand also actors and the links (or “bonds”) between actors are central. *If companies are becoming increasingly dependent on alliances, then what role do the bonds between e.g. people in the different organizations play, when scanning for opportunities and creating alliances?*

There are obvious links between the business network approach and the RBV. Besides the fact that both emphasize the role of resources, both approaches can be seen as relatively imprecise. The business network approach e.g. argues that companies are so embedded in their environments that deliberate strategies may almost be impossible (Håkanson and Snehota 1989, p. 136). Further, it is suggested that management in this type of environment might better be described as “reacting” than “acting” (Ibid, p. 148). Taken to an extreme such a view could be criticized for the total lack of strategic management. Even so, the business network approach rightfully emphasizes the role of

networks, and is as such a valuable component of the discussion about the role of strategy within an alliance context.

Social networks

The social networks approach in business has its origins in sociology and the research of ties between individuals. As such, this approach is seldom associated with research in strategic management. Looking from a strategy perspective, themes in social network research may seem scattered and irrelevant to the field. Nevertheless, strategic management can learn from many of the studies done in this field.

In social networks research, the leading scholars have traditionally come from the United States (Owen-Smith 2003). Further, in –in an organizational research context– a wide-spread social network research tradition, the scholars are not as interested in the content of the ties, but rather the structure of the network. Research in this tradition is often carried out through some sort of mathematical modeling of ties and nodes (See e.g. Powell and Koput, 1996 on “dedicated biotech firms” [the nodes] and the “*interorganizational agreements*” [the ties] between these firms.)

From an alliance and a strategic perspective there are especially a few concepts that are interesting to examine further, namely *the position in a network, status signaling, homophily, weak ties and embeddedness*.

In the social network research tradition a central area of discussion is the role of social capital, and the emphasis on social capital in comparison to financial and human capital (Burt 1992). It is argued that actors (companies or individuals) can maximize their social capital by having the right position in a network (Ibid, p. 11-13) because this brings them information (“*access, timing and referrals*”) and control⁹. An equally important concept in the social networks approach is status signaling (Podolny 1993) in a network, and how an individual node can express its position and status toward third parties through links to high-status nodes. Similarly it could be argued that an alliance could be very valuable for a company, if it could provide the company with both a more central position in a larger network of players (e.g. an industry within a geographical region) or some sort of an increase in status because of affiliation with the other party.

Also concepts like “*homophily*” (McPherson et al 2001) i.e. that similar nodes are more likely to form links, and the benefits of “*weak compared to strong ties*” (Granovetter 1982), i.e. that there are also disadvantages with too strong links, are discussed actively within the scholarly social network community. These concepts can also provide valuable insights into why certain companies are more likely to create alliances or what the risks of too tight an alliance might be.

From an alliance creation point of view perhaps the most central concept in social networks is *embeddedness* (Uzzi 1997), which tries to explain “*how social structure affects economic life*”, and claims that “*economic action is embedded in social*

⁹ Burt concludes that when an actor is in a position to “bridge structural holes” in a network, the return on social capital is big.

structure” (Ibid, 1997, p. 37). This view analyzes companies and their interactive behavior, but emphasizes how this behavior is influenced by “*embedded*” links of different kinds between the people in the organizations. The notion of embedded ties also forms a link between the business and social network research approaches (see the “*actor bonds*” of Håkansson and Snehota 2000). Embeddedness also raises the issue of to what extent strategic decisions and activities like alliance creation are influenced by links between individuals within the organizations.

In summary it can be said that there are several links between networks, alliances and strategic management. Even though there are no widely accepted models on how to link these concepts together seamlessly, much can be learned from the respective approaches. Some authors have explored these links and it has been suggested that e.g. social networks create constraints and opportunities for alliance creation and the evolution of alliances over time (Gulati 1998). Further, a network perspective can contribute to alliance related literature by adding means to understand the content of the ties between firms and also by showing that an alliance between two companies inevitably also affects both companies’ relations with third parties.

2.1.3. *Other theories*

Game theory and *knowledge management* are below labeled “other theories” in strategic management. This is done because neither of the two is traditionally seen as a “major” approach to strategic management. It was regardless seen as beneficial to include them in this review, because of the contributions game theory can provide for understanding certain aspects of alliance creation and because of the links between knowledge management and the Resource Based View.

2.1.3.1. *Game theory*

Game theory is based on the idea that the decisions of one player are based on the actual and anticipated actions of others. It was developed into a field in its own largely because of the book *Theory of Games and Economic Behavior* by von Neumann and Morgenstern (1944), and the importance of game theory was also supported by the research of John Nash in the 1950’s. According to Turocy and von Stengel (2001, p.4) game theory is:

“...the formal study of conflict and cooperation. Game theoretic concepts apply whenever the actions of several agents are interdependent. These agents may be individuals, groups, firms, or any combination of these. The concepts of game theory provide a language to formulate, structure, analyze, and understand strategic scenarios.”

I.e. interdependency and strategic scenarios are central in game theory. As such, it is also potentially valuable when examining companies forming alliances, because it could be claimed that in any inter-firm cooperation it is reasonable to assume that both parties

are maximizing their own benefit, and as such there is always the risk for opportunistic behavior of the other party¹⁰.

A classic example of game theory is the prisoner's dilemma by Axelrod (1984), which explains the situation of two prisoners, who get a much higher outcome if neither of them cheats on each other than if both of them cheat. However, if only one of them cheats, he gets the best possible outcome for himself, while the other suffers. Turocy and von Stengel (2001, p.10) describe this problem as follows¹¹:

“The story behind the name ‘Prisoner’s Dilemma’ is that of two prisoners held suspect of a serious crime. There is no judicial evidence for this crime except if one of the prisoners testifies against the other. If one of them testifies, he will be rewarded with immunity from prosecution (payoff 3), whereas the other will serve a long prison sentence (payoff 0). If both testify, their punishment will be less severe (payoff 1 for each). However, if they both ‘cooperate’ with each other by not testifying at all, they will only be imprisoned briefly, for example for illegal weapons possession (payoff 2 for each). The ‘defection’ from that mutually beneficial outcome is to testify, which gives a higher payoff no matter what the other prisoner does, with a resulting lower payoff to both. This constitutes their ‘dilemma.’

Prisoner’s Dilemma games arise in various contexts where individual ‘defections’ at the expense of others lead to overall less desirable outcomes. Examples include arms races, litigation instead of settlement, environmental pollution, or cut-price marketing, where the resulting outcome is detrimental for the players. Its game-theoretic justification on individual grounds is sometimes taken as a case for treaties and laws, which enforce cooperation.”

The best strategy according to Axelrod (1997) is to start in good faith, and react instantly to opportunism of others. In an alliance setting this could mean to trust the other party in the beginning to maximize the joint benefit, but to be prepared to react to any signs of behavior that undermines the success of the joint objectives. As an approach to strategic management game theory is too narrowly focused. Still, as a way to assess the behavior of other parties in different strategic decision making processes – like alliance creation– game theory provides a valuable component.

2.1.3.2. *Knowledge management*

Knowledge management is a very different approach compared to game theory. Whereas the specific areas of application of game theory are easy to point out, knowledge management is a more broad approach. Still, different aspects of *knowledge creation, management and transfer* have also been influential approaches to strategy during the recent years. One of the early and most influential works of this approach

¹⁰ See later in this chapter for more on opportunism and trust.

¹¹ See also e.g. Cable and Shane (1997)

was the work of Nonaka (1991). He (Ibid, p. 2) suggested that the most successful companies concentrate on knowledge creation:

“In an economy where the only certainty is uncertainty, the one source of lasting competitive advantage is knowledge. When markets shift, technologies proliferate, competitors multiply, and products become obsolete almost overnight, successful companies are those that consistently create new knowledge.”

Nonaka (1991) also argued that spreading knowledge widely in the organization and quickly utilizing it in e.g. new products and technologies is the source of competitive advantage for these “*knowledge-creating companies*”.

There are many sides to Knowledge Management, and it is a field which has been criticized for not always being easy for practitioners to grasp (Nonaka 1991). Some authors (Kogut and Zander, 1993) e.g. emphasize the cultural and facilitative nature of organizations, where individuals create knowledge together. According to Nonaka (1991) and Polanyi (1966), there are two main types of knowledge; *explicit and tacit*. Tacit knowledge is hard to define, but it refers to a kind of know-how without written guidelines, and it cannot easily be communicated (Culpan 2002, p. 26). Tacit knowledge could further be seen as a factor, which influences both strategy formulation and alliance creation, although it is not easy to prove empirically.

It could be argued that the Knowledge Management view is close to the work of Hamel and Prahalad (1990), which in turn can be suggested to form a link between the Knowledge Management approach and the RBV approach. Combining these two views, knowledge could be seen as a kind of (critical) resource for the company. From this perspective, an alliance offers a valuable opportunity for a company to acquire knowledge i.e. learn from (and *with*) the alliance partner (Inkpen 1998). Thus, an alliance could also be seen as a way to transfer both explicit and tacit knowledge between the two parties involved.

2.1.4. *Summary*

The earlier review of some of the most central strategy literature has shown that the variance in the theories associated with the notion of “strategy” is extensive. Further, according to Hoskisson et al (1999, p. 421) the development or the different views of strategy can be described as “*swings of a pendulum*”. In the 1960’s and 1970’s the dominating view was to describe strategy from within the company. As Porter and others started to be more influential in the 1980’s, the “pendulum” then swung so that the outside-view was emphasized. Finally, during the recent years strategy approaches close to the RBV have caused a second swing, so that the emphasis is back on the inside view.

As also acknowledged by Hoskisson et al. (1999), the different eras in strategic management studies have all made valuable contributions to area. This is also true when looking at strategy from an alliance perspective. The need, motives and creation of alliances cannot be explained by just one view of strategy. Instead –depending on which

“lens” is used– an alliance can have several motives. The table below summarizes the key elements, seminal work in each of the presented approaches to strategy as well as a suggestion for relevance to alliance studies.

<i>Theory</i>	<i>Basic Tenets</i>	<i>Link to Alliances</i>	<i>Key literature</i>
<i>Industrial Organization</i>	<i>Firm performance is predicted by industry properties. Competitive advantage depends upon the firm's positioning itself in an industry.</i>	<i>Coalitions could be advantageous; some dissolve early and some last longer; strategic flexibility is the source of advantage</i>	<i>Porter (1980 1981), Henderson (1979),</i>
<i>Resource-Based View</i>	<i>Competitive advantage depends upon possession of a bundle of unique, rare, durable and inimitable resources; exploiting such resources fully and building company resource base are important</i>	<i>Strategic alliances can be used to complement possessed resources or to acquire resources that are lacking; resource pooling is important</i>	<i>Barney(1991), Wernefelt (1984)</i>
<i>Evolutionary perspectives</i>	<i>How organizations and content of strategy change over time. How organizations actually behave. Impact and central role of the surrounding environment. Ecology.</i>	<i>Strategic alliances evolve over time. Not just initial conditions or strategy are important. Learning in /through strategic alliances.</i>	<i>Hannan and Freeman(1977), Aldrich (1979), Nelson and Winter (1982)</i>
<i>Transaction Cost Economics</i>	<i>Minimizing transaction cost; choosing the most efficient mode between market or hierarchy ; market failure leads to hierarchy in which asset specificities are important</i>	<i>Strategic alliance might be the most efficient mode; joint ventures are quasi-internalization</i>	<i>Williamson (1975 1985)</i>
<i>Network perspective</i>	<i>Focusing on networks rather than dyad and triad relationships and on resources, status signaling, information as well as control and power in networks</i>	<i>Exchange resources; information and control benefits for members of a network</i>	<i>Håkansson (1982 1987), Håkansson and Snehota (2000), Podolny (1993), Uzzi (1997)</i>

<i>Game Theory</i>	<i>Decision by one player depends on the actual and anticipated decision of other; co-existence of competition and cooperation; opportunity for win-win</i>	<i>Learn fast and quit an alliance; in mutual assurance alliances, cooperation is an option providing long-term benefits; mutual gains</i>	<i>Axelrod (1984 1997)</i>
<i>Knowledge Theory</i>	<i>Knowledge creation, which leads to innovation which in turn leads to a competitive advantage; learning by combinative capabilities is important</i>	<i>Learning through strategic alliances; knowledge transfer between partners and then internalization of knowledge; building expertise in such knowledge transfers</i>	<i>Nonaka (1991), Polanyi (1966)</i>

*Table 1. Summary of major strategy theories, authors and relevance to alliances
(Adapted from Culpan 2002, p. 31-32)*

The theories presented in Table 1 all contribute to a more thorough understanding of the links between strategy and alliances. These strategy theories are later in this chapter drawn together into an integrated strategy framework. This framework will then be used to study the strategy behind the case alliances. It is, however, worth noticing here that the different approaches contribute to different aspects of alliances. The IO, RBV and TCE approaches may be most valuable in understanding the motives behind alliances. In turn, Game Theory and the evolutionary perspective can help understand the negotiation and management aspects better, by supporting the analysis of the anticipated moves of the other alliance partner(s) and by explaining the alliance dynamics over time. Further, network theories might –while also explaining the motives for alliances– help create an understanding of the context in which an alliance is created and the effects an alliance might have on relationships with third parties. The following section will continue discussing these and other key aspects of alliances more in-depth.

2.2. Alliances

The previous section started to build a theoretical base for the study by introducing different aspect of strategy and how they link to alliances. This section goes further into alliance literature, to present some key aspects of alliances and inter-firm cooperation. The aim of the section is to give an overview of the alliance-related literature, and then focus in on the key areas of this study. As strategy is seen as the basis for any alliance and a possibly central origin of inefficiencies, alliance motives are emphasized. Also the alliance creation process and the different inefficiency elements (that may affect the successful creation of an alliance) that have been found in previous research are emphasized. Alliance management –which (rightfully) has received much attention in previous studies– is only presented briefly.

This section begins with an overview of the vast field of inter-firm arrangements that have been labeled “alliances”. Definitions are seen as particularly important, as one of the aims of this study is to examine the discourses used in the alliance field. In addition, because a definition of what an “alliance” is, is bound to be relatively broad, the definitions are followed by a discussion of alliance types and alliance motives, with the aim of bringing clarity by categorization. These categories are also used in the findings of this study. Finally, as the purpose of this study is to find inefficiency elements and to create a model for alliance creation, literature regarding these topics is then reviewed critically –and paralleled with a pilot study– in order to support the argument of the existence of a research gap.

2.2.1. What is an “alliance”?

Different forms of cooperation between companies have naturally been around as long as there have been companies or any sort of entrepreneurial activities for that matter. E.g. according to Draulans et al. (2003, p. 151) co-operation between firms is a very old phenomenon –businesses have entered into alliances for centuries. The authors state, however, that there has been a clearly discernible increase in the number of alliances: during the past two decades the number of alliances between companies has increased substantially.

The first “*alliance literature*” is usually said to date back to the 1960’s and the work of e.g. Evan (1966) and Warren (1967) on inter-organizational relationships. Since the early alliance literature, different forms of alliances have become more important for companies and management and according to Duysters et al. (1999, p. 344) the number of non-equity agreements has grown from less than 10 percent of all alliances in 1970 to approximately 85% in the mid 90’s. This rapid growth has during the 1980’s and 1990’s resulted in a wealth of literature and consequently many different views and definitions of what an alliance actually is. Some of the more influential definitions are presented below.

According to Contractor and Ra (2000, p. 293) an alliance is “any cooperative or joint action between two companies on a contractual and/or equity joint venture basis”.

Das and Teng (2000, p. 33) define strategic alliances as “voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners”.

Willcocks and Choi (1994, p.1) define strategic alliances as “interorganizational relationships involving voluntary, collaborative efforts of two or more organizations to create and add to, if not maximize, their joint value”.

According to Forrest (1989, p. 25) “strategic alliances are those collaborations between firms and other organizations, both short-term and long-term, which can involve either partial or contractual ownership, and are developed for strategic reasons”.

Cravens et al. (1993, p. 55-57) suggest that the right use of the concept “strategic alliances” should only be used when meaning “horizontal agreement between two or more organizations to co-operate to achieve one or more strategic objectives”. The authors see vertical cooperation as “distribution channel relationships”, and also joint ventures are excluded from this definition.

Cobianchi (1994, p. 17) defines strategic alliances as “proposed short- or long-term cooperative agreement between domestic and/or foreign companies in which their cooperative efforts will synergize their collaborative resources to yield a mutual benefit greater than their individual efforts”.

As can be seen from the definitions, one common view of what an alliance is does not exist. Still, all of the definitions are describing some form of *cooperation between organizational entities*. Some definitions (e.g. Cravens et al. 1993) are stricter than others, while others are e.g. emphasizing the voluntary nature of the cooperation. Besides the definitions presented above, it has further been suggested that a key characteristic of an alliance is sharing resources (Hamel et al. 1989, Eisenhardt and Schoonhoven 1996). From this study’s point of view, however, the most important difference between the definitions is the use of the word “*strategic*”. Existing literature does not extensively distinguish between “alliances” and “strategic alliances”. In my view one has to at least consider that, not all alliances are strategic, and there needs to be a clear distinction between strategic alliances and alliances. In summary it can be said that in this study an alliance is defined as:

1. An agreement (either formal or informal)...
2. ...to share resources and cooperate in one or several areas of business...
3. ...between two (or more) parties (firms or other organizations)...
4. ...designed for a short- or a long-term period.

“*Alliance*” is in other words in this study seen as a relatively general word for cooperation between two companies. In contrast to this, a strategic alliance is defined as cooperation, which in addition to the four points above also has to be:

1. Either of such significant (and not easily replaceable) magnitude that it is of great importance for the company....
2. ...or clearly linked to the strategic intent of the company.
3. Or both 1 and 2.

Examples of different forms of cooperation according to this definition could be the following. An *alliance* could be e.g. the bundling of a product of a global manufacturer with the service of a local company. To make this alliance *strategic* for the local company, the value of the product related to the overall value of the bundle (or e.g. total

sales) would have to be significant from the overall point of view of the business. Another possibility would be that the value would be small, but the local company would clearly see that the products of the global manufacturer will become increasingly important, and hence the bundling of the products would be linked to the strategic intent of the company.

Jolly (2002, pp. 47-48) further suggests four conditions that have to be in place in order for a cooperative arrangement to be called a true inter-firm alliance.

First, each of the partners must accept they are losing some of their autonomy in order to pursue a common goal in a well-specified area

Second, each partner has to pool a fraction of its own resources for co-operation to take effect

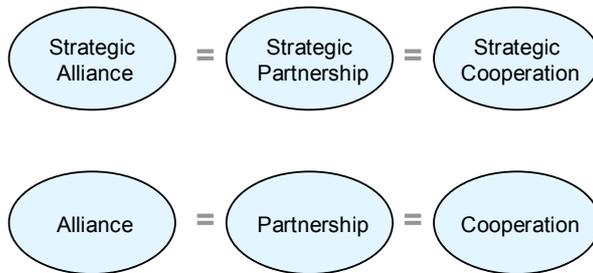
Third, the joint action should produce results that would not occur in the context of an independent action

Fourth, outside from the alliance, each partner should keep a significant part of its business autonomous

These four conditions are in my view a good complement to the alliance definition of this study presented above. These points highlight some of the more practical consequences that each party has to accept, before true strategic cooperation can be created.

I suggest that besides the indistinctness between whether an alliance is strategic or not, another central dilemma is the relationship between the concepts “*alliance*”, “*partnership*” and “*cooperation*” (i.e. cooperation in an inter-firm context). On one hand it seems that in academic literature the three are not separated (see e.g. the definition by Contractor and Ra 2000). In this view, an alliance can be any cooperation between two partners. On the other hand it seems –based on my practical experience– that in everyday business life vocabulary an alliance is much more than just some random cooperation. In this view, a partnership is something in between a formal alliance and ad-hoc cooperation. A strategic alliance is the deepest form of cooperation. The two views are shown in the figure below.

VIEW 1.
Currently indistinct discourses



VIEW 2.
A potential hierarchy?

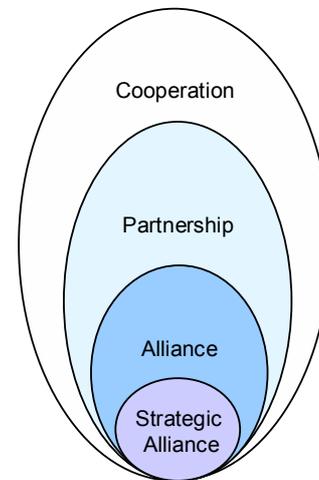


Figure 3. Definitions of inter-firm cooperation

As stated in the introduction, the three concepts are here defined as synonyms (as displayed in the figure as View 1). This definition, however, is preliminary. As one of the goals of this study is to find out what kind of cooperation is viewed as a strategic alliance, it makes sense not to rank the concepts (e.g. as done in the figure as View 2) in any way before the empirical material is gathered. Hence, the discussion about the relationship between alliances, partnerships and cooperation is continued in the conclusion of this study.

2.2.2. Different types of alliances

As the existing literature fails to present a common, clear-cut definition of what an alliance is, it is beneficial to look at the different types of alliances in order to get a picture of the field of research. Existing research shows that alliances can take a variety of forms. Some of these include joint ventures, R&D contracts, joint R&D, joint production, joint marketing, supplier relationships and e.g. distribution agreements (see Lorange and Roos 1991b, Gates 1993; Yoshino and Rangan 1995, 1996). Because of the various types of alliance presented in previous studies, it is here seen as purposeful to explore ways of categorizing the different types of alliances. This section first presents the different types of alliances and alliance categories identified in existing literature. The section is then summarized by dividing alliances according to five “axes”, which are then later used to support the analysis in the empirical cases.

2.2.2.1. *Alliance categories*

There is no commonly accepted view of what different types of alliances exist. In order to shed some light on alliance types, at least¹² three major ways of categorizing alliances have been presented in academic literature.

1. Categorization by the resources pooled, following e.g. Das and Teng (2000)
2. Categorization by the difference / similarity of companies entering into the alliance, following Jolly (2001 and 2002)¹³
3. Categorization according to function or business area in which the companies create the alliance, or how the alliance is structured following e.g. Kuglin (2002)

The first type of categorization is heavily based on the Resource Based View. Das and Teng (2000, p. 43-46) suggest four types of alliances: 1) joint ventures 2) minority equity alliances 3) bilateral contract-based alliances and 4) unilateral contract based alliances. The key feature of unilateral contract based alliances is that the firms carry out their obligations independently of each other. In contrast, in bilateral alliances, partners put in resources and work together on a continuing basis. In this view, minority equity alliances occur when one or more partners take an equity position in others. The key argument of Das and Teng is that both parties bring valuable resources to the alliance. Further, the type of alliance chosen should be guided by the type of resources that are combined. The preferred alliance types (from focal firm A's perspective) are presented in the figure below.

¹² For further categorization or types of alliances see e.g. Dussauge & Garette 1995; Lorange & Roos 1990; Oliver 1990; Pisano & Teece 1989

¹³ Although also Jolly (2002) sees resources as the main differentiator between the two types of alliances, I find there is a subtle but clear difference to the categorization of Das & Teng (2000)

		<i>Partner Firm (B)</i>	
		<i>Property-Based Resources</i>	<i>Knowledge-Based Resources</i>
<i>Firm (A)</i>	<i>Property-Based Resources</i>	Unilateral Contract-Based Alliances	Equity Joint Ventures
	<i>Knowledge-Based Resources</i>	Minority Equity Alliances	Bilateral Contract-Based Alliances

Figure 4. Resource types and a Firm's Structural Preferences (Das and Teng 2000, p. 45)

Categorizing alliances based on the pooled resources is a valuable way to provide guidance also on the organizational form of the alliance. Still, the model could be criticized for only being applicable from a focal firm's perspective. In an extreme case both companies would like to follow the model, which would mean an alliance agreement could not be established. As such, the model provides a researcher with four alliance categories, but with limited applicability.

Jolly (2001 and 2002) suggests the second type of categorization. Partially aligned with Das and Teng, Jolly also acknowledges the central role played by the pooled resources, but also takes in other aspects. Comparing the two companies on a number of axes such as customers, suppliers, ownership, size and culture the aim is to find out how related or unrelated the two alliance partners are (Ibid, 2001). According to this view two types of alliances can be identified; *endogamic* and *exogamic* (Ibid. 2002, p.48). Endogamic alliances are formed between companies in related environments that pool similar resources. Exogamic alliances on the other hand are formed between companies from different backgrounds, who are pooling "differentiated", specific resources. An example of endogamy could be joint design and/or production of parts by car manufacturers while typical exogamy would be an alliance between a pharmaceutical company and a small biotech firm, or e.g. some form of Sino-foreign cooperation. According to Jolly, depending on which of the two types of alliance is created, there are also implications on how the alliance should be managed (as explained later in this chapter).

The division into endogamic and exogamic alliances is far from clear-cut. This is both a strength and a weakness of the conceptual pair. On one hand it is difficult to provide any absolute categorization into either or, because alliances are always likely to have elements of both extremes. Still, this might be the key strength of Jolly's argumentation. As reality is never black and white, the different axes might suggest that an alliance is "more endogamic" or "dominantly exogamic". As such it might be the most useful way of categorizing alliances found in current academic literature.

The third way to categorize alliances is based on the area or function around which the alliance is created, or how the alliance is structured. Cobianchi (1994, p.36) and Kuglin (2002, p.4) here list the following types¹⁴ of alliances:

<i>Cobianchi 1994</i>	<i>Kuglin 2002</i>
1. <i>Marketing agreements</i>	1. <i>Sales alliances</i>
2. <i>Technology licensing</i>	2. <i>Solution-specific alliance</i>
3. <i>Joint product development</i>	3. <i>Geographic-specific alliance</i>
4. <i>Distribution agreements</i>	4. <i>Investment alliance</i>
5. <i>Comprehensive joint ventures</i>	5. <i>Joint venture alliance</i>
6. <i>Research partnerships</i>	
7. <i>Manufacturing agreements</i>	
8. <i>Equity investments</i>	
9. <i>Consortia</i>	

Table 2. *Alliance categories by Cobianchi (1994) and Kuglin (2002)*

The table above shows several categories of alliances. The fact that the two scholars actually mix at least two dimensions into the list is here worth noticing. First, the *function or area* in which the alliance is created (e.g. marketing, joint production, distribution, geography, research, and manufacturing). Second, the *structure* of the alliance i.e. whether the alliance is organized as a joint venture, equity investment, consortia, or some form of contractual licensing or partnership agreement. Mixing these two dimensions could be useful. This type of list does not serve its purpose, but instead it is likely to cause confusion. If separated, however, these two dimensions bring valuable insight into different types of alliances.

¹⁴ In the study, these alliance types were listed as the types of alliance that would be increasingly important in the future.

As a complement to the categorization, some other aspects of alliances are presented below. Different aspects are here more listed than discussed. The purpose is to show the variety of the field summed up by a synthesis of the different alliance types.

2.2.2.2. *Other aspects of alliances*

Below it is suggested that alliances can be *formal or informal* or *strategic or non-strategic*. It is also suggested that e.g. *outsourcing agreements*, *customer-supplier relationships* and *joint ventures* can be seen as alliances. The short overview of these different types of alliances shows the manifold of the alliance research area.

Formal vs. informal cooperation

One way of looking at different types of alliances is whether they have been formalized by some type of a written agreement. Here, formal cooperation is defined as cooperation where a contract has been signed to make the cooperation official (regardless of the content of the cooperation). E.g. Campbell and Reuer (2000) have argued for the role of contracts in alliance creation, and identified several important aspects of alliance agreements. Yet, e.g. already Macaulay (1963, p. 65) suggests that there may be a bias towards written, legal contracts when companies cooperate: “*Although contract is not needed and actually may have negative consequences, businessmen do make some carefully planned, negotiate settlements influenced by their legal rights and commence and defend some breach of contract law suits of arbitration proceedings*”. He further suggests that there could be indirect benefits of contracts as well, including e.g. easier communication within the company. In addition, Macaulay states that people in certain roles, like financial or legal, might be more inclined to use contracts than people in sales. According to Macaulay e.g. sales people can see contracts as “*just one more hurdle in the way of a sale*”.

It is worth noticing, however, that in reality the division between formal and informal alliances is not binary, but that more detailed contracts and less strict contractual arrangement exist.

Strategic vs. non-strategic alliances

Following the discussion about terminology, it is also crucial to think about the strategic impact of an alliance. This is not merely a terminology issue, but in fact the division between strategic and non-strategic alliances might help companies allocate resources and time on the most important alliances. Cobianchi (1994, p. 17) suggests that *strategic fit* would be a good way to define one of the key aspects of engaging in *strategic* cooperation. He defines strategic fit as “*similar goals and objectives between the partners. A partnership whereby the core competencies of each partner is complemented by the other partner*”. Similarly, Lewis (1992) has suggested that for strategic alliances to work there must be mutual objectives, complementary needs and shared risks.

Joint-ventures

Joint ventures are traditionally seen as one kind of strategic alliance. Cravens et al. (1993, p. 57) however argue, that “*the key distinction between the strategic alliance and the joint venture is that the latter organizational form consists of the formation of a separate independent organization by the venture partners. The joint venture creates a new organization to perform one or more business functions*”. It has also been argued that joint ventures are not pure alliances but some sort of a mix between an alliance and an in-house approach (Culpan 2002).

Service Provider – Customer Relationships

There are several common features between exchange relationships and strategic alliances (Perks and Easton 2000). Compared to alliance literature it can be said that the exchange relationships or *Relationship Marketing* is in its business-to-business context looking at a very specific type of alliances, namely cooperation (or long-term “*relationships*”) between service providers and their customers. Looking at certain alliances from this perspective may be valuable because it can help in the successful creation of alliances (Ibid, 2000). Early research of this field includes e.g. the work of Grönroos (1994). In addition, the IMP research tradition with e.g. Håkansson (1982) can be seen to support this view of marketing. Typical for this research tradition is also to analyze the notion of “*dyadic relationships*” between two companies (see e.g. Iacobucci and Ostrom 1996), and try to understand how such a relationship can be built and managed.

Outsourcing relationships

Langfield-Smith and Smith (2003, p. 281) suggest that “*the outsourcing of core and non-core activities are a form of strategic alliance*”. Although this view is also shared by other scholars (Noteboom et al. 1997), this view is not commonly accepted. According to Willcocks and Choi (1994 p. 8) “*most long term total IT Outsourcing deals are almost automatically ascribed the title ‘strategic alliance’ or ‘strategic partnership’*”. The authors disagree on such a generalization, and add (p. 16) that a way to distinguish between outsourcing contracts and true strategic alliance might be to separate cases where an: “[*outsourcing relationship*] *does not merely represent a contract for services which deals with the internal efficiencies of a client organization, but represents a shared development and use of IT focusing on market-place activity.*” According to this definition, IT Outsourcing is strategic cooperation when the risks and rewards are not generated only by aiming at cost savings from IT.

Mergers and Acquisitions

Mergers and acquisitions are easier to differentiate from strategic alliances than e.g. outsourcing or joint-ventures. Cravens et al. define (1993, p. 58) *mergers* as cooperation, which occurs “*between both vertically and horizontally aligned organizations. In these instances a formal mechanism such as an exchange of stocks between the two firms, is used to ensure co-operative behaviour*”. Cravens et al. (1993, p. 58) also describe *acquisitions* as “*the loss of corporate identity of one of the partners as the other partner gain control by purchasing a controlling interest in the other firm*”.

2.2.2.3. *Summary*

Following the discussion about alliance types, it is easy to see that the different concepts grouped under the “alliance umbrella” are of a various nature. I suggest that the main aspects of alliance characteristics can be summarized on five axes and that these five axes present the main characteristics of any alliance. It is preferable to present these dimension as axes, because I argue that none of them are of a binary nature. An alliance can, if considering e.g. *axis 1*, cover activities both close to the customer (joint sales efforts) and far away from the end customer (joint product development). Similarly, an alliance can be more or less endogamic and it can also be based on contracts of a varying thoroughness.

Axis 1. Sales & marketing vs. Solution development. On this axis the alliances can range from a strictly customer/market facing cooperation to different types of joint development of products, solutions, back-office services etc.

Axis 2. Equity & resource pooling vs. non-equity & resource alliances. On this axis the alliances can range from joint-venture type of alliances, to alliances where companies pool resources to complete the alliance goals and further to alliances where companies cooperate with their individual resources without any sort of tangible resource pooling.

Axis 3. Contract-based alliances vs. informal alliances. Alliances can range from indefinite joint venture contracts, to 10-year outsourcing agreements to project contracts and ad-hoc informal cooperation.

Axis 4. Strategic vs. non-strategic alliances. Alliances can range from long-term, strategically important alliances to one-off cooperative arrangements.

Axis 5. Endogamic vs. Exogamic alliances. Alliances can be created between companies between similar backgrounds or between totally different companies. I argue that it is not only important here to look at the type of resources pooled, but also e.g. size and cultures of the companies.

In this study, different types of alliances are considered central to understanding the context in which the alliance is created. The characteristics of an alliance may also have an impact on the alliance creation and be a possible cause of inefficiencies. The discussion related to the different characteristics of alliances is continued in the Findings chapter of this study.

2.2.3. *Alliance life cycles*

The previous sections presented the different views on what an alliance is and which different types of alliances exist. Keeping this discussion as a starting point, this section

introduces literature and key concepts regarding the life cycle of an alliance as presented in academic literature. As the focuses of the study are the motives for alliances and alliance creation (formation), also the corresponding literature is presented in greater detail than the others.

To talk about “stages” in the life cycle of an alliance is not uncontroversial. It could be argued that alliances and cooperation are ongoing processes, where certain steps or separate stages are hard to identify. Still it is beneficial for this study to make such a distinction (between motives, creation, management and results), because it helps structure the existing literature. Academic literature, and in my experience also business practice separates alliance related activities into different stages. E.g. Kogut (1988) suggests that the life cycles of an alliance can be divided into three steps, namely; formation, operation and termination. Similarly, Forrest (1992) states that the alliance process should be divided into three stages; 1) the pre-alliance phase, 2) the alliance agreement development and 3) the implementation phase.

In the following sections, the alliance processes are divided into four stages. Alliance motives are seen as a first and separate step in this process, even if they are neglected by some scholars. The other stages presented are *alliance creation*, *alliance management* and *alliance results*.

2.2.3.1. *Alliance motives*

It is a commonly accepted view that alliances are created based on certain prior motives of the alliance partners. These motives have been examined from many different viewpoints. Some authors (e.g. Glaister 1996, Nielsen 2003) have chosen to present specific types of alliance motives such as market expansion or access to technology. Similarly, Garcia-Pont and Nohria (2002) have suggested mimetism of other industry players as a motive for pursuing alliances. While these studies show the types of specific motives that exist in reality, it is however more interesting is to look at the attempts to create a more integrative classification of alliance motives. Eisenhardt and Schoonhoven (1996, pp. 136-138) have proposed two major areas of motives for alliances.

The first are *strategic* motives, where the leading idea is that companies engage in alliances because they anticipate a certain, appropriate payoff structure by doing so (see e.g. Axelrod 1984; Parkhe 1993). The second are *social* motives, where the need for alliances arises from social contacts and alliances are more likely to happen between people who know each other. Social embeddedness (Uzzi 1997) and e.g. trust and commitment (Larson 1992; Ouchi 1980; Granovetter 1985) are key factors in this view.

The motives presented by Oliver (1990) can be seen to correlate quite well with the *strategy* motives presented by Eisenhardt and Schoonhoven (1996). Oliver has identified six “*determinants*” (or reasons / motives) for alliances¹⁵:

1. Necessity, i.e. that an organization establishes relationships with other organizations to meet legal or regulatory requirements.
2. Asymmetry, i.e. that a gap between the amount of information different organizations have, makes at least one of them want to interact to bridge that gap.
3. Reciprocity, i.e. that organizations want to strive for balance, harmony and mutual support instead of dominance, control or competition.
4. Efficiency, i.e. that organizations want to cooperate in order to improve their input/output ratio (according to e.g. Transaction Cost Theory).
5. Stability, i.e. that organizations in a turbulent and complex environment use cooperation as a strategy to forestall, forecast and absorb uncertainty.
6. Legitimacy, i.e. that the desire to improve a company’s reputation and the need to be associated with certain other companies, leads to the desire to cooperate.

Central in Oliver’s view is the deliberate action of at least one of the parties. As such, only the *necessity* motive could be argued to belong outside of *strategy motives* of Eisenhardt and Schoonhoven (1996), because it does not originate from the needs or wants of either of the alliance partners.

Further, following the idea of strategy motives, Lorange et al (1991, p. 4) suggest that there are four reasons for forming alliances, which could also all be grouped under this category of motives:

1. As a defense, e.g. where an industry leader wants to create new business to strengthen its “family portfolio”.
2. To catch up, e.g. where the business is core to the company, but where it is still a follower in the business segment.
3. To remain, e.g. where a business is strong in its segment and yields more than it would divested, but where the business is peripheral in the parent company’s portfolio.

¹⁵ For a more practical categorization please refer to Cobianchi (1994, p.35 –adapted from Ernst and Young 1992) who lists the following reasons for alliances: Access to new (domestic and foreign) markets, Enhanced marketing, Distribution and sales, Access to new technology, Improving product development, Defending market share, Accessing capital, Limiting strategic risk, Gaining cost advantage, Diversifying

4. To restructure, e.g. where the business is a follower in its industry and plays a peripheral role in the parent company's portfolio, the purpose could be to "unload" the business.

Since the main emphasis of Lorange et al.'s categories is on the position in a typical business segment or portfolio, it could be argued that this view is closely related to the positioning school in strategy. As such this view provides a valuable way of positioning alliances as a way of implementing strategy. On the other hand, also resources are emphasized in creating a link between strategy and alliances. Following this view, "*resources provide both the needs and the opportunities for alliance formation*" (Eisenhardt and Schoonhoven 1996, p. 138) and are therefore a way to explain both the strategic and social motives for alliances.

Similarly Das and Teng (2000, p. 37) also argue for two overall motives for companies to pursue alliances. Both motives are heavily resource based.

The first motive is for a company to *obtain the resources of others*. The authors suggest that firms use alliances to *obtain "resources possessed by other firms that are valuable and essential to achieving competitive advantage"*. In addition there are two conditions that favor alliances over mergers and acquisitions when trying to obtain the resources of other firms. The first is when not all resources are valuable to the acquiring firm. The second is when acquiring and then disposing unwanted resources makes the company take a loss. The logic is that when non-valuable assets are not easily separable, a strategic alliance allows the firms to access only desirable and valuable assets. The second motive presented by Das and Teng (2000, p. 38) is *retaining resources*. The motive here is to keep the firm's own valuable resources securely in the firm. An example could be employing momentarily redundant but valuable personnel by combining them with resources of another company. Another example given by the authors is preventing know-how from decaying by presenting the employees with opportunities to use their skills through alliances.

Das and Teng (2000, p. 38) further conclude that "*obtaining resources is more about creating competitive advantage in the immediate present,[and] retaining resources is concerned more with securing competitive advantage later on*", hence creating an interesting link between the positioning and RBV strategies.

Since the proponents of both the positioning and the resource based views actually make a convincing argument, an obvious synthesis is hence to use both these approaches to explain alliances motives. One type of synthesis is the work of Cravens et al. (1993), who determine the need for certain types of alliances by looking at the resources gaps and combining this with environmental factors. As such, the model of the authors combines both an outside-in and an inside-out view of alliance motives. The four types of strategic options¹⁶ are presented in the figure below.

¹⁶ Cravens et al. actually talk about "Hybrid interorganizational arrangements", but I find it clearer to talk about strategic options, since in-house strategy is not an inter-organizational arrangement.

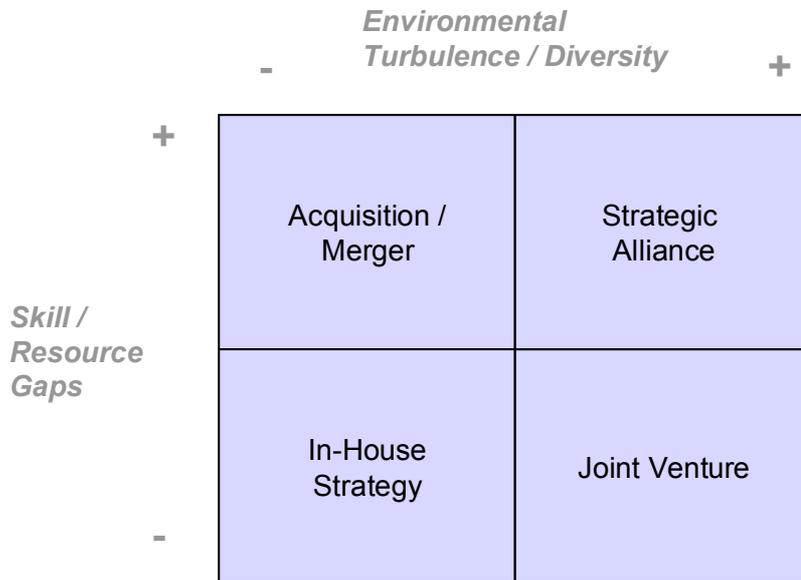


Figure 5. *Types of strategic options (Cravens et al. 1993, p. 59)*

The In-house strategy option is according to Cravens et al. (1993, p. 60) characterized by a situation where there is a low skill/resource gap and a low environmental turbulence, and there are “no strong drivers that mandate organizations to use a cooperative interorganizational relationship”. In this model, joint ventures are created in uncertain environments (where there is not really a need for acquiring new skills) and acquisitions and mergers are used in less turbulent environments, where a skill or resource gap is the driver behind the strategic decision. The authors further go on to discuss the use of strategic alliances. Strategic alliances are in their view used when it is acceptable that both managers from both companies are active in the cooperation¹⁷ and when a certain flexibility (e.g. because of governmental barriers such as anti-trust laws, or hostile publicity that can result from acquisitions) is desired.

This short walk through of existing literature has shown that a variety of models exists and that none of them is capable of giving a plausible overview of the motives behind alliances. In summary it can be said that the alliance motives (or origins for an alliance) can in my view be grouped so that three different sources are identified. The groups are presented in the figure below.

¹⁷ A strategic alliance “is not a passive investment” (1993, p. 61)

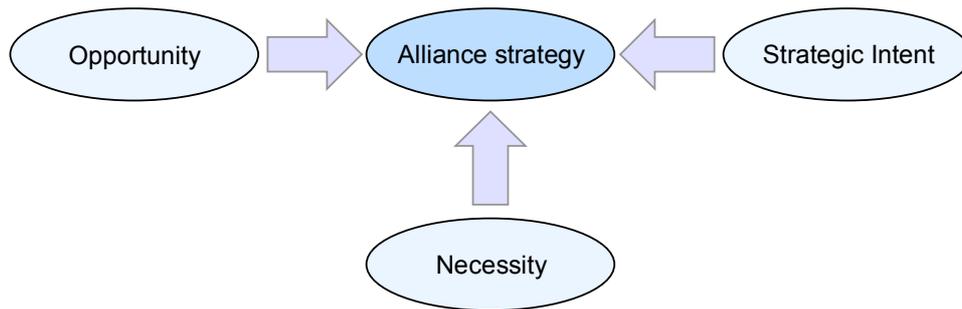


Figure 6. Alliance motives

First, a strategy can originate from the strategic intent (which in turn can be either based on an outside-in or a resource based, inside-out approach), this is what Eisenhardt and Schoonhoven (1996) would call *strategic motives*. Second, the need for an alliance may be a mandated necessity (as suggested by Oliver 1990), e.g. because of regulatory requirements. Finally, an alliance may also come through an opportunity, e.g. through social networks of the focal company's employees (social motives according to Eisenhardt and Schoonhoven). In such case however, as argued later in this study, the alliance strategy needs to be verified and aligned with the overall business strategy (i.e. strategic intent).

Following the thoughts of Das and Teng (2000) and Lorange et al (1991), the alliance motives that are based on the strategic intent can further be broken down in categories as presented in the figure below.

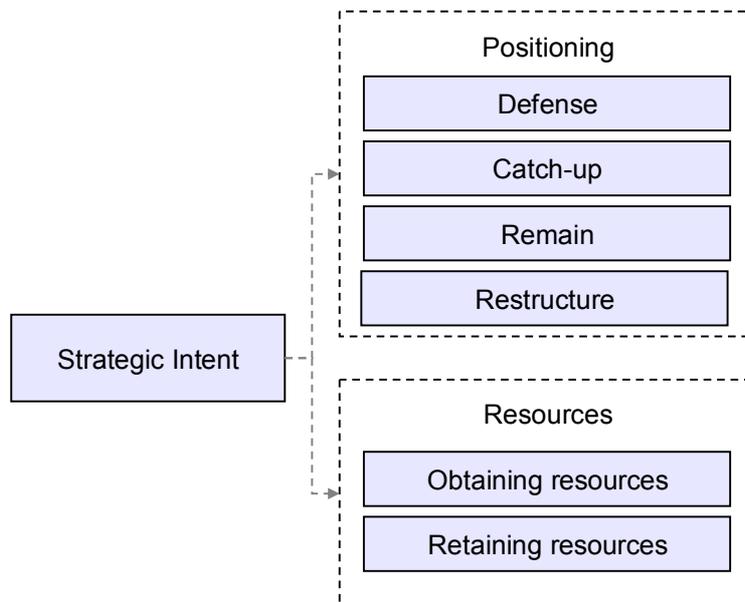


Figure 7. Strategic alliance motives

It could be argued that the alliance motives suggested by Das and Teng (2000) are actually ways of positioning the business compared to other businesses. On the other

hand, the alliance motive categories by Lorange et al (1991) are clearly resource based. Presented like this, the two categories provide a link to the views on strategy in general (as discussed earlier). Also, as argued in the next chapter, just using one approach to create strategies or alliance strategies is not sufficient. Hence, an alliance motive can be e.g. to obtain resources of another company (resources based motive) *and* to with this move catch-up in a certain business (positioning motive).

After the need for an alliance has been established by one or several of the motive components presented above, the alliance must be formed into an operative venture or agreement of some kind. The following section explores the existing literature on alliance creation.

2.2.3.2. *Alliance creation*

Once the need for an alliance has been established, a process of making the vision reality has to be started. Interesting in this aspect is how an alliance is formed and what the steps are which a company should follow to ensure that the alliance is created efficiently. Several authors have presented their views on what the steps are when creating alliances.

It is notable that the alliance creation ("*formation*" is used as a synonym for "*creation*" in this study) process described in this study is seen as a proactive process and not a passive one. Mitsuhashi (2002) has differentiated between the two, and sees "*a passive alliance formation*" process as something where a company is contacted by another, who wants to form an alliance (vs. a proactive process, where the focal company is the initiator).

Alliance literature typically describes the alliance creation process as a number of sequential steps. E.g. Kuglin (2002, pp. 11-16) argues that alliance creation should start with a thorough six-step review of the need for an alliance: 1) Business and Market Strategy. I.e. review "*whether an alliance relationship is needed by an organization*". 2) Market place scan. I.e. Scanning for "*competitor activity*" 3) Product Portfolio Assessment vs. Marketplace Scan 4) Build Internally vs. Acquire Externally 4) Organizational Readiness and Speed to Market Demand 5) Proceed to Build Internally or Acquire Externally.

Similarly to Kuglin, Lewis (1990), suggests that creating alliances is roughly divided into three steps; 1) establishing the goals for the alliance, 2) establishing the type of alliance needed 3) "*scanning for opportunities*" (pp. 203-214) and 4) "*Choosing partners and building alliances*" (pp. 215-234). This process is then followed by *managing* and further *developing* the alliance.

Keen and MacDonald (2000, pp. 214-215) state that when creating alliances, the focal company goes through three steps. 1) *Alliance identification*, 2) *evaluation* and 3) *negotiation* together establish the approach for assessing and *implementing* alliance opportunities. It must include both the alliances the company wants to create and the alliance opportunities others present.

Several authors (Campbell and Reuer 2000, Contractor and Ra 2000) also explore the central role of contracts that outline the rules for the cooperation. Kuglin (2002, p.27) suggests that after the need for an alliance and the type of alliance needed has been established, the next steps are to select the right partner and construct an appropriate alliance agreement. Kuglin states that the alliance type needed will largely give direction to the partner selection (the search for partners with “*complementary products and services*”). Further, the author states that “*the construction of an alliance agreement takes time and involvement from both the leaders of the parties and the lawyers*”. In this process a proper approval process of the alliance agreement is also central.

On the other hand, the road that leads to the agreement is also very important to understand. Here the literature is concerned with negotiations. E.g. Campbell and Reuer (2001, p. 26) state that “*managers designing strategic alliances can become more effective by raising their awareness of some of the...negotiating aspects of collaborative agreements. They need to recognize the relevance of both the content of strategic alliance agreements and the process of negotiations*”. The authors describe the formation of joint ventures as a negotiation process that starts with selecting the right partner and ends with the “*final handshake*” (2001, p. 19). From this view, the alliance formation process is characterized by a formal process, where both parties select representatives that negotiate the cooperation agreement. Early stages in this process consist of signing a nondisclosure agreement (NDA)¹⁸ and optionally also a “*lockout*” agreement, which prevents one or both parties from negotiating the same deal with other parties. After this the parties need to agree on governance, performance clauses, restrictions, liabilities, sharing of benefits created by the cooperation, dispute resolution etc. (2001, p. 19-24).

The existing literature on alliance creation is well summarized in the two models by Mitsuhashi (2002) and Whipple and Frankel (1998). The model by Mitsuhashi is presented first. He describes the alliance creation process in five steps, starting with defining the alliance opportunities and ending with due diligence and making the deal.

¹⁸ See also Gomulkiewicz (2004) on NDAs.

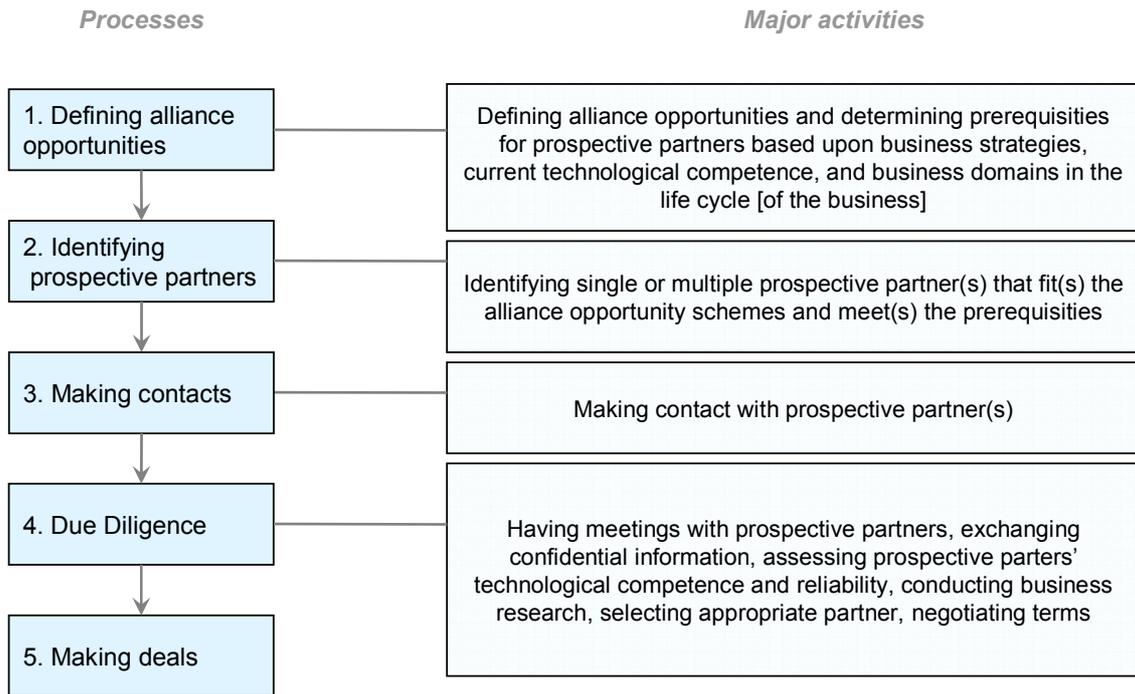


Figure 8. Alliance Formation Process (Mitsubishi 2002, p. 113)

With his process model Mitsuhashi argues that an alliance formation process is quite straight-forward, and can be seen as useful in the way it describes the different steps in alliance creation. The model could, however, be criticized for not properly taking into account other aspects of alliance creation. Mitsuhashi's own study of "20 biopharmaceutical organizations", on which the model is based, already shows that there are actually several elements of uncertainty related to the process (2002, pp. 111-112, 114).

Similarly to Mitsuhashi also Whipple and Frankel (1998, p. 338) create a model for alliance formation. Just like Kuglin (2002) the authors also divide the process into a need step (awareness) then go on to partner search and selection. The model of Whipple and Frankel is presented in the figure below.

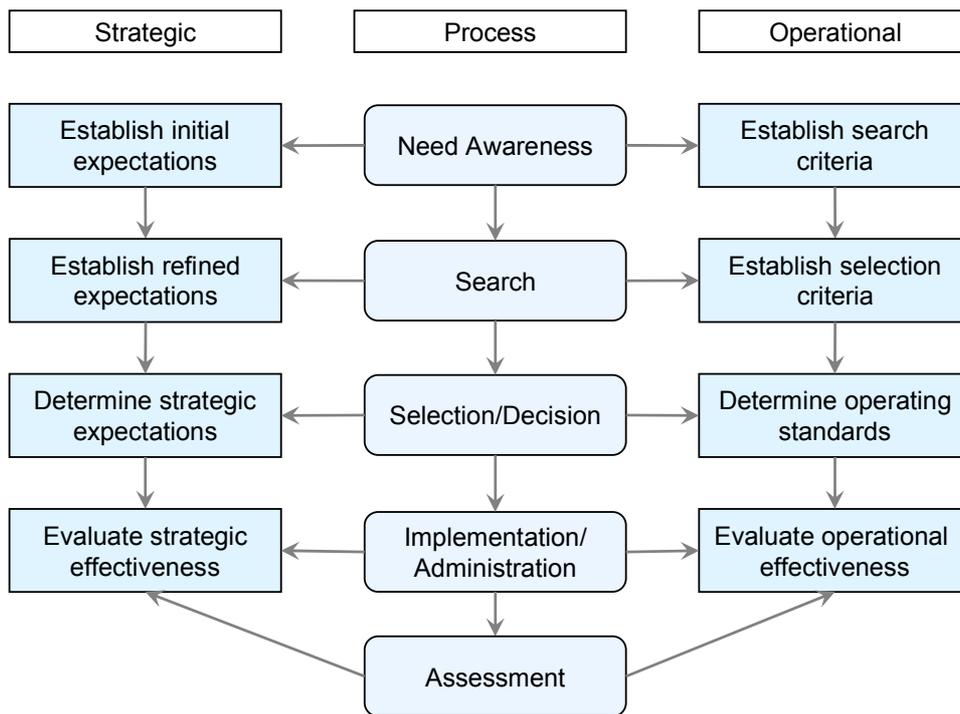


Figure 9. Alliance Formation Model (Whipple and Frankel 1998, p. 338)

What makes this model valuable is that Whipple and Frankel (1998) have also identified two parallel streams to the alliance creation process, namely the *strategic* and *operational* stream. The strength of this model is hence that it recognizes that the alliance creation process cannot be separated from an operative view (i.e. a need to link the alliance to daily operations) or a strategic view (i.e. how the alliance fits into overall strategic objectives). By looking at the model as horizontal steps, the authors suggest that the alliance creation process actually consists of three steps¹⁹, namely alliance conceptualization, alliance pursuance and alliance confirmation (pp. 338-339). It could be argued that Whipple and Frankel are following the positioning view on strategy, when they are claiming that the first step begins with “*changes in strategy*” caused by “*competitive forces*”. This step also includes establishing the goals (that are linked to the new strategy) and search criteria that determine the “*necessary characteristics of an alliance partner*” (p.340). In level two the company refines its goals and selection criteria (which narrow down the potential partners to “*small pool of finalists*”). In step three, the company chooses its partner and both companies decide to pursue an alliance. In step three issues regarding Strategic Effectiveness and Operational Effectiveness are tackled (1998, pp. 338-342).

While the model of Whipple and Frankel (1998) elegantly links the alliance creation to the strategy of the company, it can also be criticized for emphasizing a limited view of

¹⁹ It is here assumed that the fourth step (“Alliance Implementation/Continuity”) is not a step in alliance creation but rather in alliance management.

alliance creation. The same criticism can also be extended to the existing alliance creation literature more generally, as displayed later in section 2.2.4.

2.2.3.3. *Alliance management*

As also presented in the model in the previous section, the alliance is ramped up after it is created, and the alliance enters an operational mode. In this study, this mode is called alliance management, according to the activities related to it. As argued in the previous section, many authors see alliance management as a central part of alliance related literature (not least because of the argument of an *on-going task*, Doz and Hamel 1998). According to this view, there are no “steady state” alliances, but rather alliance management is characterized by a process of constant learning and evolution (Doz 1996). Closely related to the concept of alliance management is alliance capability.

Many authors have stressed the importance of alliance management. The importance of alliance management is also acknowledged in this study, even though the focus is on alliance creation. While a company might be able to successfully create an alliance, the long term success of an alliance requires active management. Among others, Draulans et al (2003, pp. 153-154) have emphasized alliance management and “*the capability to manage alliances successfully*”. The authors state that “*although every alliance is unique, the processes of alliance management share certain features. The capacity to manage alliances and absorb knowledge on alliances is a distinct management capability: the alliance capability.*” Further, according to Kale et al (2002) an alliance capability is defined as the mechanisms and routines that are purposefully designed to *accumulate, store, integrate, and diffuse* relevant organizational knowledge about alliance management.

Three alliance capability mechanisms can be identified, namely *alliance training* (to accumulate and diffuse knowledge about alliances), the presence of an *alliance specialist* (storing, integrating and diffusing alliance knowledge) and *alliance evaluation* mechanisms (aimed to accumulate knowledge based on a firm’s own alliance experience with its partners) (Draulans et al. 2003). According to this view, companies possessing an alliance capability consisting of these three elements will exhibit higher alliance success rates than those that have not invested in building up an alliance capability. In this way companies are suggested to be able to create a source of competitive advantage at firm level, as suggested by the HP case.

Twelve years ago Hewlett Packard entered into an alliance with Canon in the field of laser printers. The PC know-how of HP was combined with Canon’s knowledge of the laser engine, the most expensive part of a laser printer. HP used the Canon engines in the production of its laser printers, thereby managing to increase its share of this 6 billion guilder market within a few years from virtually 0% to 70%. Building on the success with Canon, HP also makes use of products developed in partnership with suppliers for other products.

As a result of these highly successful alliances, the feeling arose within HP that the knowledge acquired in the past could be used for future alliances. Responsible managers indicated to the

board that now that they had the necessary experience, the alliance know how should be geared more closely to Hewlett Packard's specific situation. HP responded by developing activities which could institutionalise the alliance knowledge and skills in a well-structured approach. Best practices from the organisation itself were communicated among the responsible managers through regular training courses. Checklists were drawn up for managers as an aid towards the successful conclusion of their alliances. In addition various alliances are regularly evaluated individually and compared with one another at top level. In this way HP became a learning organisation in the alliance field. (Draulans et al. 2003, p. 152)

The HP case illustrates how the company was able to grow the alliance capability and distribute this knowledge throughout the business. This type of "*institutionalization*" of alliance knowledge is essential in all aspects of the alliance life cycle. In this aspect, successful cases of cooperation (as references) were important factors in getting the acceptance within the company. Also Doz and Hamel (1998) follow this thought, and go even further in arguing for the importance of alliance capabilities. According to the two authors alliance capability is a central part of a company's competitive success and should be widely spread across organizations. A challenge, however, is how to measure the success of alliances and how this links to the overall success of a company.

2.2.3.4. *Alliance results*

As in any business subject, an important question of alliance research is how to measure the results and how to determine whether some cooperation was successful or not. Some studies (e.g. Cobiauchi 1994) have been made, where different alliance success factors have been studied against various performance measures of the whole firm. Similarly, Chan et al (1997) have studied the impact of strategic alliances on the stock market performance of companies. The downside with this approach, however, is that it is hard to prove a cause-effect relationship, when singling out just the alliance factors and ignoring important factors such as market trends, economy growth, competitors' moves, availability of resources etc.

It could perhaps be more beneficial instead to focus on the outcomes of the focal alliance of the study and the objectives set for it.

Roos and Oijord (1992) have suggested a model that presents the constructs that influence alliance performance, but leave the performance measurement definitions on a high-level. Arino and Doz (2000, pp. 174-176) on the other hand argue that the results of any alliance are evaluated by both parties through an "*ongoing assessment*" on two dimensions; *outcome assessment* and *process assessment*. Each partner assesses the intermediate outcomes from the joint activities as signals and clues about potential future value creation. On the other hand each partner also assesses the quality of the process of working together. Arino and Dos further suggest that outcome and process assessment are made against both the initial expectations and *the expectations raised during the cooperation*. They also suggest that both partners bring into the alliance

some expectations regarding value creation and value appropriation (i.e. how value is or should be distributed between the partners).

For the purpose of this study, it is valuable to note that not only the (intuitive) outcome assessment and the goals set before the start of the cooperation measure alliance success. While these should be a (perhaps *the*) central aspect of measuring success, also new expectations raised during the cooperation and the assessment of the alliance process are important aspects of truly understanding the success. This makes labeling an alliance successful or unsuccessful harder but on the other hand it might be more in line with the complex nature of alliances. A discussion around some of the elements of complexity and inefficiency related to alliance is found in the next sections.

2.2.4. *A preliminary model for alliance creation*

The sections above present an overview of the literature related to the different stages of alliance lifecycles. The distinction between an alliance lifecycle and alliance creation is not discussed in-depth in current alliance literature, but it could be argued that in fact alliance management and alliance results should also be seen as a part of any framework that aims at capturing the entire span of alliance creation. The primary reason for this is that an alliance is an on-going task (Doz 1996) and that alliance creation process cannot be considered complete without some form of results –which in turn are likely to require management. Hence, these two steps are included in the preliminary alliance framework (which is based on existing literature) presented in this section. Although there are differences, the existing literature shares several common steps in its description of alliance creation. A synthesis of these five steps is presented below.

Step 1. A common feature of existing academic literature is that it argues that some aspect of *strategy* should be the first step of alliance creation (Kuglin 2002, Whipple and Frankel 1998).

Step 2. The next step according to existing literature is then to establish *goals* for the alliance. This step is described as a decision to “*Acquire Externally*” (Kuglin 2002), “*Establishing the need*” (Lewis 1990), “*Alliance identification*” (Keen and MacDonald 2000), “*Defining Opportunities*” (Mitsubishi 2002), or “*Determining strategic/refined expectations*” (Whipple and Frankel 1998).

Step 3. After establishing the goals/needs/expectations for the alliance, existing literature is concerned with *shaping* or *building* the alliance. This phase is either simply called “*choosing partners and building alliances*” (Lewis 1990), “*Negotiation*” (Keen and MacDonald 2000), “*Contracting*” (Campbell and Reuer 2000 and 2001), Contractor and Ra 2000), “*Due Diligence*” (Mitsubishi 2002) or “*Implementation*” (Whipple and Frankel 1998, Keen and MacDonald 2000).

Steps 4 and 5. Existing literature often also mentions *alliance management* and *alliance development* (Lewis 1990, Keen and MacDonald 2000, based on the *results* or *outcome* of the alliance (Whipple and Frankel 1998) as parts of alliance creation, because alliance creation is often not seen a one time process, but rather an *on-going task* (Doz and Hamel 1998).

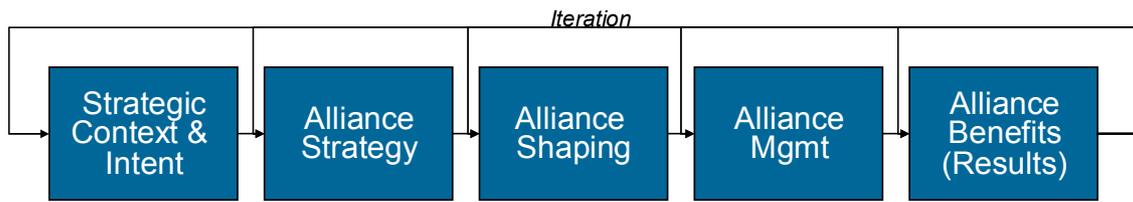


Figure 10. The five steps in alliance creation / Preliminary Alliance Framework

While the generalization of the existing literature into these five steps leaves out some aspects of the models of some scholars (e.g. it does not separately mention searching for partners), I suggest it provides a relevant synthesis of the current alliance creation literature. As argued earlier, the purpose of this study is to find inefficiency elements and create a model, which explains the dynamics of alliance creation. As such, it is of interest to explore if this framework is a useful starting point for such an explanation. To start this exploration, the framework was used in a pilot case study as explained in the next section. As the research approach in this study can best be described as abductive (Dubois and Gadde 2002) the boo.com was used as a pilot study to guide the following empirical research and the extended literature reviews. Thus, the aim of the pilot case was not to test the preliminary framework, but rather to provide some empirical support for the early stages of the research process.

In the next section a two-page summary of the pilot case is presented. The case is presented here to provide some insight into the research process and the evolution of the inference of the researcher, rather than to present findings per se. The full version of the case can be found in the appendices.

2.2.5. Pilot case: *Boo.com*

Boo.com was chosen as the pilot case mainly for three reasons. *First*, because the strategic intent of boo.com was to become a leading global eCommerce player, it had to base its strategy on building a wealth of alliances around the world. Hence it provided a valuable base for looking at different aspects of alliance creation. *Second*, because boo.com is a very central case when looking at the ICT sector in North Europe; it was the biggest eCommerce venture of the end of the 20th century. *Third*, because some highly interesting material existed on the case, because the owners of boo.com have written two books about the company from two very different angles²⁰.

The pilot case does not describe a single alliance. Rather it presents boo.com and its many cooperative initiatives. As such, as also explained in the methodology chapter, the case was used merely to suggest the future high-level direction of the study.

²⁰ At the later stages of the company's existence, the owners disagreed on most things. Later two of the owners decided to write a book explaining their own view of the company. This allowed an opportunity for *triangulation* of data between the two books (and other material).

2.2.5.1. *Boo.com –Background*

Boo.com was originally the idea of Swedes Ernst Malmsten and Kajsa Leander. Together with Patrik Hedelin, their vision was to form an Internet venture that would revolutionize the fashion and sportswear industry. The boo.com idea was born during the spring and summer of 1998 (Kunnath and Sedick 2001, p. 4). The business idea had a couple of core foundations, e.g. “*global demand*”, which meant that the founders of boo.com saw that fashion trends –demand– had become global, and therefore supply should also be the same everywhere. The founders thought, that “the nature of contemporary culture was such that, say, a Lacoste T-shirt or a pair of Adidas trainers has the same appeal to people whether they lived in Rome, Rio, Tokyo or New York”. (Malmsten et al 2002, p. 22) .

According to the boo.com ideology, there was a growing global population that had “*much money and little time*” that would like to use the Internet for fashion shopping (Lindstedt 2001, p. 112). The boo.com web site was supposed to be the first part of “*second generation Internet*”, which meant that the site would have a “*physical feeling*” with “*virtual dressing rooms*” and a virtual shop assistant called “*Ms Boo*” (Lindstedt 2001, p.115).

During its 18 months of existence, boo.com went through five investment rounds. There are several estimates of how much money boo.com raised and spent during this time, ranging from 120 to 135 M€ (see e.g. Kunnath and Sedick 2001 or Pujari 2001)

Boo.com filed for liquidation after a decision in a board meeting on May 17th 2000 (Lindstedt 2001, p. 270).

2.2.5.2. *Pilot study contributions*

To be able to meet a global demand, *global presence* was the core strategy of boo.com. As the company was built basically from scratch, without any physical or significant intangible assets, cooperation with other companies was the only way to execute that strategy. As such, boo.com proved to be a valuable pilot case.

Case boo.com seemed to suggest that the true nature of alliances could not be explained with the preliminary alliance framework. What the case proposed was that there was a wealth of inefficiency elements that influenced the different alliances²¹ which boo.com created. There was e.g. evidence, which suggested that alliance creation for boo.com

²¹ The word “partnership” would perhaps be more correct here, because the material available to me on boo.com spoke of partnerships instead of alliances.

was not about a clear cut, objective decision making²². Rather, it was influenced by subjective opinions, changing circumstances and incomplete access to information and a full range of potential partners. Hence, to use the sequential, preliminary framework to describe the alliances of boo.com seemed to be inadequate. As such, the study moved forward with the notion that the preliminary framework was valuable for framing the study, but that at least in the case of boo.com it seemed to suggest a wrong mindset related to alliance creation.

2.2.6. *Sources of inefficiency –towards problematization*

Even though alliance processes can be described as sequential steps from an alliance strategy to alliance management and results, this way of looking at alliances may leave much uncovered. As suggested by e.g. Ireland et al. (2002), Ring (2000), Lin and Darling (1999) and Das and Teng (2003) there is not much literature related to the dynamics of how alliances are in fact formed and what the elements are that influence this process. A literature review into the field supported this suggestion, as only few elements, which were specifically argued to affect the alliance creation process, were found. *Instead, the literature review presented in this section is extended to cover elements affecting all stages of an alliance lifecycle.*

With this extended scope, previous studies have shown that there are several elements that influence the various activities related to alliances. *These elements are usually called risks, uncertainties, success factors, obstacles, etc.* In this study, these elements are collectively called *inefficiency elements*. Inefficiency elements in alliance creation are elements (e.g. factors, events, processes) which have an effect on the outcome of the alliance creation, and which can be found directly within or outside of the alliance creation activities. The word “*inefficiency*” refers to the notion that elements may affect an alliance creation process to the extent that it becomes inefficient in terms of not meeting the goals set for it (primarily) before the process²³.

The following sections will identify the elements that have been found in previous studies. In addition, trust and opportunism, which have been highlighted by some scholars as key elements of alliance creation, are discussed. A summary of the elements specifically relevant to alliance creation and a link to the objectives for the study is found in the theoretical framework section.

²² The reliability of the findings of case boo.com could be questioned, since the case is based on secondary data. However, having access to material that allows triangulation of the data (through the fact that boo.com management had very different views on many things, and the fact that they wrote two books from totally different angles, without any cross-referencing), means that it has been possible for me to have greater confidence in the data I have used. A second consideration is the fact that the pilot case was merely used to guide the research process and not to draw explicit conclusions for the whole study.

²³ The Cambridge online dictionary (Dictionary.Cambridge.org) defines inefficiency as something which is “*not organized, skilled or able to work satisfactorily*”.

2.2.6.1. *Inefficiency elements in alliance literature*

Existing literature has brought forward many elements that affect an alliance during its lifetime. Still, no consensus has been reached regarding precisely what these elements are and how they link to other aspects of alliance research (Roos and Oijord 1992). Although it is recognized that various different angles exist, it is here suggested that the literature presented below discusses elements, which could collectively be argued to cause *inefficiency* in alliance creation.

In an attempt to create a more holistic picture of the field of alliance research, Lewis (1990, p. 96) lists the following *uncertainties* as risks when creating the alliance (i.e. there is a risk if these factors are not considered). Lewis divides the elements depending on whether they are “*internal*” or “*external*”. The internal elements are more directly linked to the alliance itself, while the external elements have more to do with other parties (such as the government) and changes in the environment. The internal uncertainty elements include uncertainties caused by both the focal firm and the partner firm.

<i>External uncertainties (elements):</i>	<i>Internal uncertainties (elements):</i>
1. <i>Economic environment, and shifts in it</i>	1. <i>Goals, i.e. that the goals for the alliances have not been fully specified by the partners</i>
2. <i>Market responses of customers, suppliers or competitors.</i>	2. <i>Partner abilities, i.e. the lack of abilities needed in the alliance</i>
3. <i>The reaction of other partners to the alliance</i>	3. <i>Latent conflict, i.e. major assumptions have not been surfaced</i>
4. <i>Liabilities towards third parties</i>	4. <i>Planning gaps, i.e. important tasks have not been planned in detail</i>
5. <i>Government approvals and the risks of not getting them.</i>	5. <i>Authority, i.e. who makes the key decisions</i>
	6. <i>Relationships, partners may not work well together</i>
	7. <i>Performance, expected results may not be achieved</i>

	8. <i>Benefits, partners have not agreed on the sharing of benefits</i>
	9. <i>Commitments, future investments and obligations are unclear</i>
	10. <i>Opportunism, one partner may take advantage of the other</i>

Table 3. *Uncertainty elements by Lewis (1990)*

The list of elements suggested by Lewis seems to be valuable because it highlights the role of elements outside of the immediate alliance. Still, Lewis does not argue for how these elements specifically affect the alliance creation process, but rather sees the elements as uncertainties on a more general level.

Similarly to Lewis, also Lorange and Roos (1991a, p. 1) have suggested that “it is possible to identify ten major challenges or *obstacles*” that determine alliance success: 1) A partner’s inability to give up autonomy, 2) The loss of forward momentum, 3) The inability to maintain a focus on the external environment, 4) Too much politicking, 5) Inability to change and be innovative, 6) Unwillingness to learn, 7) People dependency, 8) Inability to give up “black box”,²⁴ 9) Culture clashes and 10) Lack of cooperative attitude.

Lorange and Roos do not categorize the “obstacles” into different sub groups, instead they present more general obstacles, many of which could be called softer issues such as culture, cooperative attitude, unwillingness to learn etc. It is also notable that many of the elements presented by both Lorange and Roos and Lewis are more likely to affect the alliance in its management phase than in its creation phase (e.g. inability to change, abilities needed in the alliance). This problem has been avoided by Forrest (1992), who studied different stages of alliances in “*dedicated biotechnology companies*”, and divided the factors into three different stages as presented in the table below.

²⁴ The authors refer here to shielding “tangibles and intangibles” in a “black box” so that even if the alliance fails, the company still maintains its positions and bargaining power. Some of this “black box” (but not all!) has to be given up when creating an alliance, otherwise the alliance risks failure (1991, p. 13).

<i>“Pre-alliance” stage factors:</i>	<i>“Negotiating the alliance” stage factors:</i>	<i>“Implementation of the alliance” stage factors:</i>
1. <i>Right timing of the alliance</i>	1. <i>Putting in the same time and effort</i>	1. <i>Open communications between both partners</i>
2. <i>Choosing the right partner</i>	2. <i>Strong bargaining position</i>	2. <i>Mechanisms in place to facilitate communication</i>
3. <i>Good fit between the partners</i>	3. <i>Development of mutual strategic objectives</i>	3. <i>Focal point person</i>
4. <i>Each partner seeking an alliance</i>	4. <i>Involvement of personnel skilled in negotiating</i>	4. <i>Mechanism in place to ensure timely decision-making</i>
5. <i>Interdependence of partners</i>	5. <i>Top management support</i>	5. <i>Continual mutual commitment to the resources needed</i>
6. <i>Assessment of strategic costs</i>	6. <i>Involvement of those concerned</i>	6. <i>Willingness to change strategic objectives when needed</i>
7. <i>Matching of alliance with overall long-term strategy of the firm</i>	7. <i>Identification of who will manage the alliance</i>	7. <i>Good interpersonal relations between both partners</i>
	8. <i>Identification of alliance champions and deal busters</i>	8. <i>Good leadership and motivation of those running the alliance</i>
	9. <i>Understanding of partner’s strategic intent</i>	
	10. <i>Development of trust between partners</i>	

Table 4. Alliance factors by Forrest (1992)

Notable is that Forrest does not present a single factor that would consider the impact of the environment and context of the alliance, but rather focuses on what Lewis (1990) would probably call internal uncertainties. Forrest's findings were later also supported by Cobianchi (1994) in his study of "*strategic alliance factors*" and their effect on alliance success in American aerospace/electronic-oriented companies.

Following the thoughts of the scholars presented above, also Jolly (2002, pp. 49-50) suggests that there are several *non-obvious* factors which needs to be focused on in different types of alliances. Jolly further argues that it could be beneficial for looking at the type of alliance to determine what factors might be relevant. *First*, in so-called endogamic (see earlier sections for the definition) alliances Jolly argues that the partners should not expect great possibilities to learn. There is also a risk for inertia²⁵ and a risk for technological breakthroughs by technologies other than the chosen one (e.g. if the companies build a joint factory, they may have to choose a certain technology and commit to it for a longer time). *Second*, Jolly suggests, that in so-called exogamic alliances, there may be cultural gaps and debates, a high level of knowledge transfer and learning, which could also lead to some sort of competition of who learns the fastest (and then becomes less dependent on the cooperation).

As suggested in the introduction to this section, there is not a great deal of literature regarding the elements, which may have an effect on alliance creation. Still, as summarized in the theoretical framework section later, valuable contributions can be found. One of the potential key contributions of existing literature may well be the role of trust and opportunism as suggested by e.g. Lewis (1990) and Forrest (1992). These two concepts have received much attention in research in business topics, and a short summary of the relevant literature is presented below.

2.2.6.2. *Trust and opportunism*

Trust is a central concept in any cooperation, be it between companies or between individuals. Without trust it is impossible to cooperate, because mistrust creates so much friction that even simple things can be hard to get done (Noteboom 1999). On the other hand, it could be suggested that certain opportunism is natural in any business, as it is (or should) be every company's goal to maximize *its own* profits, at least on the long term. Hence, it is interesting also in this study to explore the role trust and opportunism have in alliance creation.

Early definitions of trust can be found in Deutsch (1962, as quoted in Zand 1972) who defines trust in the following way:

"Trusting behaviour consists of actions that 1) increase one's vulnerability 2) to another whose behaviour is not under one's control 3) in a situation where the penalty one suffers if the other abuses that vulnerability is greater than the benefit one gains if the other does not abuse that vulnerability"

²⁵ Inertia means inactiveness, inactivity

Many scholars have also discussed trust in an alliance context. E.g. Cobianchi (1994, p. 18) defines trust in strategic alliances as “*the psychological relationship between the strategic partners that presupposes that each partner will act in the best mutual interest of the strategic alliance and not in any way to produce gains for one of the partners at the expense of the other*”. Cobianchi’s definition highlights why trust or opportunism could be seen as central elements of inefficiency in alliance creation. I.e. if there is no belief (or “*presupposition*”) that both parties will act in the “*best mutual interest*”, the alliance creation will require much work to be completed, if it is at all possible to create an alliance under such conditions.

Noteboom (1999, p. 25) defines trust as follows: “*to accept or neglect the possibility that things will go wrong*”. He (p. 24) also suggests that trust is an assessment of a *limited risk of opportunism*. Also in the IMP (Industrial Marketing and Purchasing Group) research approach developed mainly in Sweden, trust is a key element in the relations and transaction between companies. For example Håkansson (1982, 1987, 1989) and Håkansson and Mattson (1987) see trust as a key component of interaction between companies. An opposite of this is the view of the early Transaction Cost Economics (Williamsson 1975, 1985), which stresses the role of self-interest and opportunism.

In my view, the table below by Williams (1988) summarizes the integrative view of cooperation, trust and opportunism quite well. Cooperation can be created because of egoistic, material self-interest (as suggested by TCE) or it can have its origins in some norms, laws or values. The non-egoistic, micro source of cooperation in turn, is based on some sort of social bonds (this is probably one of the most natural sources of cooperation in social –outside business– life). Most probably all inter-firm cooperation has several elements of this table. Also, it might be in the long-term self-interest of a company to follow norms and proper conduct.

	<i>Macro</i>	<i>Micro</i>
<i>Egoistic</i>	<i>Threat or fear of sanctions or obligations from some authority (God, law)</i>	<i>Material advantage, “interest”</i>
<i>Non-egoistic</i>	<i>Ethics: values, norms or proper conduct</i>	<i>Bonds of friendship, kinship or empathy</i>

Table 5. Sources of cooperation (adapted from Williams 1988)

If trust is (or should be) a central part of any cooperation, and if it is a desirable element, how could it be produced in cooperation?

Noteboom (1999, p. 33) claims that conditions for trust to grow (such as familiarity, habituation, friendship, shared norms and expectations) can be “*facilitated in the sense*

that one creates conditions for its growth, but it cannot be purchased and installed by the pound". Noteboom continues that *"to 'produce'... trust is as paradoxical as to order spontaneity: if it worked it would not be real"*. It could also be argued that a concept called *procedural justice* is close to this type of trust (or that it can produce or destroy trust), and is important in creating alliances. *"Procedural justice theory is concerned with individuals' reactions to decisions in which they are personally invested but that they cannot control"* (Sapienza and Korsgaard 1996, p. 547). Sapienza and Korsgaard also talk about procedural justice as something related to trust in a decision maker, commitment to a decision, cooperative behaviors and intention to remain in a relationship. Following this, it could be argued that if one (strong) party in an alliance creation process displays procedural justice, this could create a sense of trust in the other (weaker) party.

In creating this type of conditions for trust to grow, e.g. Zand (1972) has argued that detailed contracts can be destructive because they demonstrate mistrust, which can instead lead to more mistrust and so on, creating a kind of vicious circle. Noteboom (1994) has suggested that to avoid this problem, a relationship could be developed like a marriage. The analogy is that a relationship with strangers starts with small steps, building trust, which then at some point transform into some sort of a binding agreement.

In summary it can be said that a wealth of elements can be identified which directly or indirectly can influence alliance creation. The aim of the next section is hence to draw together the discussion in existing literature with the direction suggested by the pilot case and present a single framework for further studying alliance creation from a more expansive point-of-view.

2.3. Theoretical framework

Based on the discussion ranging from strategy to trust in the previous section the aim of this section is to draw together the most relevant literature presented. The theoretical frameworks are also presented in this chapter. The purpose is to create a link between the different areas of strategy and alliances and combine it to a framework, which will be used to examine the cases later. This section begins with a critical discussion of the different approaches to strategy. It then moves on to draw together the considerations of alliance creation, strategy and inefficiency elements to a single framework. Finally, the third sub-section presents a review of the most relevant inefficiency elements found in existing literature.

2.3.1. Strategy framework

As *strategic* alliances are the research interest of this study, a critical element of building the theoretical framework is a thorough strategic basis. Traditionally the rationale behind strategic alliances has been explained with transaction cost explanations (Eisenhardt and Schoonhoven 1996). However, *"[t]hese explanations which center on transaction characteristics, static efficiency, and routine situations do*

not capture the strategic and social factors which propel many firms into alliance formation” (Ibid, p. 136). As it is the kind of factors that the authors bring up that are at the core of this study, it was not seen as beneficial to use transaction costs theory as the dominating strategy paradigm of this study. This choice is also supported by Chen and Chen (2003), who suggest that a resource based perspective may be more accurate in describing the early stages of alliance formation. Following this, the “*strategy approach*” of this study is quite close to the Resource Based View, and the views of Hamel and Prahalad (1989, 1990, 1993) and Mintzberg et al. (1998) combined with elements of Positioning (e.g. Porter 1980) and network theories.

As previously stated, the central idea of Resource Based Theory is that a strong strategy should be based on the resources, competences and capabilities of the firm. These “resources” should then provide a competitive advantage over rivals. E.g. Culpan (2002, p. 25) links the resource based view to strategic cooperation, by comparing alliances to resources within the firm:

“An extension of RBV to strategic alliances is that no firm often holds all the necessary resources, capabilities, and competencies for a given business strategy leading to competitive advantage; therefore , firms interested in deploying unique and inimitable resources seek partnership with others that hold such resources. Resource pooling is considered one of the major factors leading to strategic alliances.”

Also Das and Teng (2000. p. 37) stress the importance of alliances as a way of complementing existing resources with the resources of others. The authors link the resource based view to alliances by emphasizing that “*the overall rationale for entering...is to aggregate, share, or exchange valuable resources with other firms when these resources cannot be efficiently obtained through market exchanges or mergers/acquisitions*”.

According to Mintzberg et al. (1998, pp 176-185), research has shown that often when strategic change takes place it does not originate from the executives, planners or analysts, but rather as a result of many different small actions throughout the organization. In other words, individuals and groups anywhere in the organization can be strategists. The strategy formulation must take form of a process of learning over time, in which formulation and implementation become indistinguishable from each other. This means that the role of the leadership is not to make deliberate strategies, but to manage the processes of strategic learning, so that good strategies can emerge.

Valid criticism towards the RBV and learning strategy paradigm consists of fears that making strategy through learning might in fact mean no strategy at all, or that strategy is lost through strategic drift (Mintzberg et al 1998, pp. 223-228).

Also, authors like Priem and Butler (2001) have criticized e.g. Barney and the Resource Based View for narrowing the discussion to much to the “supply side” of strategy, and state that “*the greatest potential ...[of RBV] will only be realized through complementary and integrated use of the RBV together with other, demand-oriented perspectives*” (2001, p. 36).

Gulati et al. (2000) have suggested that combining views of *competitive advantage*, *internal resources* and *networks* could be useful in strategic management. Similarly, the “integrated view of strategy” presented below recognizes this view and the criticism mentioned and is heavily against the view that all planning, positioning and other strategist or demand-side driven views should be abandoned. Instead, I suggest that there could be planning and direction setting by strong leaders and strategists, but that these leaders should recognize that they can merely provide the settings for the strategy to take place, and that the organization and the resources can also be the origins of strategic initiatives. Central to this suggestion is also that there should be room for learning and evolution (within the company and among companies) within the set direction.

Similarly, I suggest that while RBV is the stronger paradigm, I do not see any controversy in academic studies choosing to apply both it *and* positioning and strategic learning in creating frameworks for research in strategic management.

This suggested approach to strategy as discussed above is best explained with the following figure and propositions:

- 1) Strategy should take into consideration the network in which it is created (e.g. suppliers, customers, substitutes, competitors, regulatory and other business environmental factors and alternative future scenarios of the power of these). A good strategy is also built on, and leverages the resources available to the company.
- 2) However, since the world is dynamic, complex and changing rapidly, strategies should not be formulated as “implementation or work plans” aiming at a certain position but rather as strategic intents (see definition of Cobianchi 1994).
- 3) The strategic intent is also based on the resources of the company, and it leaves room for learning and change.
- 4) As the company implements the strategic intent it uses resources from not two, but three different sources; market transactions, internal resources and cooperation/alliances (as also suggested by Culpan 2002).
- 5) The resources available at each point of time affect strategy, which in turn affects the resources needed. This creates a dynamic strategy loop. (Minor changes in resources available do not necessarily affect the long-term strategic intent, but major changes can do this.)
- 6) The chosen strategy is driven by the environment and the networks around the company, which in turn is affected by the implementation of the focal company’s strategic intent. This creates a dynamic network loop. The analysis technique that could be utilized to measure and monitor this effect in different scenarios could be a

combination of the quantitative social network analysis techniques and Porter's (1980) competitive forces analysis. The effects of strategic initiatives (such as e.g. alliances) are then not limited to one or two companies, but also affect the company's *value net* (Teng 2003) or its *strategic ecosystem* (Iansiti and Levien 2004).

- 7) The aim of every company is primarily to produce value to its shareholders. Therefore, the strategic intent and the implementation of it must also aim at this.
- 8) Value is primarily produced for the shareholders, but to produce value for the shareholders, also other stakeholders (Freeman 1984), such as customers and employees have to receive enough value to satisfy them. The trade-off between distributing value to shareholders and other stakeholders leads to a constant balancing which constitutes the dynamic value loop.

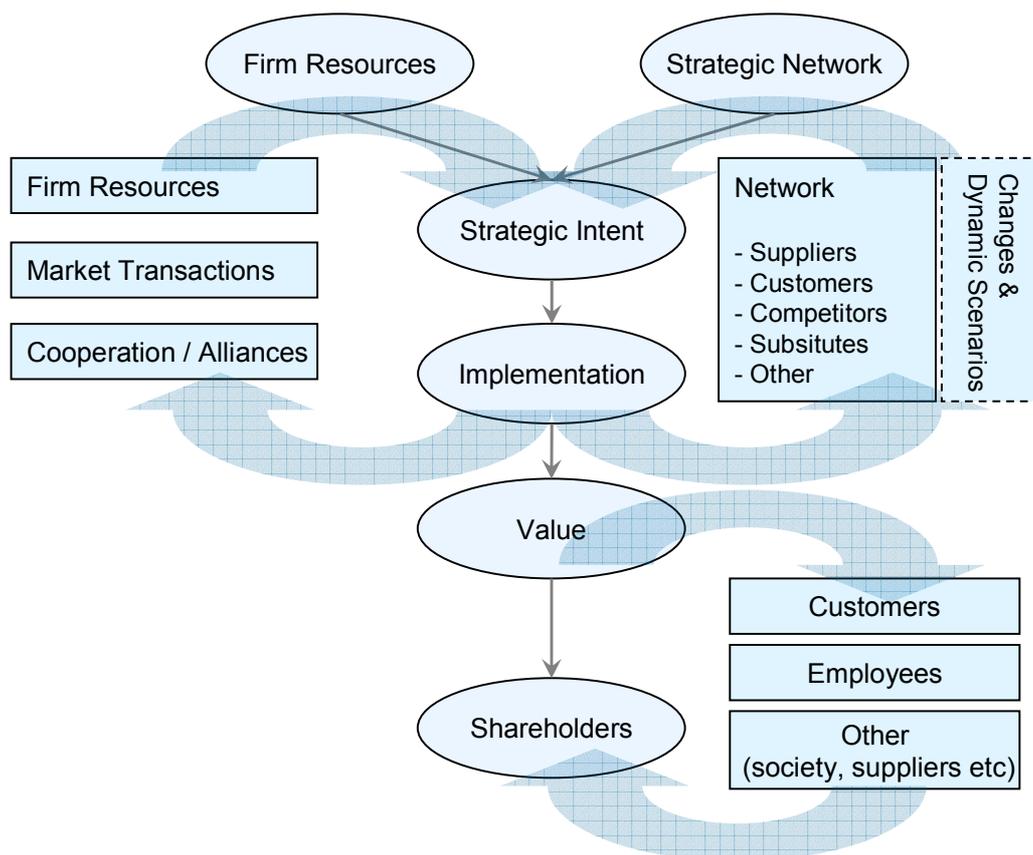


Figure 11. The integrated strategy framework

I suggest that the integrated strategy framework not only describes how strategy is –in my view– ideally created, but it also gives an overview of a firm's *strategic context*.

This concept should not be confused with Burgelman's (1983, p. 66) notion of strategic context, which is seen as something which links the actions of individual "*middle managers*" to the corporate strategy. Instead, the strategic context is the business environment in which the company operates, consisting not only of the industry and its players, which form a network around the company, but also the resources available to the company and all other relevant elements and events such as geography and government policies and laws. The strategic context also includes the owners of the company (to which the value is primarily created) and other stakeholders like employees (with whom the value needs to be optimally shared). *The view of this study is hence that a good strategic intent is based on the strategic context of the company.*

2.3.2. *The revised theoretical framework of study*

As argued above, the view of this study is that the strategic intent should be based on a thorough understanding of a company's strategic context. This, in turn is suggested to be a good starting point for starting alliance creation. The theoretical framework presented in this section was developed based on the strategy framework above and three other elements.

First, the five-step alliance creation model –the synthesis of previous literature– served as basis which needed to be elaborated. The reason (and the *second* element) for this was, that the pilot case study suggested that the stepwise model was inadequate in incorporating the elements that affect alliance creation. *Third*, a review of the literature showed that these inefficiency elements had not been widely studied specifically related to alliance creation. *Fourth*, and finally, a proper link to the strategic intent of the company was needed because the interest was particularly to study strategic alliances.

The four elements presented above provided the starting point for developing the framework. The thought process was that if the five-step, preliminary alliance framework was unable to support analysis of the dynamic nature of alliance creation, and more elements needed to be included into it, then clearly a "*step back*" was needed. The logic was that if the existing literature presented too narrow a view of the process – *just like somebody zooming in on an object with a camera*–, the obvious answer to this problem would be to zoom out, so that perhaps some detail within the object (the alliance creation "*steps*") would be lost, but instead a more inclusive picture could be obtained.

The result of this thought process is presented below. As can be seen, "*zooming out*" meant that the focus on the steps in the process was lost, but instead the strategic context, the strategic intent, the impact of the alliance results on the strategic intent and the inefficiency elements could be seen.

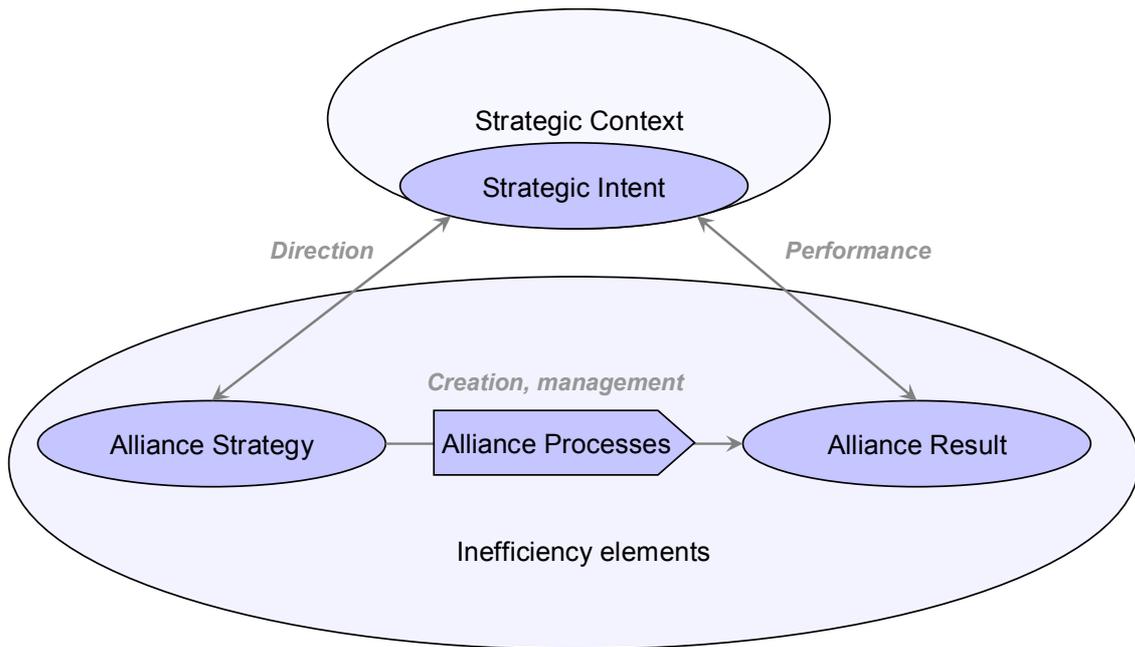


Figure 12. *The theoretical framework / Revised alliance framework*

The theoretical framework presented above is best explained through the following five postulates:

- 1) The strategic intent plays a central role in the alliance formation process. If an alliance is not at some point of time (regardless of the genesis of the alliance process²⁶) linked to the strategic intent it cannot be seen as a strategic alliance.
- 2) The strategic intent should be formulated based on different considerations of the company's strategic context (see the strategy framework). The strategic context can be heavily influenced by alliances, which means that there should be a strong link between the company's strategy and the alliance creation.
- 3) Whether implicit or explicit, a company's strategic intent results in some form of alliance strategy. This strategy can set the long- or short-term goals for a specific alliance and/or the goals for all alliance activities in general.

²⁶ The logic here is that even if the alliance creation is started based on an opportunity or some sort of "emergent" process (in which top management is not involved), the alliance will (if it is important enough) at some point come into the awareness of top management and that it at this point must be aligned with the strategic intent. Thus, it is suggested that there is no controversy between an explicit strategic intent and "emergence".

- 4) As all alliance activities have some sort of alliance strategy, this also means that all alliance activities have goals, i.e. explicit or implicit alliance results. The alliance processes are the activities undertaken to get from the alliance strategy to the goals.
- 5) The process from strategic intent to alliance strategy to alliance results (which should be aligned with the strategic intent) is dynamic, i.e. influenced by a number of inefficiency elements. These elements may originate from within the company, the actors in the alliance formation and from outside the company. The elements can cause inefficiencies, which cause alliance results that do not support the strategic intent of the company.

The word “*inefficiency*” is central in the argumentation of the theoretical framework. As noted before it refers to the notion that elements may affect an alliance creation process to the extent that it becomes inefficient in terms of not meeting the goals set for it (primarily) before the process. In the theoretical framework, such inefficiency also implies considering the chance that a process that starts from the strategic intent and should end in a result that supports this intent, could fail to do so. Ergo, as much effort is put into a task that fails to meet its ultimate objective, it is *inefficient*. As such, it becomes critical to explore what these elements are and how they produce this inefficiency.

The revised framework presented above can be seen as a finding per se. It is worth noticing, however, that the framework does not claim to replace the other, five-step model brought forward as a synthesis of previous studies. Rather, it aims at illuminating an alternative way of looking at alliance creation, one that is based on a more inclusive, dynamic and strategic standpoint. Primarily, however, it works as the lens through which all the cases are viewed. Following this, a key feature of the framework is that it was seen as expansive and high-level enough, not to limit the search for inefficiency elements, but rather to support the process, so that new elements could be found in addition to the ones identified by existing literature.

2.3.3. *Inefficiency elements in alliance creation*

This section gives an overview of the inefficiency elements found in existing literature. The review of literature around elements which have been suggested to affect the life cycle of alliances show the need for this study for two reasons. *First*, because very few of the elements are concerned with the alliance creation process itself. *Second*, because many authors have merely created a list or divided the list into sub-groups, instead of trying to build any kind of a model based on the findings.

Considering the *first* reason, for example Lorange and Roos (1991a) and e.g. their “Unwillingness to learn” or “A partner’s inability to give up autonomy” are definitely elements, which should be considered already during the alliance creation. On the other hand, they are risks that if realized affect the alliance only after the alliance is created. The same goes for some of Lewis’ (1990) elements (e.g. sharing of benefits).

The purpose of this study is therefore not only to look at inefficiency elements which should be considered during the alliance creation (and which may affect the alliance when operational), but also elements in general which may affect the alliance creation itself. This view is supported by Roos and Oijord (1992), who argue that also e.g. individuals, organizational characteristics and strategy related issues impose effects on alliances. On the other hand, some elements have been identified by Forrest (1992), but her list is quite focused on the “inside” of the alliance creation without much consideration of any other elements from the environment or context.

The table below attempts to summarize the most central elements (with special emphasis on what influences the *creation* of strategic alliances) found in the literature review.

<i>Element /factor</i>	<i>Suggested e.g. by</i>	<i>Comment</i>
<i>The environment, context and network. Reacting and changing objectives based on changes.</i>	<i>Lewis 1990, p. 96; Lorange and Roos 1991a, p.1; Forrest 1992; Jolly 2002 pp. 49-50</i>	<i>Shifts in economic, strategic environment, context before or as a reaction to the alliance. Inability to predict this.</i>
<i>Unclear goals / strategy. No link to strategy. Partner's strategy.</i>	<i>Lewis 1990, p. 96; Forrest 1992</i>	<i>Not clearly formulated or communicated goals within the companies. Goals not linked to strategy. Understanding partner's strategy.</i>
<i>Latent risk factors and planning gaps.</i>	<i>Lewis 1990, p. 96; Forrest 1992</i>	<i>Unsurfaced assumptions and forgotten tasks. Identifying deal busters.</i>
<i>Authority and decision maker involvement</i>	<i>Lewis 1990, p. 96; Forrest 1992</i>	<i>Uncertainty of decision-making or insufficient involvement of key people. Top management support.</i>
<i>Business relationships, culture</i>	<i>Lewis 1990, p. 96; Lorange and Roos 1991a, p.1; Forrest 1992; Jolly 2002 pp. 49-50</i>	<i>Differences in culture, lack of cooperative attitude. Choosing the right partner from the start.</i>
<i>Social relationships.</i>	<i>Lorange and Roos 1991a, p.1</i>	<i>Business relations may be highly dependent on social relationships (“chemistry”) between individuals</i>
<i>Opportunism, interdependence and bargaining position</i>	<i>Lewis 1990, p. 96; Lorange and Roos 1991a, p.1; Forrest 1992</i>	<i>Both parties put in equal efforts and/or benefits divided accordingly. Bargaining position of parties. Is there a risk for opportunism?</i>

<i>Loss of forward momentum</i>	<i>Lorange and Roos 1991a, p.1</i>	<i>Risk for loss of forward momentum in alliance creation and corresponding risk for failure of the process.</i>
<i>Timing</i>	<i>Forrest 1992</i>	<i>The alliance may be created at the wrong time.</i>
<i>Trust between the partners.</i>	<i>Forrest 1992; Cobianchi 1994, p. 18; Noteboom 1999, p. 25</i>	<i>Trust between parties can be beneficial for the alliance.</i>
<i>Prior relations and /or reputation of the partners</i>	<i>Larson 1992</i>	<i>Prior relations and/or good reputation of the parties may be good for the alliance creation.</i>
<i>Right negotiators.</i>	<i>Forrest 1992</i>	<i>Appropriate skills within team(s) and the fact that focal persons are named is beneficial for the process.</i>

Table 6. *Inefficiency elements in alliance creation*

As the table above shows, the environment and *context* in which a company operates are seen by many authors as elements that may have an impact on the forming of alliances²⁷. Further, several other elements, like social bonds, timing, trust and culture are pointed out as elements that may affect the success of alliance creation. Also, the strategic intent of the businesses and the goals and strategies of the alliance (i.e. *alliance strategies*) are suggested to play an important role.

Considering the *second* reason, the authors who have identified inefficiency elements have done so with an explorative emphasis, without any attempt to create a model that would try to understand the dynamic side of alliance creation. I.e. little effort has been put in trying to understand *how* the fact that these elements exist could influence the view on how companies perceive alliance creation. A rare attempt towards this direction, however, is that of Larson (1992) who has studied dyads within networks. In this study, she argues for the importance of understanding the formation process of alliances. Based on her research she suggests a number of factors that have a role in alliance formation, and she groups them in a three-step model (see appendices). In the model, Larson argues for some *personal and company attributes* that makes the alliance

²⁷ It could be argued that the *context* is an element, which is always present, and hence the value of listing it as an element could be challenged. The view here could rather be that by listing the context as an element, it might raise some important questions and keep companies alert to changes and risks within the context.

formation process more efficient. While I recognize the value of Larson's model, it leaves many questions unanswered. Of these questions, perhaps first and foremost stands the question about how her view on alliance formation links to the focal firm's strategic intent and the strategic context it operates in.

The next chapter gives an overview of how the frameworks of this chapter were used in this study and discusses the methods used to bridge the research gap found in previous research.

3. RESEARCH METHOD

This chapter introduces the key methodological considerations of this study. As earlier explained, the main research approach in this study is induction. I.e. this study was not designed to strictly test an existing theory. This choice felt appropriate since the objectives of the study were to understand and explain alliance creation and find *new* elements of inefficiency in this process. The aim of the chapter is to introduce the more practical side of methodology and the choices made in this study. Further, the aim is to build a solid base for understanding how the cases were chosen, how the data was gathered, and finally how findings and conclusions were made from this data.

This chapter first (section 3.1) introduces qualitative research and case studies. Central here is also the choice and number of cases. Section 3.2 presents how theory was derived from the cases, the role of the pilot study and the overall structure of the study. Section 3.3 continues with presenting the different data sources, while section 3.4 goes on to discuss the analysis of the data. Finally, sections 3.5 and 3.6 discuss the validity and reliability of the study and potential limitations.

3.1. Qualitative research and case studies

In this study, the empirical material consists of one pilot study and four other case studies, of which mainly qualitative data has been gathered.

Qualitative methodology provides powerful tools for research in management and business administration (Gummeson 1991, p. 1). Strategic issues like alliances are always subjective decisions made by the management in the company's current business environment, and are hence influenced by qualitative factors. To study these kinds of complex issues in a quantitative way could be inferior to qualitative, as the quantitative research approach is often claimed to be hard and fixed (Silverman 2000, p. 1). Qualitative studies are often based on cases. A case study can be defined as an empirical inquiry that (i) investigates a contemporary phenomenon within its real-life content, especially when (ii) the boundaries between phenomenon and context are not clearly defined (Yin 1994, p. 13). Case study researches vary in character, but there are two types of particular interest; the first attempts to derive general conclusions from a limited number of cases, the other seeks to arrive at specific conclusions regarding a single case because this "case history" is of particular interest (Gummeson 1991, p. 74).

According to Yin (1994, p. 1) case studies can be exploratory, descriptive and explanatory. Researchers in business-related subjects traditionally limit case studies to the exploratory use: a pilot study that can be used as a basis for formulating more precise questions or testable hypotheses (Gummeson 1991, p.75). This view, however, is too narrow, and during the last decades the strength of case studies as stand-alone research has been increasingly acknowledged.

Voss et al. (2002, pp. 197-199) divide case research according to four different goals; a case study can be explorative, theory building, theory testing or theory extending/refining. This classification sheds more light on the nuances between the explanative and explorative approaches. Below is a short summary of the characteristics of explorative and theory building case studies (Voss et al. 2002, p. 198).

Exploration:

Purpose: Uncover areas for research and theory development.

Research question: Is there something interesting enough to justify research?

Research structure: In-depth case studies, unfocused, longitudinal field study.

Theory building:

Purpose: Identify/describe key variables. Identify linkages between variables. Identify “why” these relationships exist.

Research questions: What are the key variables? What are the patterns or linkages between variables? Why should these relationships exist?

Research structure: Few focused case studies. In-depth field studies. Multi-site case studies.

The research in this study has elements of mainly theory building but also of exploratory approaches as explained in the next section of this chapter. On one hand the goal is to derive conclusions regarding the characteristics and key elements of creating alliances. In finding these elements, *understanding* the business, the environment, the strategic intent and processes (both formal and informal) is crucial. On the other hand, the aim is to find out what actually took place related to case companies’ business strategy formulation and their alliance approach. The pilot case is also used more exploratively, while the latter cases are used more to build theory and confirm the theory built.

There are also downsides to using cases, even if the researcher is using the cases in the right way.

“practitioners do a lot more than they write about, and much of what they do not write about is in fact critical for their practice...issues may remain undiscussed because the practitioner is simply not aware of them...As a result, the ropes of practice remain hidden behind a streamlined simplicity suggested by many cases” (Corbett et al. 1995, p.2).

In my view, this problem cannot be avoided. A case description is always an overly simplistic picture of reality. At least when studying these kinds of phenomena, case studies show a richer picture than quantitative research.

Further, case studies have been criticized of being too situation specific, and not appropriate for generalization (Weick 1969, according to Dubois and Gadde 2002, p. 554). Later, however, the authors note that Weick revised his position, and realized that situation specific interpretations are actually not a problem, but in fact an opportunity to better understand a phenomenon from a holistic point of view. Dubois and Gadde (following Easton 1994) further go on to list three other weaknesses in case study research. First, case studies are sometimes merely descriptions of an event of which the readers should make their own interpretations²⁸. Second, case studies are sometimes used in quasi-deductive ways. Third, authors using “*multiple case studies*” and hence claim some sort of statistical generalization.

To avoid these problems, this study a) goes beyond just mere description by also presenting cross-case analysis and conclusions based on the findings b) uses an abductive approach, which as Dubois and Gadde (2002, p. 535) suggest has a “*stronger reliance on theory than is suggested by true induction*” and c) does not claim any sort of statistical generalization based on the multiple cases studied.

3.1.1. Selection and number of cases

When doing multiple case study research, the selection of the cases is a critical task. Yin (1990, pp. 54-55) emphasizes that the *replication logic*, i.e. how cases for a multiple case study are selected and conducted “*must be distinguished from the sampling logic commonly used in surveys*”. There are a number of reasons for this, but mainly because “*case studies should not be used to assess the incidence of phenomena*”. Further, selecting the units of analysis –i.e. the cases– should according to Rowley (2002, p. 19) be guided mainly by research purpose, questions, propositions and theoretical context. Also other factors, like accessibility, resources and time available, have to be taken into consideration when choosing cases.

This study uses a theoretical sampling logic (Yin 1994). The starting point for designing this study was to choose a field or industry from which the cases would be selected. Although the cases vary in nature, all the cases in this study are from what could be called the ICT (*Information and Communication Technology*) sector. Besides the fact that the ICT sector is an area that is characterized by rapid change and as a result employs different kinds of alliances extensively, my choice of studying this sector was mainly influenced by two things. *First*, my personal interest in the field. Probably because I have grown up in an era of fast technological advances, I feel that the companies developing solutions in the convergence of the areas of communication and technology are of great interest. The *second* reason for the choice of industry was the idea that it is essential for a researcher to understand the conditions of business in the area of his studies (as suggested by Gummesson 1991). As I have a background of work

²⁸ According to Weick (1979, p. 38 from Dubois & Gadde 2002) “many pseudo observers seem bent on describing everything, and as a result describe nothing [the solutions is to] invest in theory to keep *some* intellectual control over the burgeoning set of case descriptions” (my Italics).

and studies in the crossroad of technology and management, the ICT sector seemed a natural area in which to study alliance creation in.

According to Yin (1990, p. 53) cases in a study with multiple cases must be selected so that they either a) predict similar results for all cases (“literal replication”) or b) produce contrary results but for predictable reasons (“theoretical replication”). Also Eisenhardt (1989, p. 537) argues for so-called “*theoretical sampling*” in case studies (see also Patton 1990). According to her, “*the cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples of polar types*”. Eisenhardt also states that cases may be chosen randomly, although this is not advisable. She further suggests that because usually only a limited number of cases can be studied it could be best to use theoretical sampling to get the cases to match the issue at hand, but also to consider access to cases where “*the process of interest is transparently observable*”.

The four main cases in this study have been selected based on theoretical sampling. Both successful and unsuccessful cases were chosen to provide richer material and hence build a more solid base for theory development. Further, the case selection criteria can be divided into four points, as listed below.

First, considering the research objectives and how they emphasize understanding the businesses and the alliance processes, the case companies had to provide sufficient access to me (Rowley 2002). This meant that cases and companies with whom I have worked or otherwise had access to were important to include in the study, because of the in-depth view that was required in order to study the topic chosen.

Second, not all alliance creation processes in which I have been involved were selected as cases. Several cases were dropped either because they were not what could be considered “strategic alliances” (see definitions of this study, and the discussion of Willcocks and Choi 1994, who argue that outsourcing cases can be strategic alliances as long as they include certain additional elements) or because the alliance creation process was stopped early.

Third, it seemed to make sense (when having an abductive research approach) to first have a pilot case to further develop the theoretical framework, then to have deeper (action science –as explained later in this chapter) cases where the most part of the new theory is developed, and finally to have some more confirmatory cases with sufficient top management access.

Fourth, cases of a varying nature were chosen (Yin 1990), to provide a more heterogeneous set of data for the study. The rationale was driven by the research questions, and the logic that e.g. the inefficiency elements and dynamics could vary among different types of alliance creation processes. Therefore, the study both includes action research cases (1 and 2) and cases, where the research was done after the alliance creation process was completed (cases 3 and 4). Further, the cases were also selected so that both more (Case 3) and less (Case 4) successful alliances and various of kinds creation processes of (compare e.g. Case 3 and 4) alliances were included.

Consideration was also given to how many cases would be included in the study. There has been a wealth of discussion about whether a minimum of two cases is enough, but the general view is that four to six cases form a reasonable minimum and that ten to 15 cases is the absolute maximum (Perry 1998, p. 793). The logic is that when a researcher has too many cases, he risks losing the focus and the “in-depth view” of the cases. In this view, even having a thorough understanding of one case may be enough to gain valuable insight (Normann 1970). As such, there is no optimal number of cases:

“While there is no ideal number of cases, a number between four and ten cases often works well. With fewer than four cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing”. (Eisenhardt 1989, p. 545)

The five cases in this study were chosen based on the guidelines presented above. It was also critically considered that there would be enough cases to allow thorough development of theory from the cases as explained next.

3.2. Theory development from cases

As explained above, the goal of the study was to make valuable contributions to existing academic literature by studying different aspects of alliance creation. The most appropriate method for this task was to do a multiple case study, starting with a pilot case to direct the research efforts and then to have deeper case studies that allowed theory building.

The figure below presents the research structure, where the left-hand side emphasizes induction, whereas the right-hand side is increasingly deductive. The first case is hence almost pure induction. As I had some preliminary frameworks before case boo.com I cannot call the case grounded theory. Still the pilot case, boo.com and also Cases 1 and 2 were researched in a state where I had a limited pre-understanding of the existing theory, which means that it can be argued that they were of a strongly inductive nature.

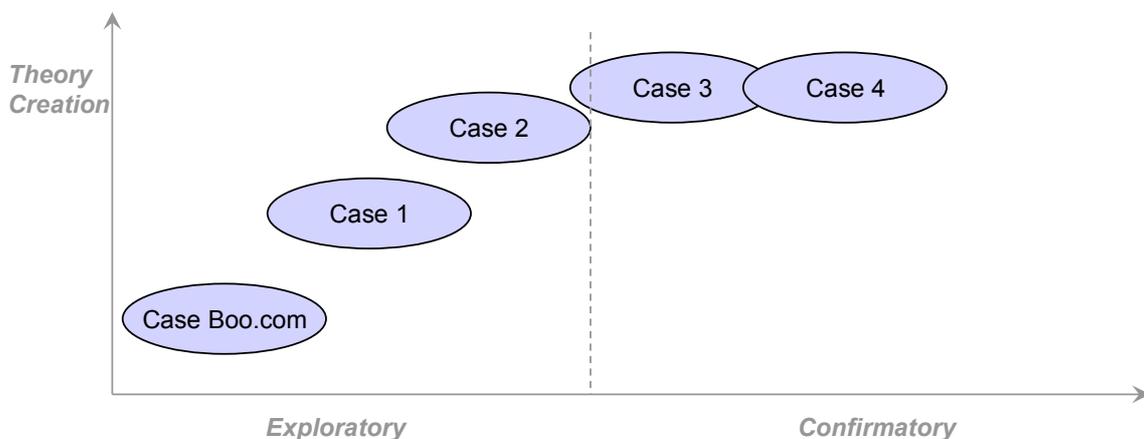


Figure 13. Research structure (Adapted from Perry 1998; Voss 2002 and Yin 1994)

In this type of research structure, some prior theory was used and combined with insights obtained from the pilot case, as shown on the left hand side. The understanding created then informed the interview protocol used for data collection in all the main cases, as shown in the middle and on the right hand side. In other words, the prior theory informed the main data collection and theory was generated from the cases separately and through cross-case data analysis across all the main cases. This follows the idea that prior theory does have some role in case study research (Perry 1998, p. 790).

A key element in the early stages of the chosen research structure was the role of the pilot case. The pilot case allowed me to direct the study and the elaborated literature reviews to a certain direction. The research question before the pilot case was *roughly* “*Are the existing models useful in describing the lifecycle of an alliance?*” or “*What interesting findings can be made when examining the alliances of boo.com?*”. The pilot case together with an elaborated literature review then directed the research more towards alliance creation and inefficiency elements in alliance creation.

As explained in the previous chapter, the pilot case contributed to an “*abductive approach*” (Dubois and Gadde 2002). The structure of the study was then characterized by a continuous interplay of theory and empiricism. As also presented in the study timeframe in the next section, the pilot case influenced the need for theory after which these new theories were again reviewed against the cases and so on. This iterative approach allowed me to benefit both from being able to be open minded in the beginning, and also to do a thorough literature review and link the cases to existing theory.

3.2.1. Study timeframe

The research process was started in May 2001. As depicted in the figure below, the process began with the review of key literature related to strategy and alliances. As this progressed, I chose to take boo.com as a pilot case. As the work on the pilot case progressed, I also began to go back to literature in order to deepen my understanding on some of the areas that proved interesting by the case. Simultaneously I started working on alliance creation projects (Cases 1 and 2). When working on these cases I had the idea in mind of using the projects as Cases in this study, but had not yet developed any frameworks related to this, nor did I (at least intentionally) actively use any frameworks to try to influence the processes. This allowed for a mainly inductive approach, which was seen as a key benefit when choosing Cases 1 and 2 as parts of this study.

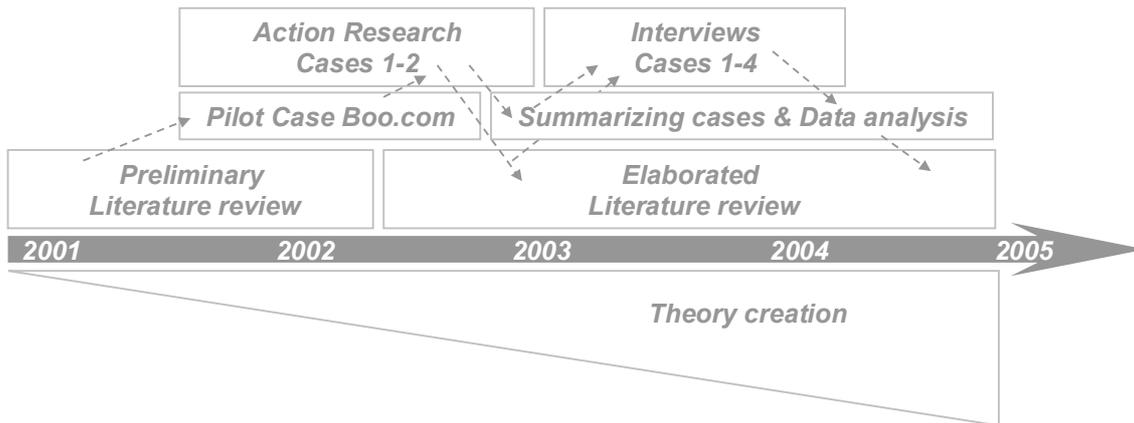


Figure 14. Study timeframe

After completing the pilot case, I started developing the theoretical framework that I would use to examine Cases 1-4. This meant taking the results of the preliminary literature review and the pilot case and going back to doing an elaborated review of the literature based on the findings. As mentioned earlier, I had at this point already been working with cases 1 and 2, which meant that also these experiences had an effect as I developed the revised framework. This stage was followed by interviews, material gathering and research into cases 2, 3 and 4. The last parts of the study meant that new things constantly came up, which I would compare with existing literature, which meant an increasing iteration between the empirical material and theory.

3.3. Data sources

The research structure presented in the previous section and the nature of the cases meant that the data in the case databases consisted of a wealth of material of varying nature. Multiple sources were valuable to allow triangulation of the data, which helps avoid weaknesses in each single form of data (Jick 1979). As presented in the table below, the relevant data can be divided into six different categories. As the research on cases 3 and 4 was done primarily after the alliance creation process was finished, the case data consisted mainly of interviews, annual reports, alliance contracts and some alliance working documents and business plans. In cases 1 and 2 –in addition to the data types mentioned– the case data consisted of also e-mails from the alliance creation and meeting minutes, which were obtained as a result of action research.

<i>Data</i>	<i>Units of data</i>
<i>Semi-structured interviews</i>	24
<i>e-mails from the alliance creation processes</i>	300
<i>Meeting minutes from the alliance creation processes</i>	50
<i>Business plans, draft and final alliance contracts</i>	35
<i>Other working documents from the alliance creation processes</i>	200
<i>Annual reports</i>	12

Table 7. *Data used in the study*

The two main bodies of data can be argued to be the interviews and the knowledge accrued from the action research. On one hand the action research allowed me to have a first-hand view and recollection of how the alliance creation in cases 1 and 2 had proceeded. On the other hand the interviews provided means to compare this view with the view of others and to gain an insight into the processes where I was not actively involved myself (cases 3 and 4). The documents were mainly used to check for dates and facts that were left unclear by the interview and action research data, but they also provided relevant data and findings directly. The next sections will briefly discuss action research (or “action science”), the documented data and some aspects of interviewing.

3.3.1. *Action science*

The proper term for Cases 1 and 2 is *action science* (also called participatory research, cooperative inquiry or action research, see e.g. Reason 1988). Action science is the most demanding and far-reaching method of doing case study research and it has provoked discussion about what actually characterizes action science (Gummesson 1991, p. 102). At least the following characteristics have been suggested:

1. Action science always involves two goals: to solve a problem for the client and contribute to science. It is not sufficient to merely apply existing theory –this is *applied research*.

2. During an action science project those involved should learn from each other and develop their competences.
3. The understanding developed during an action science project is holistic. Case study research typically focuses “on a few factors and stud[ies] these in detail”, whereas the action scientist must focus on the totality of the problem (but still keep it simple enough, or in other words “*optimally incomplete*”).
4. Action science requires cooperation between the researcher/consultant and the client personnel. This includes feedback to the parties involved and continuous adjustment to new information and new events.
5. Action science is primarily applicable to the understanding and planning of change in social systems.
6. There must be a mutually acceptable ethical framework within which action science is used. (Gummesson notes that he is uncertain about this, and that he feels it should be possible –and necessary even– to run a project when conflicting interests and values are involved.)
7. Preunderstanding of the corporate environment and of the conditions of business are essential when action science is applied to management subjects.
8. Action science should be governed by the hermeneutic paradigm although elements from the positivistic paradigm may be included.

(Gummesson 1991, pp 103-108)

Gummesson also states that an action scientist will probably not score top points on all characteristics. Based on the above, Cases 1 and 2 in this study can be labeled action science. When comparing these cases to the characteristics presented by Gummesson, it can be said that a majority of the criteria are met. The research in these cases is especially strong on the points that 1) the goal was to solve a problem (the goal of the companies) and to contribute to science (my goal), 4) the understanding developed was aiming at a strategic and holistic view, 7) because of my background of management consulting in both case companies, I had a solid pre-understanding of business conditions and 8) the research was governed by the hermeneutic paradigm, e.g. there were no hypotheses I was trying to test.

The information gathered with the action science method was besides e-mails and various working documents also a thorough understanding of the processes and a number of nuances from the daily alliance creation tasks. This data later proved valuable in understanding how certain inefficiencies related to other events. This

supported the view that action science is also particularly well suited for theory building studies (Reason 1988).

3.3.2. Documents

The second source of data used in this study is the different sorts of documents that were made available to me. The e-mails and working documents used as data in this study are mainly from cases 1 and 2, where I was a participant in the process, and as such naturally received correspondence from both sides of the parties. The e-mails were in this study mainly used to verify certain dates and facts, but also as direct quotes in the case descriptions (such references are usually referred to as quotes from a “Memorandum”).

The draft contracts, business plans and final contracts were used quite similarly to the e-mails and working documents. They provided a valuable support for analyzing and verifying the data gathered in the action research and interviews. This type of data was – in varying quantities – available to me related to all the cases, but the importance of these documents was emphasized in cases 3 and 4, where I did not have many e-mails or working documents available. Finally, annual reports of all the case companies were also used.

The documented data is particularly valuable as this type of confidential data is not often available to a researcher. The handling of confidentiality is discussed later, but as a general comment it can be said that a great amount of trust was shown by all the companies involved, as a separate NDA was not required by any of the companies.

3.3.3. Interviews

The third source of data in this study is interviews. In Cases 1 and 2, the interviews were used primarily to a) get a longitudinal view on the partnerships and b) to allow the managers of the companies to express their own views, and to get valuable complements to the other data that was gathered during the action research. In Cases 3 and 4 the interviews were the primary source of first-hand information. The purpose of the following sections is to give an overview of the sampling, method and conduct of the interviews.

3.3.3.1. Interviewees

One of the benefits of strong personal involvement and prior relations to many of the case companies is that access to the interviewees does not create problems²⁹. For this study, I was granted an interview with 24 out of 25 requested people.

Based on the need of information, the interviewees were chosen based on three different criteria: 1) *people who were involved in the alliance creation that was studied*, 2) *people who were involved in strategic management* and 3) *people who were working in alliance management*. The first group of interviewees was chosen because they provided valuable information about the alliance creation processes. People in the second two groups were chosen because they provided information concerning the background for the alliance creation.

In total, 24 people were interviewed for the four cases. The main principle was that interviews were conducted until what seemed to be a reliable picture started to emerge from the interviews. What made this easier was also the fact that all interviewees agreed that they could be contacted by e-mail if there was a need for further information. This was also done in some cases. Perry (1998, p. 794) suggests that a PhD thesis should have at least three interviews per case study organization. This was also seen as a minimum number for the cases in this study (excluding the pilot case, which was done based on second hand data). With four interviews, Case 3 had the least amount of interviewees. In all cases people from both parties were interviewed.

As presented in the table below, the interviewees were divided into two groups; *Managers* and *Senior Executives*. This was done mainly to shed some light on who had given the answers, as names or titles could not be used because of anonymity. The group Managers included titles, such as “*Sales Manager*”, “*Business Development Director*” and “*Senior Partner Manager*”. The Senior Executives had titles like “*CEO*”, “*CFO*”, “*President*” or “*Vice-President*”. In general the division was such that people who were part of the management team of the company were categorized as Senior Executives.

²⁹ Even if I had met the majority of the interviewees prior to the interview, the relationship between the interviewees and myself was of a professional business nature, which probably reduced the propensity of the interviewees to give answers I wanted to hear.

<i>Interviewees</i>				<i>Total</i>
<i>Position</i>	<i>Manager</i> 7	<i>Senior Executive</i> 17		<i>Total</i> 24
<i>Personally actively involved in case alliance creation</i>	<i>Involved</i> 15	<i>Not involved</i> 9		<i>Total</i> 24
<i>Interviewee relation to case</i>	<i>Strategy / Business</i> 7	<i>Alliance</i> 2	<i>Involved in case</i> 15	<i>Total</i> 24
<i>Gender</i>	<i>Men</i> 22	<i>Women</i> 2		<i>Total</i> 24

Table 8. *Interviewees*

Further, 15 out of 24 interviewees were personally actively involved in the creation process of the alliances in this study. Out of the other 9 interviewees, seven were responsible for (or in key roles in) strategy creation of their company or heads of their business units or companies. Two were working full time in alliance management.

22 out of 24 of the interviewees were men, which probably is quite representative of the gender distribution among top management in the North European ICT sector.³⁰

3.3.3.2. *Interview method*

All the interviews of this study were conducted face-to-face. According to Lehmann et al. (1998, p. 192) there are some advantages with this type of interviews compared with other techniques. These advantages include:

- Relatively complex presentations can be shown to subjects
- Higher completion rates are likely

³⁰ The fact that so many of the interviewees are men could be argued to have an impact on the findings, but it is not the intent of this study to explore this aspect further.

- Depending on what answer the respondent gives to a particular question the interviewer can then branch to the next appropriate question
- Respondents can be asked to give responses other than multiple-choice type questions
- The presence of the interviewer can help convince the respondent to answer questions he or she might otherwise leave blank
- The interviewer can also observe the respondent

The nature of the issues dealt with, and the complexity of the topic made face-to-face interviews a natural choice of interview method for this study. Using personal interviews also created an opportunity for feedback and discussion. Personal interviews also make it possible to confirm the confidentiality of the interview (if needed) and clarify and elaborate on questions (Zigmund 1997, p. 221-222). A potential risk with face-to-face interviews is that the interviewer may influence the responses. According to e.g. Lehmann et al. (1998, p. 193) the interviewer's opinions may influence the way in which he poses questions or the interviewer may interpret answers incorrectly because of selective perception. The interviewee may also answer questions in the way he or she thinks the interviewer wants to have them answered.

To mitigate the risks presented above, the respondents were given the chance to have their answers anonymized, which all interviewees also wanted. Also, to avoid misinterpretations and in order to capture all the information accurately, a tape recorder was used in all the interviews.

According to Silverman (2000, p. 90) interviews in qualitative research are relatively unstructured and “*open ended*” and they aim at understanding “*experience*”. The goal with this type of interviews is (contrary to interviews based on questionnaires) to let the interviewee talk about the topic freely, and the role of the interviewer is just to “direct” the interview so that all relevant areas are covered (Grönfors 1982, pp. 105-106). The questions in the interviews in this study were also open ended.

3.3.3.3. *Interview framework*

The interview framework was based on the research objectives and research propositions, and followed the revised theoretical framework quite closely. The interviews were divided into three topic areas following the theoretical framework of the study. In order to understand the background of the case companies the first part of the interviews focused on strategic intent (words like “*goal*” and “*aspiration*” were used to avoid getting respondents to quote some strategy document literally) and the context in which the company operated. The second part focused on alliances in general, what meaning they had to the company and how they were managed and created. The third

part focused on the specific alliance creation process with PSP A³¹ and its results. The interview framework is presented in the figure below (see also Appendices for the full questionnaire).

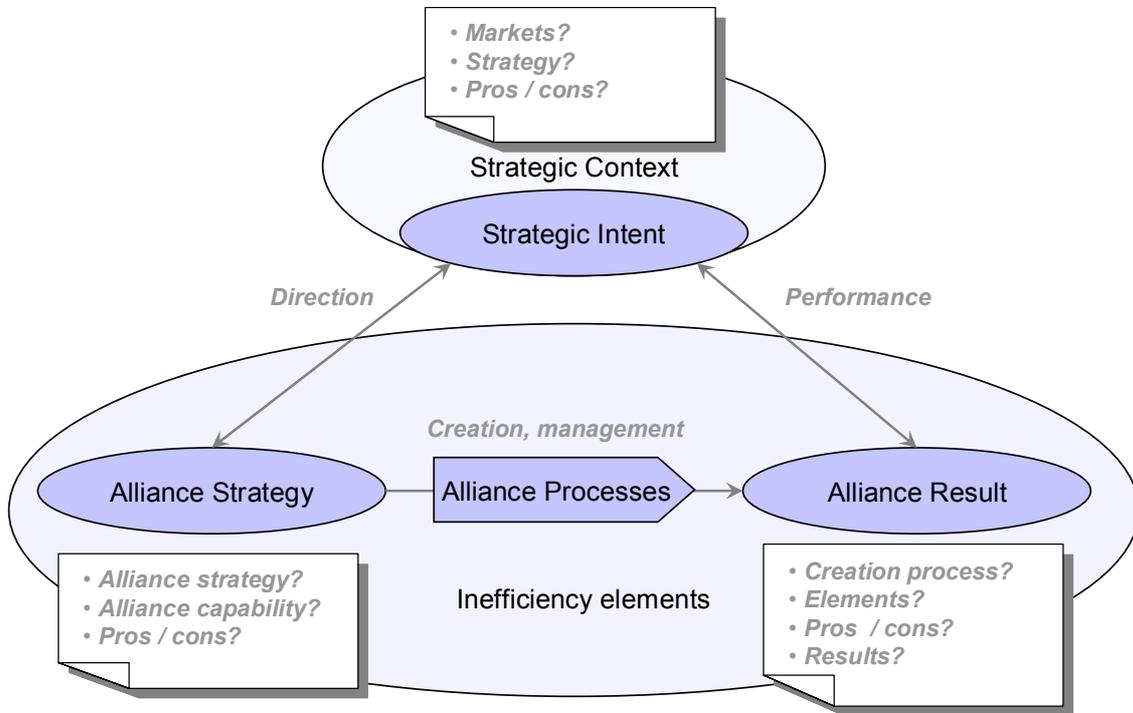


Figure 15. Interview framework

3.3.3.4. Conducting the interviews

All the interviews were conducted wherever it was the most convenient for the respondents. In practice this meant that all interviews were conducted in the offices of the respondents. The locations were in two different countries.

When setting up the interview an e-mail (see Appendices) was sent to the respondents presenting the topic of the study briefly. This was done to ensure that the respondents would know the interview themes and hence come better prepared with the right mindset (compared to if they would have been totally unprepared for what the interview would be about). The questions themselves were intentionally not sent to the interviewees, as some interviewees might have used this to prepare for the interview by making up “correct” (from the company’s or their own point-of-view) answers. Only in one case did an interviewee ask for (and receive) the questions in advance.

³¹ PSP A (Professional Service Provider A) was the counterpart in the alliance creation in cases 1-4 as explained in the next chapter.

Before each interview, the respondents were asked if it was acceptable to use a tape recorder during the interview. All respondents agreed to this. In one case the recorder did not work and hand written notes had to be made instead.

I promised all interviewees that the responses (on both a company and individual level) would be anonymized. In practice it was agreed that one or several contact persons in the companies would read the case descriptions including quotes and comment if it was acceptable to publish the case as such or if something should be added or removed. Many interviewees specifically asked about the anonymization before the interview, and after hearing how the procedure would go, were visibly reassured and in my interpretation spoke quite openly about the issues covered. A sign of this was also that no company or interviewee suggested or even mentioned the use of any kind of NDA (Non Disclosure Agreement) for the study.

All interviews were booked beforehand, and the agreed length of the interviews was one to one-and-a-half hours. On average to interview took 60 minutes. There was great variation in this, however. Some (three) respondents replied only very shortly, and the whole interview was over in 45-50 minutes, while others engaged in discussions that had to be stopped after approximately 2 hours.

According to Perry (1998, p. 791) a case study interview should always start with open questions that aim at capturing the experience of the interviewee. These questions also aim at starting the discussion so that the questions can be open-ended, and not leading the interviewees' answers to a certain direction. Perry (1998, p. 792) also suggests that:

“Within the realism paradigm of case study research, the perceptions of the interviewee are of interest only because they provide triangulation data about the real world outside the interviewee and the interviewer. Thus some probe questions about the research issues must be prepared in case the interviewee does not raise them in the first, unstructured parts of the interview. However, one hopes that the answers to the probe questions are provided before the questions have to be put.”

The probe questions form the major part of the prepared interview protocol (Yin 1994) which is used to provide a reliable framework for cross-case analysis of data.

The open-ended vs. probe questions tactic was also used in this study. The interview framework and questionnaire (see Appendices) were used to keep the interview structured in case the open-ended questions and the discussion that followed did not provide information related to the research topic. In most cases this tactic worked perfectly. I.e. in many interviews, the questions were already answered in the open-ended discussion, and only a few probe questions had to be asked. In some cases, however, I felt that it was more fruitful to continue the open-ended discussions and leave out most of the probe questions. The reasons for this were mainly:

- a) That the whole interview was going at a totally new, very interesting direction (about e.g. the interviewee's experiences in working with alliances for the last 15 years), which I did not want to interrupt or

- b) That it was quite evident that the interviewee did not want to answer detailed questions about certain topics, or
- c) That he/she had indicated previously in the discussion that he/she did not know the specifics on certain topics.

3.4. Data analysis

There are two major ways of treating and analyzing interview responses. On one hand there is the realist approach, which “*has a high plausibility to social scientists who theorize the world in terms of impact of (objective) social structures upon (subjective) dispositions*” (Silverman 2000, pp. 122-125). In the realist approach it is important to have some methods, by which the accuracy of the responses can be validated (e.g. through observations). On the other hand there is narrativism, in which the aim is not to create a “*true picture of reality*” but instead to find value in the discussion and experiences of the interviewee alone, and view the answers as “*cultural stories*” (Ibid 2000).

Following the thoughts on critical realism presented in the introduction of this study, the method by which the interviews are analyzed in this study is neither pure realism nor pure narrativism, but in fact both. The main emphasis is certainly on the “*realist elements*”, which means that one of the key purposes of the interviews was to produce data which could then be compared to: a) my own recollection of the things I had observed b) written records (such as e-mails and presentations) on the alliance creation and c) the responses of other interviewees on the same matter. Hence, a key characteristic of the data analysis process was the use of *triangulation* (Jick 1979, Miles and Huberman 1994).

On the other hand, some answers were included in the data analysis and treated more as “*cultural stories*”. This was done in one case, where it was impossible or hard to know whether they were true or not. These type of quotes and ideas from the interviewees were seen as valuable complements to the other data especially when 1) the statement was of such nature that it was interesting because it helped understand the interviewee and his/her view on the world, for example:

“I felt that PSP A wanted to base the IT partnership more on trust, but this did not suit our mindset” (Senior Executive 4, Company 2)

Or, 2) because the interviewees had a long –many times several decades– experience and expertise in the field, and based on this experience spoke about alliances in general, for example:

“Scenario planning should always be added in alliance creation. Many times the business environment changes and the alliance agreement cannot cope with the changes” (Senior Executive 1, Company 1)

In general it could be said that the majority of the findings reported in the next chapters are based on realistic analysis based on triangulation of different data sources (a process that was *supported and influenced* by the narrative analysis). The conclusions and the corresponding discussion, however, are enriched by some quotes from the interviewees, in a way that could be seen as narrativism. Further, direct quotes are used, to better display when the interviewee is referring to the alliance in question and when a more general statement is made.

Because of the anonymization, only I –the researcher– know who the different interviewees are. I decided that when analyzing and reporting the data, no names would be shown as this was agreed on with the interviewees. As also explained earlier, neither job titles are shown in the case descriptions, as companies often have quite specific job titles and it could be easy to identify the person and the company by knowing the precise job title. In the analysis I still wanted to give some kind of “weights” to the different responses by calling the interviewees “*Senior Executives*” or “*Managers*”.

Another issue related to anonymization and data analysis was the length and thoroughness of the case presentations in the study. On one hand presenting a long overview of the case companies and their background would have compromised the anonymity of the cases. On the other hand, a thorough enough background had to be presented in order for the reader to get a proper understanding of the strategic context of the alliance in question. The result is a compromise between these two considerations.

The analysis of the case data was started as early in the research process as possible, because this “*enables the researcher to go back and fill in gaps*” (Miles and Huberman 1994, p.50). In practice, this meant that the action science data and interview data were completed with e.g. e-mail requests for additional data. Such data was e.g. the dates of certain events or the number of people working in the company’s alliance management. This also gave the opportunity to clarify certain things that had been unclear in an interview with other interviewees.

Miles and Huberman (1994) also argue for the use of coding of the data to help speed up the analysis and the use of displays (a “visual format” e.g. matrices) in analyzing the data. The authors further state (e.g. p. 90) that the analysis process should start with an explorative approach i.e. to just present the data of the single case as clearly as possible. Only after building a sufficient description, can the researcher proceed to explaining and predicting based on the cases (if this is the goal of the study), by trying to answer the question “why” with the help of some form of causality.

In this study, *coding of the data* was not used extensively. A contributing reason for this was the tight requirements such an approach would put on the data. I attempted to do this, (see later e.g. dividing the cases into “exogamic” and “endogamic”), but found that such coding made the division highly artificial in many cases. The primary reason for not coding the data according to strict categories was that much of the subtle information and the benefits of doing in-depth case studies could have been lost. Further, the heterogeneity of the data, i.e. the fact that the data varied so much in character and form (e.g. e-mails, interviews, annual reports, business plans) made this

virtually impossible. Further, the fact that the interviews were conducted in three different languages³² (in which I am fluent) would have made the coding and use of e.g. computer analysis of the transcripts hard. These factors were also the main reasons for not doing a computer-based analysis.

What were, however, used were data displays as suggested by Miles and Huberman (1994). This approach seemed to fit well with the three research steps *exploration*, *explanation* and *validation* (Kerssens-van Drongelen 2001). A rough overview of the data analysis process of this study is presented in the figure below.

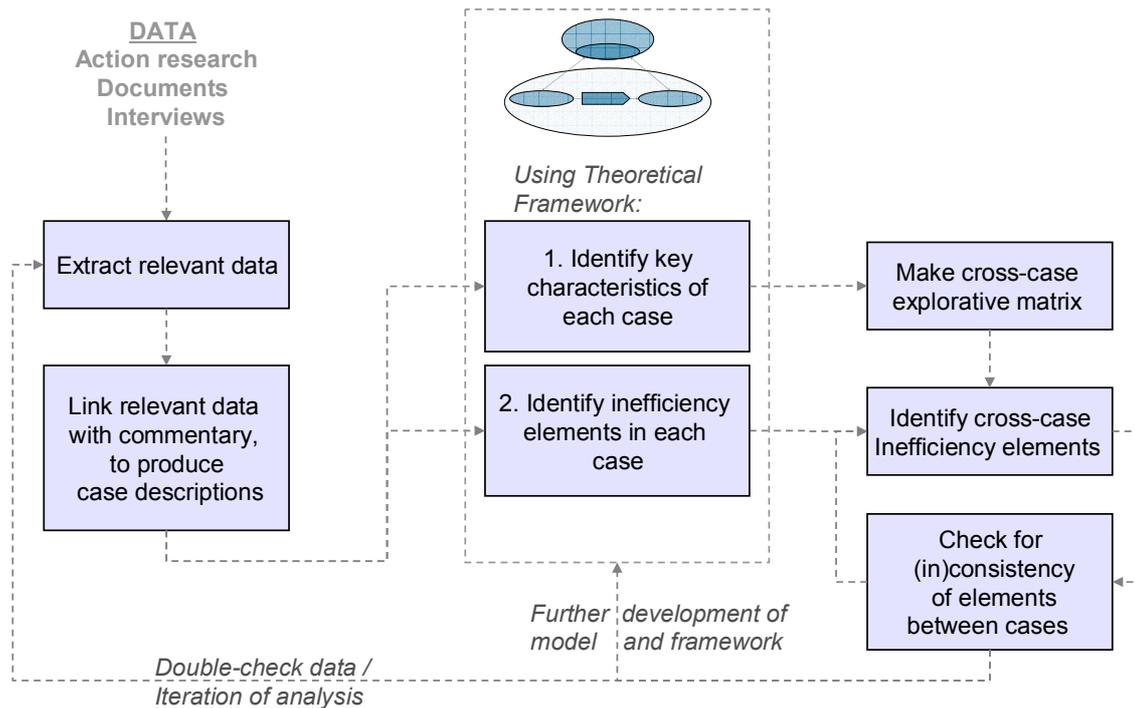


Figure 16. The data analysis process

Although the data analysis was started early on in the process, and was of an iterative nature, some stages can be identified in it.

³² The use of three different languages in the interviews could be problematized. Because I had to translate the interview transcripts into English, this could have resulted in some errors or misinterpretations. However, the fact that I speak both the two other languages natively and the fact that I am fluent in English are bound to limit this risk. The translations were also double-checked against the interview tapes. Keeping in mind the risks, I would still see the three languages as an advantage, because this allowed the interviewees to choose the language most suitable for each of them. This contributed to a more open atmosphere and possibly also ruled out errors potentially otherwise caused by the interviewees' limited skills in English (if this would have been the only common language, and hence the one chosen for the interviews).

First, the case data was gathered and data that seemed relevant to the case was extracted. The relevant data was then combined with commentary to produce the case descriptions. Simultaneously the preliminary data from each case was preliminarily put in an “explorative matrix” with the key characteristics of each case.

Second, for each case some findings regarding the different aspects of alliance creation were drawn and written down in the case descriptions and in the research diary. Also the inefficiency elements suggested by each case were documented separately.

Third, cross-case matrices of the key characteristics of each case and the inefficiency elements were made, where all the findings from the separate cases were drawn together and further analyzed for any inconsistency. Several checks were also made to ensure that the data supported the findings.

Analyzing the data according to this process proved to be an efficient way of working. It must here be emphasized that the process was also highly iterative, e.g. in the sense that some conclusions gave birth to new ones, and in the sense that I moved back and forth between the raw data and the cross-case findings. The findings were then further compared to existing literature (based on a “third” round of literature review) to produce the conclusions of the study.

In summary it can be said that in “traditional terms” the guiding paradigm for gathering and analyzing data in this study followed an inductive approach. For the reason presented above, it was not pure induction, but rather induction with deductive elements, which in fact means that it could rather be called *abductive* (Dubois and Gadde 2002). This approach is also close to the realist paradigm as suggested earlier above. As further argued above, it is notable that a pure realist sees the world as objective and commensurable. The goal of this study was also to find as many objective “truths” as possible (e.g. “the meeting was held at the 6th of November 2001”). Still, in cases where such data was unavailable or where more subjective data (e.g. “I felt we really had a good team spirit in the negotiations”) was available and *valuable to support the case analysis*, also this “softer” data was seen as a valuable complement to the data analysis process. This form of data analysis fits the critical realism approach.

3.5. Validity and reliability of the study

As this study aims at contributing to theory by building a –at least to some extent– generalizable model for alliance creation, a discussion about generalizing from cases is presented in this section.

It has long been taught in business schools that statistical sampling should be used in order to allow scientific generalizations (Gummesson 1991, p.78). This view was criticized already by Normann (1970, p. 53) who stated that:

“the possibilities to generalize from one single case are founded in the comprehensiveness of the measurements which makes it possible to reach a fundamental understanding of the structure, process and driving forces rather than a superficial establishment of correlation or cause-effect relationships”.

The aim of this study is analytic rather than statistical generalization (Ragin and Becker 1992; Yin 1994; Easton 1994). In analytic generalization, “*the investigator is striving to generalise a particular set of results to a broader theory*” (Yin 1994, p. 36), rather than to a population as in statistical generalization. To generalize to a theory is to provide some evidence that supports a theory but not necessarily to prove it definitively (Firestone 1993). Generalization is further closely related to *validity* (Gummesson 1991, p.80). Validity means in essence that a theory, model, concept, or category describes reality with a good fit, just like a good map properly describes earth (Ibid, p.81). Further three different aspects of validity can be identified.

External validity refers specifically to the aspects of a case study that can be generalized. Yin (1994, see also Easton 1994, Ragin and Becker 1992) suggests that the external validity in case studies refers to analytical generalization as opposed to statistical generalization. A way to claim analytical generalization is to use replication logic in multiple case studies. As previously mentioned, the aims of this study are closer to analytic generalization than statistical generalization. Cases 1-4 of this study can be seen as the same experiment, even if the abductive research approach meant some evolution in the focus of the case studies, until it was seen that an additional case would not add value to the study. Still, while searching for the “*relatively enduring’ structures and tendencies which structure the cause of events*” (as suggested by Patomäki and Wight 2000), the aim is more to understand the tendencies and the valuable contributions of each case separately and together, rather than to search for some “truths” which can be generalized into an “eternal” theory.

Further, *construct validity* refers to the study’s ability to establish correct measures for the concepts being studied. According to Yin (1984), criticism of case studies include issues related to failing to develop a sufficiently operational set of measures, and subjective judgments being used. In order to increase construct validity, three tactics are available:

- a) *Use multiple sources of evidence*
- b) *Establish chain of evidence*
- c) *Have key informants review draft case study report*

Wherever possible, I have used multiple sources of data (i.e. comparing interview results, my own recollection of what happened, documents, correspondence and meeting minutes) in all cases to improve construct validity (Grönfors, 1982, p.174). Further, with the same aim in mind, feedback (see appendices for the feedback request letter) was requested from the key informants based on the draft cases sent to them. The choice to send them the draft case studies and not interview transcripts was made

because it was likely that many of the interviewees—who were in high positions in their respective companies—, would not have had time to go through each interview transcript. Instead, the case reports were seen a concise and efficient way of getting the busy managers to provide relevant feedback. Valuable feedback was received e.g. related to some felt overemphasis of the PSP A view (of the definition of success) in one case and some inaccuracy of dates in the alliance creation process in another. Also some further anonymization was made as a result of the feedback.

Internal validity in turn refers to showing how certain conditions lead to other conditions through some form of causality (Rowley 2002). As explained in the previous section, a structured process was emphasized during the data analysis to present a chain of evidence between the data, the findings and the conclusions as clearly as possible and hence improve both construct and internal validity. Internal validity was also ensured by triangulation of data both by interviewing several interviewees on the same themes and by combining and comparing data from different sources (Jick 1979, Miles and Huberman 1994).

Another key consideration in scientific research is *reliability*. Reliability means that researchers studying the same phenomenon with similar purposes should reach approximately the same results. A study with high reliability can in other words be replicated by others (Gummesson 1991, p.80). Yin (1994) further suggests two ways of increasing reliability in case studies: 1) using a case study protocol and 2) developing a case study database.

The table below lists some of the methods used in this study as compared to key criteria of validity and reliability as suggested by Rowley 2002 (and also supported by Yin 1984; Yin 1994 and Gummesson 1991).

<i>Tests</i>	<i>Action science cases</i> <i>(Cases 1 and 2)</i>	<i>Other main cases</i> <i>(Cases 3 and 4)</i>
Construct validity	Used multiple sources of evidence (observation, e-mails, presentations, working documents, contracts, interviews, annual reports) Case study database used Clear links between statements and data Key informants reviewed the cases	Used multiple sources of evidence (presentations, interviews, contracts, annual reports) Case study database used Clear links between statements and data used Key informants reviewed the cases
Internal validity	Analysis based on framework and postulates. Explanations are built from data to case descriptions to findings to conclusions, to provide a chain of evidence	

External validity	Used theoretical replication logic to select the cases Used case study protocol to guide the study
Reliability	Case study database established Research diary held

Table 9. Case study design, validity and reliability

The reliability of the study should be quite strong. In the main cases, all documented data sources such as e-mails and meeting minutes, have been gathered into a research database. In addition, all interviews are preserved in the case study database. Naturally, not e.g. all discussions and details from the action research were documented, and as such I recognize the challenge it puts on reliability, but on the other hand, getting access to situations, where documenting or recording simply was not an option, is perhaps the most valuable part of this study. This relates directly to external validity, which is high since I –in at least in Cases 1 and 2– have been able to observe the events as they occurred. On the other hand, the fact that I have been part of a one-off process makes it impossible for someone else to “go back” and repeat the research, which also increases the risks related to researcher subjectivity as also discussed in the introduction.

A research diary was used, because it allowed documenting unclear things and systematically continuing the analysis on them later. It has further been suggested that keeping a research diary also contributes to making a study more reliable (Silverman 2000). In practice a MS word file was used to document new ideas, questions and challenges related to the different themes in the study. I have felt this has been especially helpful as I am following what could be called an abductive approach. Because of the approach I have had to leave certain ideas for weeks, which would certainly have been forgotten without the research diary. All different versions of the document are also included in the study database, which allows anyone to go back and observe the progress of the research.

3.6. Limitations

There are two main limitations related to the research process, which deserve attention. The first is researcher subjectivity, the other is the choice of cases (and particularly the role of PSP [Professional Service Provider] A, my employer as “the other” side of the alliance creation). Further limitations regarding the findings and conclusions of the study are presented later in chapter six.

As mentioned earlier in this study, researcher subjectivity is a key issue in this type of qualitative studies, where the researcher is close to the events studied. According to Walkerdine et al (2002) an important part of such studies is to tell the researcher’s “own story” in order to shed more light on how certain conclusions are drawn. Closely related

to this is also my role as both a researcher and an actor (consultant / project manager). Gummesson (1991) has discussed the two roles, and argued that being a consultant or an actor can in fact help in understanding certain phenomena, as long as the researcher makes sure that the roles do not get mixed. Following this, I have attempted in the case descriptions and findings always a) account for my own background related to the case and b) distinguish between when I am expressing my own beliefs about an event, and when the findings are based on other data sources (and in such cases *which* data it is based on). Further according to Walkerdine et al (2002), a qualitative, subjective investigation into an event is always incomplete and partial. This is also a risk I cannot avoid in this study. I would rather claim that by trying to use many different sources of data, I can strive for a *sufficiently and perhaps optimally realistic* account of the events. This means that while I may be missing some details, I work hard to get the essential things right. Also, the question is what other method or research could –given the research objectives– have produced better results without the same (or other, even more severe) problems? In conclusion it can be said that while my role as an actor in several of the case companies may cause some subjectivity issues, it could also be seen as a key strength, as the quality of case studies has been suggested to increase if done by a trained professional in the field (Gummesson 1991).

The second main source of potential limitations is the choice of cases. I do not intend to repeat here what was said earlier about the choice of individual cases. Rather, the issue concerns the problems that can arise from the fact that I have chosen to present the cases from the point-of-view of the Case Companies 1-4 even if I, at the time of the alliances creations, was employed by PSP A, which was the other part of the alliance creation process. There were two primary reasons for this choice. *First*, it seemed more interesting to look at the alliances from the point-of-view of four different companies rather than just one. *Second*, as I was intuitively looking at the alliances from the point of view of PSP A, and had much information about this side, I felt concentrating on the other companies (while also deepening my understanding of the PSP A's point-of-view) would allow me to have as complete a picture of the events as possible. Both of these reasons also contribute to the choice of not looking at the alliances equally much from both PSP A's and the point-of-view of the four companies. Instead, PSP A and its motives are presented, but only briefly. Especially my personal interest in the motives of the four companies and the fact that there was more variation between the cases when choosing this approach led to this decision.

The potential limitation of this approach was that all the cases would resemble each other because of the fact that the other party was the same. Still, as the cases were of quite a differing nature, this risk was not realized. There was also the risk that I would project my own values about what the alliance creations should have been like as an employee of PSP A. This relates back to the subjectivity, which cannot be avoided, but is best managed by keeping it in mind and trying to use triangulation of multiple data sources to avoid stating merely one's own opinions.

4. FINDINGS

This chapter presents the findings of the study. The aim is particularly to answer the first two research questions regarding the inefficiency elements that could be found in the cases and how they contribute to the success or failure of alliance creation. The structure of the chapter is hence arranged so that it first aims at giving a picture of each of the cases after which findings related to each individual case are presented separately before going into cross-case analysis (Miles and Huberman 1994).

After the case descriptions, a cross-case analysis is displayed by first presenting an explorative matrix of all the four cases, and then continuing with a discussion and two matrices of the inefficiency elements found and their contributions to the alliance creation. The *chain of evidence* (Rowley 2002) is constructed so that the elements in the two matrices are backed up by the discussion and quotes before the matrices and the case study description. In other words, the case description, the individual case findings, the explorative matrix and the discussion around the findings should as a whole present support for each claim in the inefficiency element matrices.

For clarity it could be argued that the cases actually make up three groups. The first group consists of only the pilot case; boo.com, which is presented in full text in the appendices. This case was used primarily to help elaborate on the preliminary theoretical framework. The second group is the main cases, in which I have personally been heavily involved and which could be called action science (Cases 1 and 2). The other cases (Cases 3 and 4) are cases where I have not been involved in the alliance creations personally, but where I have still had profound access to material and interviews, and a thorough understanding of the case companies' businesses.

It is important to understand that my role in these cases has not been an employee of the case companies, but a consultant and/or negotiator for PSP A (Professional Service Provider A) i.e. "the other alliance party". PSP A is in the next section still not presented as a case per se, even if (or because) it is the other part of all the alliances with the four case companies.

<i>Cases</i>	<i>Action science cases</i>	<i>Other cases</i>
<i>My role / relation to the case companies</i>	<p><i>Strategy consultant (before alliance process, Cases 1 and 2)</i></p> <p><i>Actor (PSP A project manager in alliance creation process in Case 2, one of lead negotiators in alliance creation process in Case 2)</i></p> <p><i>Researcher (e.g. when doing follow-up interviews)</i></p>	<p><i>Strategy consultant (In Case 4)</i></p> <p><i>Observer (Not actively involved in the alliance creation, but informed of progress of alliance creation in Case 3)</i></p> <p><i>Researcher (e.g. when doing interviews)</i></p>

Table 10. Summary of my relationship to the cases/case companies

The four cases are presented from the point of view of the four case companies (i.e. not from PSP A's perspective) by first presenting the overall strategic context and environment the company operates in and second by presenting the particular alliance or alliance formation process. The findings of all cases are also summarized.

Section 4.1 briefly presents PSP A, which was the other part of the alliance creation process. Sections 4.2-4.5 then present the four cases correspondingly. Finally, in section 4.6 and its subsections, cross-case analysis is presented based on matrix displays of the key aspects of the cases.

4.1. PSP A

This section will introduce PSP A, which was the other part of the alliance creation with Companies 1, 2, 3 and 4. PSP A is not seen as a case, but it is rather presented to provide background for the alliance creations in the four cases.

I have been working for PSP A since January 1999.

4.1.1. Company background

PSP A is one of the world's leading Professional Services Providers (PSPs)³³. The history of the company goes back several decades, and the PSP A brand is known in most business communities on all continents.

³³ In this study Professional Services Providers (PSPs) are defined as companies that are in a business-to-business industry selling one or several services related to e.g. consulting, outsourcing, financial auditing,

During the 1990's PSP A was primarily known for its consulting and IT services. Even though this market was growing rapidly, the company's management decided to pursue a strategy based on long-term cooperative arrangements.

“A couple of years ago our business model was more based on consulting, and alliances and partnerships were not very central. During the recent years we have focused more on long-term partnerships with our customers, and this has also meant that we cannot do everything ourselves, but need horizontal partners in many areas to get things done” (Senior Executive 1).

This decision was also later enforced by the market, since the consulting and pure IT-market halted in the beginning of the millennium, which meant that the company put even more efforts on moving towards its new strategy. In its 2001 annual report, PSP A heavily emphasizes its alliance-based strategy. The company writes that it has managed to be successful in a demanding market *“through its network of businesses approach—in which the company enhances its consulting and outsourcing expertise through alliances, affiliated companies and other capabilities.”*

On a North European level, PSP A –with an average of a few hundred employees per country– could be described as a medium sized company. Also in the North European market, the company saw a change in demand.

“[In the North European markets] the change in strategy has also been market driven, which means that companies buying IT and professional services want to do business only with a few partners” (Senior Executive 1).

As a result of this, PSP A in North Europe also had to start pursuing long-term partnerships, which was at least partly a new thing compared to the earlier strategic focus. Also, PSP A had certain larger outsourcing and other types of long-term cooperative contracts with customers in other “geographies” around the world, but not in North Europe. This meant that there was *increasing pressure* from international management to implement the new strategy also in North Europe.

Even though the strategy was new, PSP A had a well-established global alliance organization that handled mainly alliances with hardware and software providers, and other kinds of “supply side” cooperative arrangements. Besides this, the company did not have detailed, explicit guidelines on how to handle different kinds of alliances.

“There were no corporate guidelines for partnerships with companies who were also customers; this is sometimes a problem, since we obviously cannot make certain types of partnerships with all big players in a market. Of course this is different for companies selling e.g. IT hardware, which are very generic, but for our business this is the case” (Senior Executive 1).

IT or business processes. Gummesson (1978) has suggested that a professional service is an assignment given by the buyer to the seller.

In practice this meant that alliances with companies that were also customers on the consulting or IT side were developed by local teams. The teams were supported by international guidelines, international key people and international alliance management. At certain points during and after the alliance creation process, the draft agreements and the conditions in them were then presented to international boards, which approved or disapproved going forward with the alliance creation process or signing of the contracts.

Based on the discussion above I argue that creating any kind of alliance with existing customers was clearly aligned with the strategic intent of PSP A. The alliance strategy was to get mainly two things with the help of these alliances, namely:

- a) to pool resources so that the two companies could jointly create and/or sell offerings to third parties and/or
- b) to through the alliance make the customer more committed to PSP A and hence buy more of its services in the long run.

Alliances 1, 2 and 3 are chosen for this study because they (from PSP A's point-of-view) are of such nature that they combine both the reasons mentioned. Alliance 4 is chosen because it was so strongly perceived as an alliance (or as a "strong partnership") by both parties, even if there was no motive of type "a" from PSP A's side.

It can of course be disputed whether a cooperative agreement between a buyer and a seller can or should be called an alliance. When asked this some of the interviewees answered as follows:

"Of course we aim to sell to our customers, even when we have created strategic partnerships with them. I think both parties understand that both are maximizing their own value. In that sense I do not see controversy between selling and doing partnerships with customers." (Senior Executive 1, PSP A).

"I think it is quite natural to cooperate and create partnerships to advance your sales to the other party, but there is always of course a limit of the acceptable amount of this, sometimes it can go too far" (Manager 3, Company 1)

The argumentation seems logical. The possibility that a customer who is creating an alliance with its supplier would never have thought about the possibility that one of the motives for the supplier might be to sell more (even in cases where this is not explicitly stated), seems relatively small. It is natural that such an alliance cannot be created solely based on a hidden sales agenda, as expressed by Manager 3 above.

4.1.2. *PSP A's alliance motives*

In an attempt to provide further background for the case descriptions, I will below briefly present the alliances with the case companies from PSP A's point-of-view.

Case Company 1 was a big company in the North European market. It was both a big buyer of Professional Service, and a central player in the ICT market. From both these starting points it was very attractive for PSP A to create some sort of a partnership with Company 1. Especially the ICT partnership was seen as unproblematic by PSP A. "*Our offerings complemented each other extremely well, in that sense a mutual strategy was not hard to find, and it was very easy to find roles for both parties*" (Senior Executive 1, PSP A).

Case Company 2 was a big player in its home country. PSP A and Company 2 had cooperated for years before the alliance creation process started. Company 2 was from a North European point-of-view quite a moderate buyer of professional services, but it was still interesting also for this reason. However, the fact that made an alliance especially interesting to PSP A was that Company 2 was operating in a low-cost environment, and getting access to these kinds of ICT resources would be very beneficial for PSP A in the long run (based on several PSP A Internal Memorandums from October-November 2002).

Case Company 3 was a medium size company that operated on a global basis. The company was an average size buyer of professional services, and was hence interesting for PSP A. Also, the two companies had cooperated globally around the integration of Company 3's products into its customer's business. Getting a preferred status on the "system integration" work required to implement the products of Company 3 (i.e. the Company 3's complete offering to third party customers consisted of its own products and the IT work of a system integrator) was also an attractive business for PSP A.

Case Company 4 was a medium-to-large size company that operated globally. To achieve its global expansion and new operating model the company had to buy a sizeable amount of professional services of various kinds. With time it also became clear that the company was looking for a long-term partner to develop and manage its IT systems and business processes, which made it an attractive partner for PSP A.

As can be seen from the descriptions above, PSP A had various kinds of motives for the alliances, even if similarities can also be found. In cases 1 and 3 the motive was largely about getting access to the other party's customers. In Case 2 it was most of all about getting access to critical (low-cost) resources. In Case 4 the initial motive was selling (a motive which was also partly present in the other cases) to Company 4. This case was – as also explained later– included because of the gradual evolution into an alliance it represents.

4.2. Case 1

My history with Case Company 1 (from now on “Company 1”) goes back to 1999, when I started to work for the company as a consultant. In total I spent about 9 months working on the company’s customer order and delivery process during 1999-2000. Later, in 2000 and 2001 I also did some shorter strategy analyses for Company 1 and its subsidiary companies. With such a long history I was one of the natural choices to be a project manager when PSP A and Company 1 (involving its subsidiary application service provider, here called ASP 1 and a third party technology provider) initiated negotiations concerning a deeper cooperation late in the fall of 2001. During 9 months I helped organize and lead the alliance creation project that ultimately led to an alliance agreement in the summer of 2002. After this I moved on to other engagements, but came back to support the re-creation (or revision) of the alliance goals and alliance agreement in the spring of 2003.

The structure of the alliance creation hence involved PSP A, Company 1 and its subsidiary ASP 1 and also a third party, as shown in the figure below.

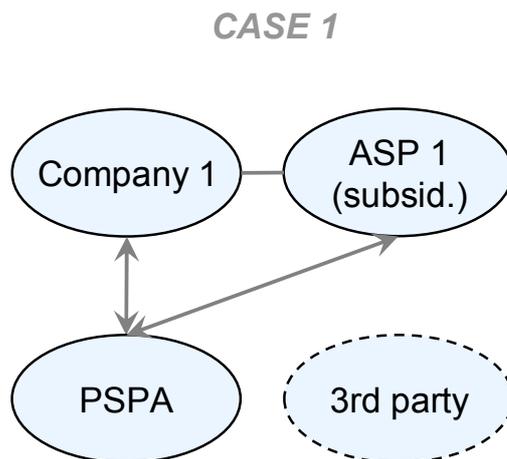


Figure 17. The structure of the alliance creation in Case 1

4.2.1. Company background

As many companies in the ICT sector in 1999, Company 1 was also experiencing an unprecedented growth. Coming from a telecommunications background Company 1 was right in the centre of the “eHype” which took place at the end of the century. The CEO at the time was speaking about “*the biggest upheaval in [the industry’s] history*” (Annual Report 1999). In 1999, Company 1 had just announced a new corporate structure, which separated the “old” and mature business from the “new” and rapidly growing business. As the pace of the growth increased, in 1999 and 2000 the company also created a number of subsidiary companies, whose purpose was to attract talented young people and take care of various market segments in the convergence of IT and telecom. The vision statement in 2000 was speaking about “global” leadership, which

would be produced through “*uniting mobile communications and internet services in an unbiased manner*” (Annual report 2000).

Important elements –with the help of which the new vision was to be fulfilled– of the new strategy were different services that would be bundled with the communication and information technologies. These services were bundled so that different semi-independent units or subsidiary companies could form interesting offerings for their target customers.

One of these subsidiary companies (later called “ASP 1”- Application Service Provider 1) –founded in June 2000– focused on the IT and communication needs of businesses. The idea was that it would be convenient for “corporate customers” to buy their information and communication technology from the same place. As a result of this Company 1 would be able to make their products and services such an integral part of the customers’ business processes that the hurdle to switch to another service provider would be heightened. In the Annual Report 2000, Company 1 described the business of the ASP 1 unit as “*a mode of business interaction in which a corporate customer leases the user rights to applications and services, updating, maintenance and construction in package form directly from the application service provider*”. At the time of its foundation, ASP 1 had about 700 employees that were transferred from Company 1.

Both ASP 1 and its parent, Company 1 experienced a continued growth in the markets in 2000 and 2001. During this time, however, it became clear to the management of both companies that success in the corporate customer market would require a new set of capabilities.

First, business customers required access to management level decision makers and understanding of dynamics of different industries. *Second*, Company 1 realized that if it was to succeed also internationally it would need strong international sales channel partners. The international objectives also meant that product development had to be world-class and the delivery of the services had to be done through partners in geographies outside the Nordic region. The alliance creation process started from these settings.

4.2.2. *The alliance with PSP A*

According to a business plan of ASP 1 written in late 2001, partnerships were a central part of strategy:

“Development of strategic sales and marketing partnerships to internationalise ASP 1’s products is a cornerstone in ASP 1’s international strategy...[also]... ASP 1 needs strong partnerships with leading players in several markets to succeed. Partnering is essential for the success of implementation of the business plan. Partners can be divided into two major categories: Market access (distributions and resellers) and Supplier partners (development of the key elements in the service). Global sales capability would ideally be attained with dominant, global players to gain trustworthiness and global sales capability. ASP 1 is in the negotiation process for a global

strategic partnership for sales & marketing and service production. The partner could provide ASP 1 both with the market access/sales force and key elements for the production (such as data centres, field service/support and maintenance).”

This was also confirmed by one of the Managers involved:

“From our point of view the PSP A cooperation was a strategic alliance. It was the single most important initiative for the company. The initiative was strongly linked, explicitly to strategy” (Manager 1, ASP 1³⁴).

In 2001 PSP A had cooperated with Company 1 for years. PSP A was also involved in product development of several of ASP 1’s key products in the fall of 2001. From these starting points the management team of ASP 1 decided to invite senior executives from PSP A to discuss the opportunity in early October 2001. After the first meeting both parties had agreed that the initiative was to be explored. At the same time a third party was also invited to the negotiations, since ASP 1 also needed a partner for its IT infrastructure business. At this point I was asked to join the negotiations, and as a result I started to plan a four week joint “*business planning and visioning*” project where the three parties would jointly estimate if they would be interested in continuing the discussions. In a memorandum dated 7th of October, I presented the approach for the joint project. The plan was accepted and during the next four weeks, 1-2 senior executives from all three parties met every week to work on “*the tentative business model, the products, the earnings potential, customer types and risks*”.

As a result of the pre-study, a Letter of Intent (LoI) was signed. The LoI stated that:

“The intention of the...Parties is to reach an agreement to establish a strategic alliance...[The] Alliance may include cooperation in sales & marketing, service delivery/data center operations and product/service development.” (LoI, 14.11.2001)

The management of all three companies also decided to start a formal project, which would mobilize people with relevant skills from all three companies. A project manager for each company was selected, and a steering group (consisting of the executives from the first “visioning” project) was nominated. At the same time I was also nominated project manager for the whole process, with responsibility to coordinate the work and report to the steering group.

The project had an ambitious goal to go through the joint project and negotiations in six weeks. The work would be arranged around the following work streams:

1. Contractual & Business Plan

³⁴ At the time of the interviews, all interviewees were employed directly by Company 1. Those interviewees, who were at the time of the initial creation of the alliance studied employed by ASP 1 are reported in this way.

2. Market Potential & Competitor Analysis
3. Sales & Marketing Channels
4. Product Management & Development
5. IT infrastructure

Of these streams the Product Management & Development stream was strictly between PSP A and ASP 1. Also the IT infrastructure stream was partly separated from the other streams, so that the negotiations were between ASP1 and the third party (the technology provider).

The work in each stream was carried out simultaneously and largely by the project manager who mobilized experts in each field. The work culminated in two full-day (and in the latter case: two-day) workshops: the first around the products and product related streams and the second around the sales and marketing, business plan and contract streams.

Company 1 was experienced in creating and managing alliances: *“There are about 10 people employed in partner management corporate-wide, in a kind of virtual organization”* (Senior Executive 1) and *“four people are working in the core team, full time”* (Manager 4). The company also ranked *“partnerships in different categories, [has] extensive web pages on partnerships, and...always communicates to the partner candidates to what level they will be mapped”* (Manager 4). The alliance management organization also managed a *“database on alliances and partnerships”* (Manager 3). All of this contributed to a professional working style in creating alliances, and a functional daily cooperation in the creation process.

The day-to-day work consisted of work in each company, phone calls to the other project managers and meetings, where preliminary working documents were discussed. The two workshops were designed so that each party would mobilize senior management also from the corporate/international level. This would ensure top management commitment, and that the made decisions would not later have to be “sold internally” to top management, and it was seen as a key issue in the alliance creation process:

“Management has to be committed, even if it is just short meetings or single workshops as a show of interest and support. Problem is that it often has to be a top ten issue in the company to get their time....both PSP A and Company 1 management were extremely committed to this initiative” (Manager 1, ASP 1)

A few weeks into the project, we saw that the schedule was very tight, especially because the first workshop (held 26.11.2001) was clearly needed to just get to know the other companies and little progress regarding the alliance conditions was made. In a status report memorandum dated 5th of December 2001 I wrote to the project managers and steering group *“The time frame - Very tight. Need to get understanding of what are*

‘deal breakers’, that have to be ok by 14.12. 80/20 optimization. –‘Goal above everything?’.’”

It was clear that not all the detailed issues could be resolved before the final workshop held the 12th and 13th of December. A lot of time had been used to thoroughly understand each other’s business model and each other’s offerings, and the alliance agreement and commercial terms as such had received less attention than planned. At this point the joint suggestion of the project managers was to focus on creating a *“partnership concept acceptable for all parties”* but not to *“Commit to e.g. sales volumes or other commercial conditions [at this point]”* (Memorandum 5.12.2001)

Because of the lack of time, and the fact that the two workshop days were the only possibility to have senior management from all companies present, it was decided that the first workshop day would focus once again on agreeing on the products and offerings around which the alliance would be built. Then the project team would continue to work on the business plan and contract drafts during the night, so that the next day the attendees could focus on elaborating on these plans. After a long night – and not much sleep– the project team could, early in the morning of the 13th present a tentative business plan for the alliance to the workshop participants. As expected, several details were still open, but at the end of the workshop on the 13th the management of all parties could agree that *“a higher level of agreement”* had been achieved. It was clear to everyone, however, that much work remained to be done.

Even if we had failed to create a detailed business plan, I remember feeling that there was a strong sense of trust and mutual business interests that pushed the alliance creation forward. This was also confirmed by the management of ASP 1:

“It was quite easy to work with PSP A, PSP A understood the business of Company 1. The corporate cultures were quite close to each other. It was also quite easy to get a picture of the roles of each party, and create a shared vision.” (Senior Executive 2, ASP 1)

Over the next weeks the tight cooperation continued. All details were worked on, and gradually the business plan for the alliance was approved by all parties. In several documents and e-mails dated late 2001 and early 2002 the management from both PSP A and ASP 1 side acknowledged that the alliance was of such nature that not all details could be solved during the negotiations, but rather during the operative cooperation through an iterative learning process.

What remained to be done in detail, however, were the alliance contracts, getting the internal approvals, designing press releases and starting to prepare for the joint operations. Up to this point the negotiation had been quite natural to conduct in a three-way manner, but for the type of work described above this was not necessary anymore. The joint project team was split up, and the companies worked internally and more on a bilateral basis during the next months.

In late January and early February 2002, the focus of both ASP 1 and PSP A was to prepare presentations for Company 1’s board (of directors) meeting and for PSP A’s international approval process. As such there was nothing special about this process, in

both companies the process took time, because of a) certain smaller details which had to be worked out together b) formal requirements on the decision making presentations and c) availability of getting the proposal to the decision makers.

The management decisions on both sides were made in March 2002. The decisions were of course preliminary, because after this lawyers needed to be involved in the process and detailed, final contracts needed to be done. An issue was also what the cooperation between the two companies was to be called. The word “*alliance*” or “*strategic alliance*” had been used to describe the cooperation during the creation process. This was acceptable on a local or Nordic basis, but the global guidelines stated that the word “*alliance*” was reserved for certain type of global cooperation, PSP A had e.g. with companies like Microsoft. After a long debate about the proper wording it was agreed that “*partnership*” or “*long-term cooperation agreement*” would be used in communications.

On the 29th of May 2002, the two companies issued a joint press release that announced “*co-development*” of offerings and joint sales activities. A month later, the final contracts (which finally focused only around a few products and had a limited scope, limiting the cooperation in the first phase to certain countries) were signed –after nine months of work– on June 28th 2002.

4.2.3. Results

After the initial contract was signed, both parties started to work on the areas specified in the agreement. The results were discouraging, as not a single sale of the products related to the cooperation was done in all of 2002. This was definitely a failure for the newly born partnership, but on the other hand everyone understood that perhaps the cooperation did not have chances to succeed in the first place.

What everyone failed to foresee was the amount of turbulence that Company 1 would face during the alliance creation. Besides changes in management during the winter 2001-2002, the company also experienced other major changes.

First, on the 26th of March, Company 1 announced its aim to merge with another communications incumbent. The merger would have effects on all areas of business, as the aim was a total merge of the two corporate structures. Also, Company 1 was the smaller of the companies merging.

Second, on April 23rd, Company 1 announced a radically new corporate structure, which affected all areas of business. The aim was to unify the customer interface, and move from a scattered structure with many subsidiaries to a more centralized way of operating. As a result the future of ASP 1 as a separate unit was also questioned.

Third, the markets for communications services and especially ICT products shrunk to an almost total stop with the overall downturn in the economy during 2001 and 2002.

As a result of the factors the cooperation was objectively a failure. Interestingly however, by the end of 2002, the two companies were already discussing expanding the

cooperation to new business areas. This totally counter-intuitive joint decision seemed to be primarily a product of a shared vision and a deep sense of trust developed during the last years. Manager 1 (from ASP 1) confirms this and what happened in the months after the signing of the contract as follows:

“Even if no great concrete things were achieved, a lot was learned during the process about the IT and Service side of ICT, which had great consequences on strategy”, and continues ” It would be easy to think that [the cooperation] was a failure, but I don’t think so...Even if nothing was achieved, a mutual trust and vision about the industry was achieved, which meant the cooperation continues.”

Senior Executive, Company 1 was thinking along the same lines:

“The alliance between ASP 1 and PSP A was not realized as planned because of changes in the business environment and the corporate structure. The process in itself went as planned...Interestingly almost all people have thought that it is quite self-evident that we will continue the cooperation, even if the results have not been very concrete. I guess open and honest communication about this is the reason.”

In the spring of 2003, the ideas around a new form of cooperation and a new partnership agreement between PSP A and Company 1 had matured to the point that an official round of alliance creation was started. This time the focus was much more customer (and purely sales) oriented, and aimed for so-called quick wins with pilot customers and a much lighter contract. The new form of cooperation did not focus on products, but rather on customer segments and pilot customers. The contract would only function as a frame agreement, to which the necessary appendices were made when needed case by case. In late 2003 the new cooperation had already resulted in numerous joint sales activities and also some won deals.

At the time of this study the cooperation is advancing well.

4.2.4. Findings

Case 1 poses some interesting questions. *First*, the question –which is also one of the main research questions– about which elements affected the alliance creation process. *Second*, the question about how the elements were able to have such a big effect on the alliance creation process and the outcome. Also, why the elements and their effect were not anticipated and managed in time. *Third*, the question about what effect the elements had and how the outcome of the cooperation (and the continued cooperation) can be explained.

Regarding the first question, I have identified the following elements:

Strategic intent and strategic context:

- Company 1 and ASP 1 used a mix of “outside-in” market positioning analysis (they wanted to be in the international ICT corporate customer market) and resource-based “inside-out” analysis (they needed access to certain markets and product development capabilities) to create the alliance strategy.
- The strategic context of Company 1 was characterized by great turbulence. Before the beginning of the alliance creation, the market had been growing rapidly and Company 1 had a leading position in many of its business segments. Smaller new players were entering the markets. During the creation process, demand dropped and competition became increasingly tough. Both Company 1 and its competitors had to lay off people and some of its smaller competitors went bankrupt.
- Strategy of both companies was perceived as clear, which seemed to have a positive effect on the alliance creation process.
- There was a clear alignment of the strategies of the two companies, which had a positive effect *“We felt that the offerings and visions complemented each other so well, that it was very natural to cooperate”* (Senior Executive 3).

Alliance strategy:

- The alliance strategy of ASP 1 and Company 1 was clear and aligned with the strategic intent. *“There was a clear strategic analysis done before the negotiations, where a gap (i.e. need for partners) was identified, and also PSP A’s name came up already in these discussions”* (Senior Executive 3).
- The alliance strategy was well communicated (and understood) among the people involved.
- Company 1 (and ASP 1 as part of it) was very experienced in building partnerships and alliances.

During the alliance creation process:

- There was a thorough joint analysis and much discussion about the strategic intents of both (all) parties, which seemed to have a positive effect in the long-run, even if it took time to reach the understanding (*see also previous point about aligned strategic intents*).
- There was a dramatic change in the strategic context, e.g. in market conditions and ownership during alliance creation process, which seemed to have a negative effect on the process.
- There was a change in corporate strategy during the negotiations, which seemed to have a negative effect on the process.

- There was a change of corporate structure during the creation process, which seemed to have a negative effect on the process.
- There was good chemistry between the people involved and a sense of trust was created, which seemed to have a positive effect. *“What was good with the ASP 1 partnering process was that we felt that PSP A did not just go by the guide book (as some other companies have done), but there was a genuine feeling of trying to get important problems solved, no matter what the process looked like. This created a sense of trust.”* (Senior Executive 3).
- There were –in retrospect– signs of *“Stockholm syndrome”* among the people involved, which made the project team less perceptive to the different elements that affected the creation process from outside (like the changes in market conditions). I am indebted to Manager 1 (from ASP 1) for suggesting this term to me: *“Stockholm syndrome is not unusual in alliance creation; a manager starts maximizing either the other party’s goals or the goals of the alliance venture, while forgetting to be objective, analytical and maximize the objectives of his own employer. Particularly this can happen in international, long-term negotiations”* (Manager 1).
- The alliance creation process took a long time (about 9 months) from start to finish.

Results

The results were not reached in the form that they were formulated in the beginning (or before) of the creation process, and as such the alliance was a failure

Per se, the action that resulted from the cooperation agreement were aligned with the original objectives, but changes in the strategic context and strategic intent of Company 1 had changed so radically that also the results were obsolete.

As an answer to the *second question* –regarding how the different elements were able to impact the alliance creation so much– it was quite clear that changes both in the strategic context and the strategic intent (and corporate structure) of Company 1 had immense effects on the alliance. Interestingly this did not stop the alliance creation process at any time. Of course the senior executives knew about the future changes well in advance all through the spring of 2002, but still no action was taken to stop the negotiations or to redirect the effort. The only action taken was to decrease the scope significantly to get the contract signed in June 2002.

Aligned with the following quote, I argue that there are two explanations for this;

“We started to build too ‘perfect’ a partnering model. We sort of forgot the short-term wins, as the shared vision was so strong. A solution for this could have been to make two streams, with one focusing on concrete short-term wins and the other on the contract and the long-term cooperation.” (Senior Executive 3, ASP 1)

First, the long-term joint vision was created in such a strong way that the management of both companies (and of Company 1 especially) believed that it would survive even bigger changes in corporate structures and markets situations.

Second, what was earlier called “*Stockholm syndrome*”. After working for half-a-year on creating the alliance, nobody “wanted to see” all the obstacles that had appeared. There was a strong subjective need to turn the efforts into something concrete (such as an agreement of cooperation) even if many of the people involved would in retrospect argue that the objectively right decision would have been to drop that alliance prospect and focus on something else.

The *third question* posed earlier in this section is also central. Why was it so natural for the cooperation to continue even if the big effort objectively had failed? As indicated by many factors, trust and a strong shared vision were key components of this process.

“There was definitely trust, which was built during years of cooperation in consulting and IT projects. The trust was very deep after the alliance negotiations.” (Manager 3, Company 1)

Another view was also that “all the basic factors” were in good condition. This combination of both the objective and subjective factors ultimately resulted in continued cooperation, or as one of the Senior Executives put it:

“There wouldn’t [have] even [been] any negotiations if the basics, such as size, offerings, strategy, etc wouldn’t be in order. The softer elements [such as trust] then become increasingly important in this type of a situation.” (Senior Executive 3, Company 1)

4.3. Case 2

My history with Company 2 started in August 2000 when I was asked to join a consulting project for the company. The company was implementing vast change projects, and as a part of this process, the company needed help in supporting several different projects related to customer service, channel management and strategy. As a result of the almost six months I worked with Company 2 I got a fairly thorough understanding of the company, its people and the culture of a country previously unfamiliar to me. Later, in 2001 I had some contacts with Company 2, but did not return until the summer of 2002, when I held a number of business planning workshops for the company’s different business units. It was also around that time that the idea of a deeper cooperation between PSP A and Company 2 (and its subsidiary, here called “IT Provider 1”) was starting to develop, which ultimately resulted in a formal alliance creation process starting in the fall of 2002. During this process I was part of the main negotiating team, responsible for the financials, the joint business plan and the contract.

The structure of the alliance creation process is presented in the figure below.

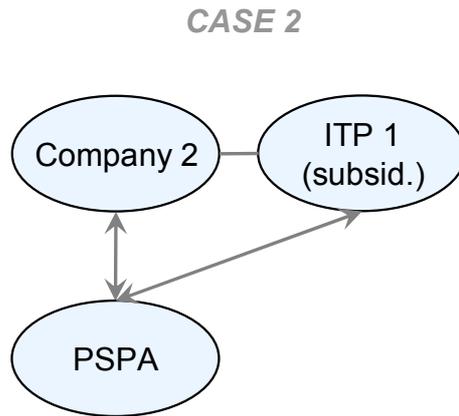


Figure 18. The structure of the alliance creation in Case 2

4.3.1. *Company background*

With a long history, even though incorporated as late as in the mid 1990's, Company 2 is one of the biggest enterprises in its home country. Based in North-Eastern Europe, the company has seen an enormous change in its environment during the last decade. As a player in the ICT market, the company has had to deal with the liberation of markets, new competitors and new technologies entering into its home market and field of business. As a result, the economy of Company 2's home country was growing and changing rapidly. Still, the business of Company 2 was relatively stable in spite of increased competition.

“Business volumes are growing, but prices are coming down, so quite stable in monetary terms.”
(Senior Executive 1)

The history of the company and its home country also impacted ownership and the control of the company. There was a dispute related to the ownership between some foreign owners and the state, and this also led to the situation where large changes were cumbersome to make.

“We have ... been quite restricted by our ownership and the boundaries it sets on what kind of cooperation and e.g. joint ventures we are allowed to create.” (Senior Executive 4)

Even so, during the nineties, Company 2 put in much effort to modernize its technology and build up processes that would enable it to operate competitively. To establish this, the company also started using different sorts of professional services.

“The PSP A cooperation started in 1998. The cooperation started with business consulting projects, and there was also discussions about cooperation in the IT markets.” (Senior Executive 1)

As a new corporate structure was planned together with PSP A, also different forms of deeper cooperation were discussed. It soon became clear, however, that the time was not right for this type of an agreement; there was too much to do in other fields, which required management's undivided attention.

In late 2001 and early 2002 Company 2 went through a thorough revision of its corporate strategy. As a result of a highly resource-based strategy (in the planning process of which I was part of) the company decided that its core competence³⁵ was customer intimacy and that it should leverage its customer base to be an aggregator for all sorts of services in the ICT sector. Also, as a result of the strategy revision, core and non-core areas were defined, and it became clear that there could be some capabilities that were currently possessed by Company 2, which could be outsourced to some partner companies. On the other hand, there were also some other capabilities that were essential to the new strategy, which needed to be acquired through some form of cooperative arrangements. Senior Executive 4 sums up the work done as follows:

“We did a resource based strategy review, and determined that e.g. content was something we will not do ourselves, but rather acquire through partners. It was thorough work, aimed to change the direction of the company.” (Senior Executive 4)

As a result of this –in the spring and summer of 2002– it became natural to bring up the possibility of deeper cooperation with PSP A again. PSP A had now for years been in close cooperation with Company 2, so it was quite a natural thought to explore deeper cooperation. The opinions about the relationship so far varied, however.

“With PSP A we had had some kind of a partnership, but I wouldn't call it exactly that, most of the time it has been consulting engagements.” (Senior Executive 2) “Sometimes the cooperation has felt like a partnership, but it has varied.” (Senior Executive 1) “I feel we had a partnership with PSP A, not perhaps strategic, but still a partnership.” (Manager 1)

4.3.2. *The alliance with PSP A*

On April 24th and 26th representatives of PSP A met with the parts of the Management team of Company 2. The discussions about forming a deeper partnership had been raised during the strategy process that was carried out during the winter and spring. More specifically the meetings concerned the IT Provider (Later “IT Provider 1”), which was a separate business unit within Company 2. The strategy process had clearly shown that the offerings of IT Provider 1 were not in the immediate core of the new strategy of Company 2. Or more specifically, IT services were a central part of the ICT offerings the Company 2 wanted to provide to its customers also in the future, but producing the services in-house and providing them under an IT brand of their own was not crucial.

³⁵ According to a PSP A consultant more heavily involved in the process, no core competences were actually found, but it was identified that customer intimacy could be developed into one.

IT Provider 1 had two types of business. *First*, it developed and maintained the IT systems of Company 2. *Second*, it sold IT services to other clients under a brand name of its own. The high-level vision that was created between PSP A and Company 2 was that the companies could jointly produce the internal IT services more efficiently and together the two companies could also create much more attractive offerings towards third parties.

After some initial discussions around the preliminary vision, the “launch” of a joint planning project was decided on the 3rd of May 2002. During the following months a small team of representatives from PSP A, Company 2 and its subsidiary IT Provider 1 met regularly to discuss and plan the form of cooperation. The deadline for the alliance creation was changed many times, partly because of internal differences of opinion in Company 2 and partly because of the time it took to make joint estimates of the costs and benefits of the cooperation. The main reason was that no common view could be reached on exactly which parts of IT-related operations would be included in the cooperation and what kind of an agreement could be reached regarding the split of external revenues.

In late August and early September 2002 the views of the two parties had already closed in on each other, and especially the PSP A side –that had more experience of doing these kinds of agreements– was hoping for the agreement to be signed within the coming months or even weeks. Company 2, however, was not as ready to move forward as rapidly. On their side there was still a lot of internal discussion and convincing to be done, even if top management felt that the agreement would be beneficial for the company. The company did not have much experience in creating alliances, which might also have contributed to tediousness of the internal process.

“We have people who have been involved in some cooperative arrangements, but no alliance management organization as such.” (Senior Executive 1)

“We have a partnership guideline, but not any explicit alliance strategy.” (Manager 1)

“One of the key initiatives of the strategy process development has been partnership management, but we don’t have any alliance management organization. The partnerships are handled more case by case by business units.” (Manager 1)

As a result of the creation process being prolonged, PSP A decided to start preparing for entering the home market of Company 2 with a start-up IT branch office its own. The reasoning behind this was that getting access to the market and its IT resources was such a strategic move that it could not wait for the uncertain cooperation with Company 2, especially as the creation process did not seem to proceed smoothly. Second, PSP A thought that hearing about PSP A’s plans to build an IT branch of its own would send a strong signal to Company 2, to agree on the cooperation. The message was that PSP A’s entry into the markets would happen with or without Company 2, but that PSP A would prefer to do it in cooperation with Company 2, which was also the truth (according to several PSP A internal memorandums in August-October 2002).

In September 2002 I personally got involved with the process more actively. In the beginning my task was to calculate how much it would cost to set up the IT branch, and some weeks later I was in charge of recruitment, legal issues and advertising of the setup project of the new branch. Internally in PSP A the two streams were still treated as a single initiative. The two initiatives would support each other, so that many resources (such as personnel and IT infrastructure) would be provided by Company 2, and the IT branch of PSP A would operate under a separate brand. Exactly what the split of business between the different units would be was, however, unclear at the time.

In a memorandum sent to me, dated September 4th 2002, a colleague of mine described the last round of preliminary discussions with the words “*common understanding for the most parts*”. The goal was that with a limited team, PSP A and Company 2 could agree on the high-level “business principles” and when this was done a proper due diligence and negotiation process could start. The memorandum also indicated that much “convincing” would be needed from the PSP A side, because the momentum was kept up by PSP A as Company 2 was not as active in driving the alliance creation process forward.

At the same time the setup of the PSP A branch was proceeding rapidly. In a memorandum dated September 15th, I agreed with a professional recruiting agency on starting a recruiting campaign for the branch. Parallel to this I had also been in contact with local lawyers about the legal structure of the new entity and with marketing experts regarding a campaign related to the launch of the unit.

On the 15th of November 2002 a meeting with the management of Company 2 and representatives of PSP A finally resulted in a sufficient (to proceed to the next steps of the alliance creation) joint vision between the two companies. The overall partnership structure was such that PSP A would take over the most part of IT Provider 1. The agreement would consist of two parts. First, PSP A would through an outsourcing agreement start selling IT services to Company 2. Second, the new company would start looking for outside customers more aggressively (which at the time only represented a fraction of IT Provider 1’s work). Company 2 would get a part of the profits created from sales to third parties but exactly how this “profit sharing” would be done was still open. It was agreed that the companies would sign a Letter of Intent (LoI) where the companies stated that they were to pursue a “*strategic partnership*”.

After November 15th, both companies gathered a full-time project team for the negotiations and the due diligence process. The goal was to reach a preliminary contract (Memorandum of Understanding, MoU) before Christmas. Already at the end of October I moved from the setup of the PSP A IT branch to the preparation of the partnership with Company 2, and as such it became natural for me to take over the responsibility for the business planning, financials and contracts for the coming weeks of the process.

The creation process proved to be quite complex.

As the creation process was carried out on-site in the home country of Company 2, it became quite costly for PSP A (because of flights, hotels, per diems etc.). This led to a pressure to carry out the negotiations with a tight schedule. Also as the new IT branch

of PSP A took its first steps, it desperately needed some support from a larger partnership, as it was quite small in the beginning, and even its existence was questioned by the international management of PSP A. This meant that PSP A was pushing hard to reach an agreement.

On the other hand, Company 2 had quite a different decision making culture. Dating back to the days before the liberation of markets, to an outsider the company had a flair of doing things in its own pace, with everyone having an opinion of their own. It sometimes seemed decisions could not be forced on anyone by management³⁶, but rather it seemed that sometimes all members of management and middle-management had an implicit veto-right to many decisions.

The work during the following weeks in November and December was organized around certain work streams (e.g. “*Contract / Deal shape*”, “*Finance / Business case*”, “*Scope and services*”, “*Employees*”, “*Other (Facilities etc.)*” and “*Business development partnership*”). Each stream had members from both companies, and each stream was also divided into two, so e.g. the “scope and services” stream on one hand went through a due diligence on the current IT services of IT Provider 1 and on the other hand planned how the services would be managed after the partnerships agreement was signed. The results of the different work streams were then gathered into a single “*business principles*” document, which served as the basis of discussion in the “*steering group*” meetings, where the actual shaping of the alliance took place.

The steering group meetings were held bi-weekly. Members of top management of Company 2 and the PSP A managers responsible for the initiative participated in the meetings, which typically meant 5-6 people in total. On several occasions also I attended the steering group meetings. The first steering group meeting was held in the beginning of December.

Because very little data had been gathered by the work stream at that point, the first business principles document was based very much on a PSP A standard outsourcing initiative business principles document. PSP A sent the document to Company 2 a few days before the meeting. The standard principles were not seen very positively, as one of the lead negotiators of Company 2 called the “*draft contract*” one of the “*biggest insults he has received in his professional life*”. At the latest in this stage it became clear for both parties that a win-win spirit had not been created during the months of negotiation, and that there was much work to be done before the partnerships could be created. Believing partly that the “outburst” during the first meeting was a matter of negotiating tactics and partly that the contract actually was offending in its current form (and later getting a confirmation from some of the managers from Company 2, that it actually was a question of both) we –the project team– worked very hard for the next weeks to avoid any similar issues in the creation process.

³⁶ This was not only because of the corporate culture and the days before the liberation of markets. Also the ownership –the government was still the major shareholder of the company– led to a situation where the government and new, foreign shareholders were in a constant dispute. This meant that management seldom got clear mandates from the shareholders to drive through key decisions.

Overall the project proceeded well over the coming weeks. Even if we had some problems with finding (or getting access to) all relevant data regarding IT Provider 1 and its business, progress was made. During the last weeks before Christmas, many of the issues in the early version of the business principles document had now been solved, and only a few of the bigger issues were open for discussion. As such, the creation process could not be completed by the target date set in the LoI, but it was agreed that the process would continue after a Christmas break.

As the lead negotiator from the Company 2 side was in charge of buying services from IT Provider 1, the process was quite heavily focused on the outsourcing part of the partnership. The topics most discussed during the last days before Christmas were conditions of the agreement for selling IT services to Company 2, and especially the price of these services. Much effort was put on this during late December and early January, and on the 8th of January 2003, the management of Company 2 decided to accept the proposal of the project team.

“We had a strong belief in PSP A, and in the fact that we would benefit from pooling our resources. This was the reason that we in the management team decided to accept the contract. Also the joint cooperation history was central.” (Senior Executive 4)

There were still some open issues, but as most of the previously controversial issues had been solved, the management decided to accept the business principles document in its current version. The views on accepting the contract as such were not totally the same, however. As Senior Executive 2 later recalls:

“The decision to sign the preliminary contract was based on a want or need to get the deal forward, because of the strong belief that the deal would be beneficial on the long-run even if the contract still was quite strict at that point. Perhaps there was also a strong need just to get something tangible results as management had tried to push the deal quite strongly.”

Following a Memorandum of Understanding signed by both parties, the alliance creation process shifted towards the business planning (i.e. sales of the new unit towards third parties) and writing the final contract. Parallely, the agreement was presented to PSP A International management for approval, and preparations were made to present the agreement to the board of Company 2 as well. As many details were also still open regarding the outsourcing part of the partnership, these negotiations continued according to guidelines stated in the MoU during the following weeks.

In the evening of January 28th I was going through the contract, prepared by outside lawyers hired to complete the legal text. The alliance contract was designed so that it had several appendices to the main contract, and as we were in the final stages of negotiation (or “contracting” as we called the last stage of the creation process), I had to go through them to see that they matched what we have agreed on with Company 2 in the business principles. At the same time management of PSP A was meeting with Company 2 management, to go through the schedule for the approval of the owners. In the middle of my work I received a text message on my mobile phone from one of my colleagues, saying that the deal was off, as the owners of Company 2 had decided that

they did not want to proceed with the partnership³⁷. It turned out that management of Company 2 had presented a version of the partnership agreements to the owners and the board, and based on this, the owners had rejected the initiative.

As parts of management of both parties still believed in the vision of ICT cooperation, during February and March there were some attempts to go through with the sales and marketing part of the partnership. It turned out, however, that this would not work, as there was not widespread support for this in either of the organizations. As Senior Executive 1, Company 2 put it:

“I felt the biggest problem was the ‘all or nothing approach’ which was clear, at least on the PSP A side but also on our side. I feel we could have created something smaller and very successful, but this was then also impossible after the failure of the big negotiations.”

This view was shared by Senior Executive 1, PSP A:

“Maybe it could have been better to pursue a smaller deal with Company 2 around resource pooling, which maybe was the clearest link and win-win situation.”

4.3.3. Results

The result of the alliance creation process between PSP A and Company 2 was as explained above a failure. In some way, however, one could of course argue that the creation process itself was a success, as management of both companies were ready to sign the partnership contract. In other words it was the owners –not the management– of Company 2 who did not want to go through with the partnership.

The two companies have since the alliance creation process been discussing about some sort of cooperation, but nothing concrete has come out of these discussions. As the owners are still the same, and have not changed their mind about the partnership, any major attempts to push the contract forward have been considered futile.

The cooperation between PSP A and Company 2 has returned to the state it was before the alliance creation process. The cooperation is in other words built around small, well defined management consulting projects.

³⁷ I also quite vividly remember meeting with my colleagues a few minutes after receiving the text message and deciding that we needed a drink. As we went into a nearby bar and ordered one of the only dishes on their limited menu, our meal consisted of gin tonics and chicken wings, a combination I still in my mind associate with failing with the creation process.

4.3.4. Findings

Case 2 is in many ways different from Case 1. The perhaps most obvious difference being the historical background of Company 2, which has resulted in a different culture (than what you would expect in a western company) and some unclear ownership. Creating an alliance between PSP A and such a company was already before the start of the process seen as a challenge by both parties.

Failing in the alliance creation meant that hundreds of hours of work, starting in April 2002 and ending in February 2003 were lost.

The failure of the alliance creation process, however, brings up some interesting points, presented below.

Strategic intent and strategic context:

- The strategic intent of Company 2 was clear. Company 2 had gone through an extensive strategy creation project, which was also heavily based on the core competence/resource thinking, which was beneficial for starting to create the alliance around ICT services.
- PSP A had been heavily involved in creating the new corporate strategy, and hence PSP A had a good understanding of the strategy, which gave the start of the alliance creation a solid base.
- The strategic intent was created thoroughly, but not communicated and accepted by the entire management and middle management. Company 2 typically had a culture of certain senior executives buying professional services projects from the likes of PSP A; projects which often faced much resistance to change when implemented.
- The strategic context of Company 2 was first of all a market that was growing and changing rapidly. Going from a planned economy into a full scale market economy, meant that the company would have to go through radical changes in the following years. This was also the main message of top management throughout the years. The strategic context was further characterized by a relatively high availability of financial and human resources, and some controversy because of the ownership.
- The business of Company 2 was relatively stable in spite of increased competition, which meant that there never was a strong sense of urgency created among the employees. Also, as the state was still the majority stake holder, the company could not go through any drastic down-sizing or other re-structuring.

Alliance strategy:

- The alliance strategy of Company 2 was clear “on paper”, and it clearly showed the potential for outsourcing and creating a partnership in the ICT sector. This

was the basis for the negotiations, and seemed to have a positive effect on the alliance creation process.

- There was a clear link between the strategic intent and the alliance strategy, which seemed to have a positive effect on the process.
- The alliance strategy was (in retrospect) not clearly aligned with the will of the owners, which had a negative effect on the process.
- The alliance strategy was not commonly accepted among the managers and middle managers of Company 2, which seemed to have a negative effect on the process.
- Company 2 did not have much experience of using or creating alliances, which seemed to have a negative effect on the process.

During the alliance creation process:

- It became clear during the process that the lead negotiator of Company 2 was not very interested in creating a “strategic partnership”. Being responsible for Service Level Agreements (SLAs) of IT services, the lead negotiator put much effort into details of the contract, and the ICT sales and marketing partnership received only little attention.
- The lead negotiator of Company 2 admitted the agreement would only have meant “*increased complexity*” for his work, and this meant he did not really have any incentives to actively push the initiative forward.
- Negotiations were very much focused on the contract and the Outsourcing also from the PSP A side, instead of creating new business together, which seemed to have a negative effect on the process. “*We felt the negotiations were too much focused on the contract. It seemed all efforts were directed at small details, where PSP A shields itself from possible setbacks*” (Senior Executive 2, Company 2).
- PSP A was mainly interested in an “all or nothing” approach, which made it blind for smaller options. As the contract was communicated to international management of being a certain size in terms of revenue generated from the outsourcing and the partnership, cutting it down radically to a smaller size (that would perhaps have been easier to agree on and also more viable in the long run) was not seen as an attractive option. As Manager 1 from Company 2 explains: “*Size was clearly an issue. The PSP A side felt that this deal should be done according to its standards, on a schedule set by it. We had the feeling that we were very small. We wanted to create an alliance, but felt that we did not have the power to negotiate the deal with a big and much stronger player like PSP A. Maybe this also led to the decision, that in the end we did not want (or have the ‘energy’) to pursue it at all.*”

- Trust was never really created between the two parties during the alliance creation process. I have found mainly three reasons for this: a) difference in size and power (see above) b) the cultural background of Company 2 and its home country, which make people very suspicious towards foreigners and c) the bias PSP A had towards the cultural background of Company 2 and its home country. As some of the managers pointed out in the interviews: *“The culture here is very individualistic, and working for a common goal is much harder here than in the western world. We have identified a number of alliance opportunities, but still we have not been able to create a single (significant) one”* (Senior Executive 2). *“The culture here is not yet ready for win-win alliances and partnerships. People are very suspicious”* (Senior Executive 4).
- Company 2 also felt that both parties caused the lack of trust in the creation process, which resulted in the “atmosphere” being quite far from searching a solution that would optimally benefit both. *“Somehow the mindset of the parties became overly competitive and buyer-seller-minded, when it should have been more win-win...PSP A was mostly focused on the outsourcing deal, and it felt that to get the IT partnership we had to ‘sell the outsourcing really cheap”* (Senior Executive 1)
- Social ties between the parties –formed during years of cooperation– with parts of management in Company 2 and PSP A was a very positive element. Certain members of management of both parties trusted each other and spoke openly about things. Still, these social ties and the trust were not powerful enough to overcome the challenges of the bias of other employees (from both sides).
- From start to finish the alliance creation process was long, lasting from April 2002 to February 2003, i.e. nine months.

Results:

The results of the alliance creation process were poor. At best, the strength of the relationship stayed the same after the process, but probably for some participants the relationship weakened.

In summary it can be said that the parties (and the parts of management and the alliance creation team that *“wanted to believe”* in the cooperation) perhaps became biased when pursuing the alliance, which caused what could be called Stockholm Syndrome. A more critical review of the elements (and some actually were considered) discussed here might have been able to either end the process earlier to avoid unnecessary cost and efforts or focus on a smaller scope, which could have been much more easily acceptable for both parties. This was also in retrospect suggested by the interviewees: *“The PSP A cooperation could have benefited from an approach to start with a smaller scope, and then see how these small entities fly, instead of trying to do everything at once”* (Senior Executive 3). *“We should have more realistically focused on a few core things, instead of targeting everything and just building on old competencies”* (Senior Executive 2).

On the other hand, also the entire basis for the alliance and whether the goals actually were ever aligned were in retrospect questioned by Senior Executive from PSP A:

“With Company 1 we had a good feeling, and I felt that I understood the other side. With Company 2 I just did not get this feeling and understanding. Perhaps this was also because I did not either see a clear link between the IT outsourcing and the go to market part of the partnership.” (Senior Executive 1)

4.4. Case 3

I have not directly worked with Case Company 3, and hence the case is not written based on any form of action research, but mainly interviews and a number of documents made available to me by the two companies. I did some analysis of Company 3 for PSP A internal use in the year 2000, but other than that my exposure to the company was very limited before the alliance with PSP A. During the alliance creation in the winter of 2002-2003 I was informed about how the process was proceeding, and contributed to it by providing the team with some support material, but neither then did I have any direct contact with representatives of Company 3.

The alliance creation involved two parties, as depicted in the figure below.

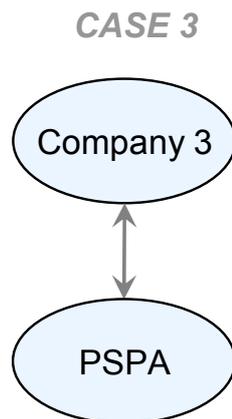


Figure 19. The structure of the alliance creation in Case 3

4.4.1. Company background

Company 3 was established in the 1980's as a subsidiary company of a larger Nordic company. The first years of its operations Company 3 was mainly the supplier of ICT solution to its parent company. In the 90's however, Company 3 also started to deliver its solutions to customers outside of its parent company group and outside of its home country. Rapid growth followed, and in the end of the 90's Company 3 was already listed in the stock exchange with a truly international clientele (of business customers). During the years around the millennium shift, the company grew further and established offices around the world to better serve its global network of customers.

Because of the nature of the business in which Company 3 was, the company had always put partnerships high on the management agenda. There were mainly two reasons for this, as explained by Senior Executive 2:

“Partnerships are very important for us, e.g. a significant part of our sales is currently coming through partners. Also our strategy, which aims at providing complete solutions, makes the need for good partners and alliances bigger.”

Company 3 was correspondingly quite experienced in creating and managing alliances.

“We feel that we have a very thorough alliance capability, which can be seen in sales figures, the number of alliances etc. We have been a small player in a global market, and hence been forced to take alliances seriously.” (Senior Executive 2)

“As we have grown tightly linked with partners, it is something very natural for us. On one hand we have a team that is responsible for the coordination, on the other hand all people are accustomed to working with partners.” (Senior Executive 3)

The importance of alliances can be seen in almost all material and communication the company aims at both an internal and external audience. The crash of the ICT markets in 2001 meant that a relatively small player like Company 3 had to react, which further emphasized the importance of alliances and partnership-thinking.

“There was a quite dramatic turn in the markets a couple of years ago, and we also had to rethink and restructure quite heavily as a reaction to this. What also happened was that smaller competitors were bought by bigger players, and also some other ICT houses broadened their portfolio towards that of ours.” (Senior Executive 2)

Not being able to compete in size with some of its international competitors, Company 3 had to further increase its links to partners with valuable resources and access to customers.

4.4.2. *The alliance with PSP A*

While talks about strengthening certain links to partners were taking place, Company 3 had to restructure its business. Company 3 had several subsidiaries, of which certain parts were not seen to add value to the core business anymore and could be divested as such, while others still provided valuable support functions and could be outsourced.

According to Senior Executive 3, who was in charge of the alliance creation process, it was “*from these two starting points that we started to look for a partner that could on one hand outsource certain functions from one of our subsidiaries and on the other hand also add value to our product development and sales efforts through an alliance*”.

Senior Executive 3 also states that the so called “asset deal” (outsourcing of certain parts of product development) was the primary focus of the company when the process started in late September 2002. The preliminary discussions were started with some parties, but within October it became clear that it would be more beneficial to also start the negotiations with PSP A because of the possibility to link the product development outsourcing to a sales and marketing alliance. The alliance creation process was quickly started, beginning with discussion about the structure and strategies of the two companies.

“We really felt that this was a good thing to do right in the beginning. I think we spent enough time to understand each other’s business, and hence there have not been any major surprises later.” (Senior Executive 3)

This view was also supported by Senior Executive 2:

“A good thing was that the process was very much business driven, and not driven by contracts and lawyers, which I have experienced in other negotiations.”

In a memorandum dated 25.11.2002 the two parties had identified the “*benefits for all parties*”. Benefits for PSP A included revenues from product development, new skills and new customers. Company 3 on the other hand was to gain “*new customers, world-class professional services and direct monetary benefits*”.

As the creation process proceeded there were some changes to the intended scope of the cooperation. This led to a situation, where there was uncertainty about the outcome of the process and this also meant that the negotiation process would take longer than expected (most issues regarding the original scope were already agreed on in December 2002. In December, some of the product development was decided to be kept within Company 3, and later, in early March 2003, Company 3 decided to further decrease the scope of the outsourcing. The reason for this was that the subsidiary of Company 3 also had some external customers and as such an outsourcing initiative would have meant losing this business, which was still profitable and important for Company 3 as revenue increases were hard to obtain in other areas of business. In other words, the market conditions had changed the original alliance strategy.

As a result of the changes in conditions, the emphasis of the creation process shifted towards the sales alliance. In a PSP A internal memorandum dated the 27th of March, PSP A “*considers [the product development deal] a valuable component in the strategic alliance with Company 3 product business*”. In the same document the “*strategic alliance*” was described in terms of “*preferred partnership*” in certain specified geographies, a list of target customers and revenue goals, how the alliance was to be managed and how the products of Company 3 would fit into the “*product portfolio*” of PSP A.

The result of over six months of joint efforts was the signing of the contracts and a joint press release on the 7th of April 2003, where the two companies announced a “*global alliance*”.

4.4.3. *Results*

At the time of writing this, the alliance is about one year old. Both parties agree on the fact that the cooperation has required all this time to truly get up to speed. The achieved results vary, however.

“The results with the product development part have been very good, we have even exceeded expectations. On the sales and marketing side we are very close to closing some deals, which is an excellent thing, and we understand this takes time to achieve. Still, perhaps we would have hoped to already have some concrete results on that side too. On the other hand the overall market situation is not very good right now, which could also affect this.” (Senior Executive 2)

“There have also been sales leads registered, and some have been followed up. On the other hand it seems that there are some challenges with getting the sales cooperation to work exactly as planned.” (Senior Executive 2)

As can be seen from the quote above, the product development part of the alliance has clearly been more successful. Also Senior Executive 1 has noticed this:

“I have had a slight feeling that the coordination within PSP A has not been very good. We are a smaller organization, and everyone is committed to this process. Perhaps in a larger company there are big challenges for the team that has been negotiating to get everyone (and especially the operative side internationally) updated on what has been agreed.”

Still, overall both parties agree on the fact that the cooperation has been a success so far, and also all the explicit goals set before the alliance have been reached.

4.4.4. *Findings*

As the alliance in Case 3 has been a success, it is particularly interesting to try to understand what the elements that supported this are.

Strategic intent and strategic context:

- Company 3 was operating in a turbulent strategic context, with markets almost stagnated, and strong demands on profitability from the owners. The amount of resources to fulfill the expectations was limited and building alliances was a critical task.
- The strategic intent of Company 3 at the time was to focus on certain core areas of its business and become profitable.
- The strategy also aimed at building foundations for future growth, without making any large investments (because of the short-term) profitability targets.

Alliance strategy:

- After the initial scope, which was more focused on just the outsourcing/product development initiative, the alliance strategy was quite clear. The aim was to decrease costs by outsourcing and at the same time create a basis for future international growth. As such, there was a clear link between the strategic intent and the alliance strategy.
- The alliance strategy seemed to be clearly communicated both within the negotiating team of Company 3 and also to PSP A. *“We have an explicit alliance strategy as a part of the overall strategy documentation. Alliance strategy is in our company also seen as part of sales strategy”* (Senior Executive 3).
- Company 3 had a thorough alliance management capability and much experience in creating alliances. According to Senior Executive 2, the alliance program was well structured around three different functional areas. The company also had dedicated alliance personnel; *“There are currently three of us in Finland and two outside Finland doing alliance management”* (Senior Executive 2). These factors combined seemed to have a positive effect on the alliance creation process.

During the alliance creation process:

- The creation process started with a thorough walk through of the strategy, goals and organizational structure of both parties, which seemed to have a very positive effect on the alliance creation process. Or as explained by Senior Executive 3: *“In the beginning we pragmatically went through the business and structures of both sides. This understanding was very helpful later”*.
- The benefits and goals of both companies were early on documented and communicated among the parties, which seemed to have a very positive effect on the alliance creation process.
- The process was prolonged because of the shift in strategy from Company 3 and its owners. The original goals had to be modified because of the continued bad situation on the markets, and the need to keep most revenue-generating businesses inside the company. As such the overall strategy changed, and affected the alliance strategy, so that the main goal shifted from cost savings towards revenue generation.
- The alliance creation and the issues were seen as quite complex, which seemed to have a negative effect on the process. Many of the people involved felt that keeping the scope more simple would have been purposeful.
- It was decided that some issues could be agreed on after the signing of the contracts. *“We felt that it took quite long to negotiate the contract. When we couldn’t get the sales agreement signed, we instead did a Memorandum of understanding, which enabled us to finalize some and continue negotiating with*

other parts” (Senior Executive 2). This speeded up the process, and seemed to have a positive effect on the process.

- There was a sense of trust between the parties, which was a result of a) reputation b) previous cooperation and c) “pragmatic” way of handling the process, which seemed to have a positive effect on the process.
- Both parties were used to creating alliances, and had a thorough alliance culture and alliance creation competence. This seemed to have a positive effect on the creation process, which without the change in strategy and goals of the owners would have been carried out very efficiently, in just 3-4 months (now it took 6 months).

Results

The results of the alliance have so far been aligned with the original strategic intent and alliance strategy that initiated the process. Company 3 has now been able to achieve its profitability targets (partly because of the product development cooperation) and create a base for future international growth, which were the objectives in the first place. The immediate sales goals have not been achieved, however. The alliance manager on the PSP A side was not part of the negotiations, and it was felt that this could have had a negative effect on the communication and “internal selling” of the alliance within PSP A. Even so, both parties look positively at the future of the alliance.

4.5. Case 4

Case 4 is in many ways different from cases 1, 2 and 3. Just like in the three previous cases, the partnering companies have also had some joint history, but in the three previous cases the alliance creations have been clearly carried out as projects with clear beginning and end dates. In Case 4, Company 4 and PSP A have been cooperating since 1999. The cooperation started from certain joint projects, and has since then gradually increased in volume and significance, without any more comprehensive alliance creation projects, which made it a valuable complement to this multiple case study. The cooperation is often referred to as a “partnership” by both parties.

My personal experience of Company 4 goes back to a couple of years ago when I helped the PSP A team do some calculations about the cost of serving Company 4 in different modes. Later, in the summer and autumn of 2003 I was asked to work with parts of the management of Company 4 on a strategic initiative. First, the aim was to create the overall vision and estimate the impact of the initiative and later to support the company in business planning related to the same initiative. Hence, it could be said that my expertise related to Case 4 is particularly related to the strategy and strategic context of Company 4, which I have now in my research deepened by also learning about the cooperation with PSP A.

The alliance creation process between the two parties is presented in the figure below.

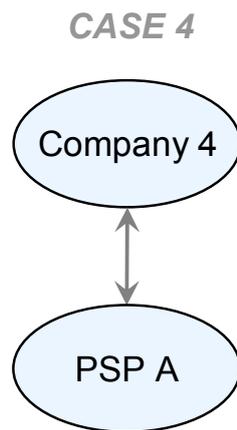


Figure 20. The structure of the alliance creation in Case 4

4.5.1. *Company background*

With a history dating back several decades, Company 4 is a manufacturer of products in the ICT industry. The company manufactures products, which are critical for its (corporate) customers. During the 1980's and 1990's Company 4 went through an extensive and aggressive transformation from several quite independently operating production plants to a global company with centralized management and standardized operations.

In the latter part of the 1990's Company 4 was right in the centre of the ICT industry's explosive growth. With many of its customers growing with double-digit numbers annually, also Company 4 was facing its biggest challenge in how to cope with increasingly rapid growth. In its annual report 2000, the company speaks about "*record breaking growth*" followed by equally impressive growth numbers in 2001. With a core strategy stressing "*project management*", "*solutions*" and "*cooperation with the customers*" (Annual Reports 1999-2001), Company 4 needed some means of controlling the growth and international expansion.

In 1999, the company decided to investigate the possibility of implementing an information system, with the help of which it could better manage its increasingly demanding corporate structure and growing business.

4.5.2. *The alliance with PSP A*

Because of the requirement to manage the growing company better, the first contacts between Company 4 and PSP A were in early 1999. The company needed experts to help them choose between many alternative information system vendors. After a few months of cooperation, the two companies came to a result and Company 4 started to prepare for implementation of the information system (IS).

The information system in question was not an “off-the-shelf” solution even if it was often referred to as “packaged software”. This meant that to get the IS working, Company 4 would have to go through a long process of “configuring” and “rolling-out” the software to different functions and different locations. There was hence a need for quickly assembling a team that could implement the IS globally. It soon became clear that such resources or competence did not exist within Company 4. The only solution was to acquire them from outside of the company. Senior Executive 1 describes the process as follows:

“Our cooperation with PSP A started back in the spring of 1999. In the beginning we agreed that they would help us choose the IS. A couple months after this, we continued the cooperation by examining certain options more closely, and finally we made a choice in the end of 1999. After this the cooperation constantly became deeper and more extensive.”

The project proceeded well, and as it did, the scope and resources needed for the project increased. By 2002, the initiative could not be called a project anymore. The two companies were so entangled in each other, that a new way of working was suggested by PSP A. In a following press release the companies informed the press that they had agreed on forming a “*competence centre*”, with people both from PSP A and Company 4 working on the initiative, in a jointly managed unit.

“With PSP A we did a frame agreement, which enabled us to easily make other agreements, which were actually then appendices to the original agreement...Our cooperation with PSP A was not just a buyer-supplier relationship. In many cases we spoke totally openly of our problems. And many times the cooperation was certainly strategic, but on a whole I would call it a partnership...There was a strong degree of trust between our companies. This is also why we wanted to continue cooperating with PSP A. It was much easier to continue this cooperation when we could trust that things were done as we wanted them to be done, but also that PSP A knew our business and could talk directly about potential problems.” (Senior Executive 1)

The idea of PSP A as a key, strategic partner was wide-spread in the company, many called PSP A a “strategic partner” while others talked about “very important cooperation at the time”, but the average is perhaps best presented by Senior Executive 3, who stated that “*the cooperation with PSP A was a ‘strong partnership’*”.

Already some time before the launch of the joint competence centre, the market conditions started to change. By the time the competence centre was launched, the market had stagnated almost completely; after several consecutive years of rapid growth, Company 4 experienced a fall in revenues. The IS initiative was reaching most of the goals that were set during the previous years, and because of emphasis on cost efficiency new additions to the IS were not planned.

“Three years ago we were in a very rapid growth, and the problem was building capacity. This was equally our and our clients’ problem. Very soon, however, this changed. There was over

capacity among suppliers, and the clients began to focus more on cost minimization and the relationship to them changed.” (Senior Executive 3)

As management had to turn its focus on internal structure and costs instead of growth and new markets, the question about the benefits of the cooperation was raised. So far, it had been very easy to continue with the same partner.

“The different stages of the project were all out for competitive bids, but each time we found PSP A to be the best. However, this led to the fact that, at some point the entire initiative was depending on PSP A.” (Senior Executive 1)

4.5.3. Results

According to Senior Executive 3, “the *concrete results [referring to the IS] were great*”. Most of the different sub-projects of the initiative were delivered on time and budget, and the corresponding business processes were functioning well. Even so, many of the managers felt that they were not happy with the results of the cooperation.

The main reason for this was that when focusing on growth and getting the IS implemented fast, they had neglected to learn from the cooperation, and focused too much on just getting to the goal.

“I got exposed to the PSP A cooperation in 2000. It was a great experience to learn. We needed the competence for a large scale IT initiative, but had very little of it as we were a manufacturing company... We became perhaps too dependent on PSP A, we did not learn fast enough. In the beginning we were more focused on the end results, and neglected the learning, which of course resulted in us becoming very dependent of our partner.” (Senior Executive 3)

By not being able to learn from the cooperation, Company 4 found itself in a situation where it had to keep on buying services from PSP A even if there were both people available on the market with the necessary IS skills and also time for the management to focus on building these skills. The role of PSP A had grown beyond what Company 4 management felt was beneficial for them.

Another reason –related to the previously presented one– was the fact that in the hurry to get things done during all the different stages of the IS initiative in 1999-2001, no one had thought about the long term goals for the cooperation. “*In the beginning the cooperation with PSP A was just some IT things which needed to be done. There was no strategy behind it in the beginning*” (Senior Executive 4). This also led to the situation in 2002 and 2003 –as market started to calm down– that Company 4 found itself in a “strong partnership” with a company, without ever thinking about whether this was a feasible way of cooperating.

Many of the managers in Company 4 did not, however, see that large scope cooperation would necessarily have to be a problem per se. Management has later felt that PSP A

took advantage of their situation, and just maximized their sales of new resources to Company 4.

“By optimizing the short term, you eat from the basis of long-term success”, Senior Executive 4 says referring to the partnership with PSP A. “We were close to having strategic cooperation, but because of the lack of honest dialogue I feel we have now been moving away from this” (Senior Executive 4).

According to the management of Company 4, e.g. suggesting that Company 4 should build up some competence of their own, or suggesting to put resources into development of other critical processes, instead of just focusing on selling resources, could have helped maintaining the trust in PSP A and created a true strategic partnership.

“It definitely was our own fault not to see what we should have done, and of course I understand it was PSP A’s goal to sell as much as possible – and there is nothing wrong with that. But if the goal was to create a long term partnership, I think PSP A could have been more proactive in suggesting many things.” (Senior Executive 5)

“PSP A should have focused more on [suggesting] developing certain business areas, instead of just selling more of the same. In the short run, perhaps PSP A sold more, but in the long run both parties got disadvantaged because of this.” (Senior Executive 4)

At the time of writing this, the cooperation between PSP A and Company 4 continues. Company 4 still values the work of PSP A, but now does more analysis on what it will do together with partners and which capabilities it needs to build up itself.

“We are right now putting much effort into thinking about alliance, and building alliance processes and capabilities.” (Senior Executive 4)

4.5.4. Findings

As mentioned earlier, the story of the cooperation between Company 4 and PSP A was quite different from the other cases. It started of as basically just a contract on PSP A providing certain services after winning the early competitive bids. As such it would be easy to say that it was in fact no alliance at all. Still, with time both parties agreed that a “strong partnership” had been created.

“We did not intend to create any formal partnership from the beginning, but at some point I would definitely say that it was a partnership with strategic elements.” (Senior Executive 1)

The results were very ambiguous; on one hand the objectives set in the service contracts were met, but on the other hand the more implicit partnership goals were not reached at all.

Based on the case material I have identified the following elements that characterize Case 4:

Strategic intent and strategic context:

- The strategic intent of Company 4 as such was clear in the beginning of the cooperation; the company wanted to create a truly global presence around its core business and grow profitably.
- The cooperation between PSP A and Company 4 was in the beginning well aligned with the strategic intents of both companies. Company 4 needed a global long-term partner for its IS and PSP A wanted to sell its services to growing companies, that had potential to become global customers.
- During the cooperation, however, the strategic context changed radically, as the market stagnated, and the strategic focus of management went from growth to cost efficiency. This had a big effect on the partnership. The strategic context was also characterized by first a lack of and later an abundance of resources.
- A thorough resource or competence based strategy examination was not done before the starting the cooperation. This was later identified as a problem, because several critical competences were not built within the company, which meant that Company 4 became very dependent on PSP A.

Alliance strategy:

- There was no explicit alliance strategy in the beginning or during the cooperation, which seemed to have a negative effect. The goals for the IS cooperation were set, but there were no explicit objectives for long-term cooperation in this field with PSP A. Later, not least because of the experiences with the PSP A cooperation, Company 4 has formulated an alliance strategy. *“Our strategy is broken down into cornerstones, which in turn are broken down into 14 action programs. One of these is alliances and inter-firm cooperation, so you could say there is an alliance strategy”* (Senior Executive 4).
- An explicit and separate alliance management capability is something the company is just starting to build in 2003-2004. *“[Right now] we don’t have an alliance management organization per se. This is something we are working on establishing right now. Of course we have done these things for years, but only now we are beginning to formalize these things”* (Senior Executive 1). *“We have a challenge in learning how to make partnerships that we benefit from ourselves. This is always hard. Trust is very important, but it always includes risk.”* (Senior Executive 3).

During the alliance creation process:

- The cooperation was focused on the operational issues. As such, the cooperation never established a joint long-term goal for the two companies. In the end, this had a negative effect on the perceived results of the cooperation.

- A strong sense of trust was still clearly created between the two companies. *“We went through a very successful IS project together. In total we did 10 roll-outs around the globe, on time and on budget. The long cooperation and the joint success created a thorough sense of trust in our relationship”* (Senior Executive 1).
- The corporate cultures were seen to be quite close to each other at least within the project team, even if the two companies had very different backgrounds. *“There were certain challenges because of quite different corporate cultures, and also e.g. probably in salaries between the people in the competence centre, but we were able to agree on the rules already in the negotiation phase (e.g. flying in same classes etc.), which made the competence centre have a kind of a ‘culture of its own’”* (Senior Executive 1) *“Interestingly people on both sides were more comfortable reporting problems to the PSP A project manager”* (Senior Executive 1). The fact that the cultures made the cooperation run smoother, seemed to have a positive effect on the partnership.
- The process with a frame agreement, and minimal bureaucracy when continuing the cooperation in the different stages clearly was an efficient way of working. In a strategic context, where getting things done fast was a key driver for success, there would not have been time for long alliance creation processes.
- Some signs of Stockholm syndrome were reported. *“I have seen it many times that people too close to the cooperation become ‘in love’ with the cooperation, and forget which company’s benefit they should maximize. Stockholm syndrome is a nice analogy regarding this...whether or not this was the case in our cooperation with PSP A I cannot be sure, but some elements of it you could definitely identify”* (Senior Executive 3).

Results

Just focusing on the explicitly set goals was clearly not enough from PSP A’s side. If Company 4 had seen the cooperation as strictly a customer-supplier relationship this would not have been a problem. However, as the cooperation was seen as a “strong partnership”, there should have been even more honest dialogue, and Company 4 felt that PSP A should have given up its short-term goals for the long-term success of the partnership

4.6. Cross-case analysis

The following sections draw together all the main characteristics and inefficiency elements of the four cases. The purpose is to display the similarities and differences in the cases with the help of three matrices. The first matrix presents some aspects of the cases more exploratively. The second and third matrix draw together the different inefficiency elements which were found to have affected the results of alliance creation.

This section also aims at giving an answer to the first two research question, namely

- 1) What are the inefficiency elements in creating strategic alliances?
- 2) How do the inefficiency elements contribute to the success or failure of alliance creation?

The three matrices are accompanied by a discussion on the different cases and the elements. Conclusions and models for how the identified elements could be used outside the context of the four cases of this study are presented in the next chapters. Chapter 5 also aims at shedding light on the research question 3.

4.6.1. Case characteristics

The matrix below presents the main characteristics of the cases. In the matrix, the characteristics are presented so, that first the motives for the alliances are presented. Second, the alliance type and finally the characteristics related to the outcome of the alliances are presented. The matrix does not intend to present the alliances according to the different categorizations presented in the literature review. As explained in the methodology chapter, it is also not the purpose to “test” existing theories. Rather, the objective is to give a clear overview of the case alliances, by using some of the dimensions presented in the literature review.

(NA = Not Applicable)

<i>Characteristics</i>	<i>Case 1</i>	<i>Case 2</i>	<i>Case 3</i>	<i>Case 4</i>
<i>Time of alliance creation</i>	2001-2002	2002-2003	2002-2003	1999-2003
<i>Alliance motive</i>	<i>Strategic intent</i>	<i>Strategic intent (and opportunity)</i>	<i>Strategic intent</i>	<i>Opportunity (and Strategic intent)</i>
<i>Resource based motive</i> ³⁸ (Das and Teng 2000)	<i>Obtaining resources (sales channel and development skills)</i>	<i>Obtaining resources (brand and channel) and retaining resources (IT personnel)</i>	<i>Obtaining resources (sales channel, System Integration) and retaining resources (IT personnel)</i>	<i>Obtaining resources (scarce IS development skills)</i>

³⁸ It could here be argued whether it is in all of the cases a matter of *obtaining* resources following Das and Teng, or if it could in fact be more accurate to describe the motive as *getting access* to resources.

<i>Positioning motive (Lorange et al 1991)</i>	<i>Catch-up</i>	<i>Restructure, catch-up and remain</i>	<i>Remain / catch-up (sales channel and SI), Restructure (IT personnel)</i>	<i>NA</i>
<i>Endogamic / Exogamic (Jolly 2000)</i>	<i>More endogamic</i>	<i>More exogamic</i>	<i>More exogamic</i>	<i>More exogamic</i>
<i>Word used to describe cooperation</i>	<i>Alliance, partnership</i>	<i>Strategic partnership</i>	<i>Strategic alliance</i>	<i>(Strong) Partnership</i>
<i>Result (success) of case</i>	<i>Negative related to original goals. Future positive</i>	<i>Negative, creation failed</i>	<i>Positive, results are good after one year</i>	<i>Positive; Initial, explicit goals achieved. Future uncertain.</i>
<i>Results support strategic intent</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>Yes, short-term. No, long-term</i>
<i>Length of alliance creation</i>	<i>9 months</i>	<i>9 months</i>	<i>6 months</i>	<i>NA</i>

Table 11. *Explorative cross-case matrix*

The matrix above presents the main characteristics of the cases in an explorative way. When looking at the alliance motives (and considering that the motive can be either strategic intent, necessity or opportunity), it is clear that none of the case alliance creations were started based on any form of necessity (such as regulatory requirements). In cases 1, 2 and 3, the motive was based on a strategic analysis, which suggested that there could be a need for the alliance in question. In Case 4, the decision to buy services from PSP A was aligned with strategy, but the fact that the cooperation evolved into an alliance (“strong partnership”, as argued in the case description) was perhaps more based on the opportunity which was created by working closely with PSP A. In all cases it could be argued that also the opportunity was a motive, since all the companies had cooperated before the alliance creation. In cases 1, 3 and 4, however, the companies also considered alternative alliance partners, which suggests that the opportunity to work with PSP A was not the main driver. In Case 2 the line between the two motives was especially blurred, since PSP A helped the company with formulating the new strategy, and because any other option was not considered at the time.

In all cases one of the motives for the alliance was to obtain resources from PSP A. In most cases these resources were the PSP A sales channel, the PSP A brand and skills related to product and IT development. In cases 2 and 3 there was also a need for retaining resources, as part of the resources (IT developers) were still valuable to the companies in question, but there was a feeling that these resources could be transferred to PSP A.

The positioning motives of the cases were harder to categorize, which perhaps suggests that the categories of Lorange et al (1991) are too strict for many alliances to fit into. For Company 1 it was clear that it needed some catching-up with some of the leaders in the market, which it considered key to its long-term success, but in which it was still quite new. In Case 2, determining the positioning motives was hard for me as a researcher, which perhaps also indicated the lack of consensus within the company at the time. On one hand the company wanted to *catch-up* in the IT business, because even though the company was active in it, it was far from the market leaders. On the other hand, the company wanted to *restructure* its business and “*unload*” some of its IT capabilities, while also *remaining* in the business via the cooperation with PSP A. In Case 3, the company was already strong in its core business, but wanted to further *defend* its position by closer cooperation with the PSP A sales channel. It could also be argued that the motive was to *catch-up*, because the goal was to grow and not only defend the existing –although quite strong– position. On the other hand, Company 3 also wanted to *restructure* its business by outsourcing its product development as part of the alliance agreement. In Case 4, the company did not directly target any specific position with the cooperation with PSP A.

Considering the type of alliance, I have chosen to only consider the division between *endogamy* and *exogamy*. There is naturally no clear cut way to determine which alliance is endogamic and which is exogamic, but by breaking the concept down to two dimensions; difference/similarity in size and difference/similarity in area of business³⁹, it could be argued that only Case 1 alliance was close to endogamy. First, the size difference between PSP A and Company 1 is the smallest. Second, the business areas of these two companies are perhaps most similar to each other (in the field of the cooperation, i.e. ICT services), and also the customer bases of the companies are well aligned.

Since some (Company 1 and Company 3) of the companies reported that they “rank” their alliances in certain categories it is also interesting to consider the words used to describe the alliances. In Case 4 the company spoke more of “partners”, “important partners” or “strong partners”. In Case 1 the alliance was called an “alliance” or a “strategic partnership” and in Case 2 the working title for the cooperation was “strategic partnership” or “IT partnership”. The clearest case was perhaps Company 3, who generally called the alliance a “strategic alliance”.

³⁹ Here I would rather use these dimensions, as a division based on the kind of resources pooled would in my view not give an accurate picture of the similarity of the companies and nature of the cooperation of the case companies in this study. Also to use all of the characteristics suggested by Jolly (2001) did not seem relevant in this study.

The interviews and the fact that “ranking” according to a certain hierarchy of words (alliance definitions) exists, inevitably point out that at least in the North European ICT sector, all cooperative agreements are not “strategic alliances” as suggested by a wealth of academic literature. This was e.g. expressed by interviewees of Company 1.

“A company can only have a maximum of two strategic alliances, but instead it can have many partnerships.” (Manager 1, Company 1)

“Partnership’ had become a diluted expression, which meant that we began talking about alliances when we meant real partnership. We also introduced the term strategic alliances. There could be strategic alliances both on business unit and corporate level. This made it quite unclear. Later, we decided that strategic alliances could only exist on corporate level. Strategic alliances implied e.g. top management support on both sides.” (Senior Executive 1, Company 1)

In fact, it seems that “partnership” is seen more valuable than just “cooperation” and “alliance” in turn more valuable than “partnership”. “Strategic alliances” or “strategic partnerships” are then the highest form of inter-firm cooperation (and “strategic alliances” perhaps even more important than “strategic partnerships”).

Interestingly, also the same alliance can be called different things in the two partner organizations. E.g. in Case 1, the alliance was called a “strategic alliance” until the press release was designed, when it became clear that PSP A global guidelines reserved the word “alliance” for certain, global cooperation. Finally, the press release and the material prepared for the launch of the alliance talked about “cooperation” and “partnership”, but not “strategic alliance”.

As can be seen from the matrix, only Case 3 and 4 can be described as successful, if the criteria for this are the goals set before the cooperation began. Correspondingly the alliances in Case 1 and 2 did not reach the goals set before starting the cooperation. The truth, however, is more complex than that.

In reality Case 1 was seen as a very valuable alliance even if it did not reach the explicit goals set beforehand. Case 4 experienced the opposite, as the explicit concrete goals were reached, but as Company 4 felt that the cooperation did not live up to the partnership it in fact had become, but rather that PSP A still behaved as any service provider. In Case 2, the creation process did not result in an alliance, which is in the matrix classified as a failure. However, parts of management in Company 2 could have seen this as a success, as they were quite critical towards the alliance initiative as a whole.

Following this discussion, it can also be argued that in reality only cases 1 and 3 seem to support the case company’s long-term strategic intent.

The explorative cross-case display clearly shows the problems of coding the data into some clear-cut categories. *Reality is too complex for simple categorization.* Hence, also the value of trying to link back to e.g. the different alliance categories or motives for the alliances is questionable. Even so, the explorative matrix helps get an overview of the

cases, and helps frame the cases for further analysis, therefore strengthening the chain of evidence.

Many authors have suggested that mere exploration in case study research is not enough (Patomäki and Wight 2000; Dubois and Gadde 2002). Further, following Patomäki and Wight (2000), it is especially valuable to search for explanations in form of tendency towards a certain direction rather than of deterministic or probabilistic causalities (Little 1991). Following this, and what was learned from the explorative display, the following section is an attempt to find inefficiency elements and present them as tendencies towards either a positive or a negative effect on alliance creation.

4.6.2. *Inefficiency elements in alliance creation*

As pointed out by the previous section, the cases differ quite significantly from each other on many accounts, concerning the general characteristics of the alliances. It was, however, possible to find several inefficiency elements in the cases that affected the alliance creation processes in seemingly similar ways.

The sections below present the cases and aim at giving a better overview of the alliance creation processes and the inefficiency elements found within each of them. The elements presented here are all based on the cases in this study. The elements found in previous literature are included in the next chapter, where all of the elements are also further categorized.

The inefficiency elements are further divided into two groups, namely *Process Related Elements* and *Context Related Elements*⁴⁰. The Process related elements are elements, which can be found within (or directly related to) the alliance creation activities. Such elements are the people involved (and their relationships), the contract and the different steps of the process. The context related elements correspondingly are elements which are found outside of (and which are not directly related to) the of alliance creation activities. Such elements are the different aspects of the two negotiating companies, such as strategic context, strategic intent, ownership, structure and culture.

The different aspects of the cases are presented so that the inefficiency elements are first listed and discussed. The matrices then draw together this discussion. In the matrices each element is presented on the left. For each case there is then an explanation (in brackets) of how this element affected the case alliance creation (if in any way), as well as a plus or a minus to indicate the nature of the effect (the tendency) the element had on the alliance creation process and its results as described in the table below. It is further notable that an inefficiency element is primarily included because it produced some sort of *inefficiency*, i.e. a *negative effect* to the alliance creation process. Still, the effect of these elements can also be the opposite. E.g. if a shared vision between the partners is not created this is suggested to have a negative effect, but if on the other

⁴⁰ I am indebted to Professor Necmi Karagozoglu for suggesting this division based on an early version of my study.

hand a solid shared vision is created, the same element can affect the alliance creation also positively.

+ = *Positive effect*

- = *Negative effect*

+ - = *Slight effect, as further explained in parenthesis*

NA = *Neutral or not applicable/available*

() = *(Explanation of element in case)*

Table 12. *Legend of inefficiency element matrices*

It is further worth noticing that the effects are explained by providing links to the case descriptions presented earlier in this chapter. The chain of evidence is hence constructed so that the reader can find the effect/tendency of each element in each case, follow the effect up by the text in the brackets and the short descriptions preceding the matrices and through them finally refer back to the case descriptions for further explanation.

4.6.2.1. *Process related inefficiency elements*

As briefly explained above, this section presents the *Process related inefficiency elements* found in the cases. These are elements, which were found within (or directly related to) the alliance creation activities. Such elements were the people involved, their behavior and relationships, the contract and e.g. the different steps of the process. In total 10 process related inefficiency elements were found. The elements are briefly explained next.

Creation process too long (Process related inefficiency element number 1). From the matrix below, it can be seen that in many cases the alliance creation process was by many interviewees seen as too long. An exception of this was Case, 4 in which the alliance was created in smaller steps, so that no long alliance creation process took place. This had a positive effect on getting things started quickly, but as explained in the case description, a lack of strategy and goals for the alliance made the cooperation harder in the long run. The fact that the creation processes of the alliances were too long, were brought forward by a number of interviewees. Even in Company 3, where the process was carried out quite efficiently, there were some remarks about this:

“The initiative started about 6 months before the contract was signed, which I feel was still quite a long time for the process.” (Senior Executive 1, Company 3)

“The alliance creation process can often take over a year, which is a very long time in our business” (Senior Executive 2, Company 3)

Shared vision not created during alliance creation process (2). Another central element was the creation of a shared vision during the discussions. It becomes very clear that in cases 1 and 3 the negotiators used a lot of time to establish a shared vision for the cooperation, based on thoroughly creating an understanding of each other’s current and future business. Even though the companies did not have the *same* goals, the vision was created so that these different goals could be *aligned*. This was also expressed by some of the interviewees.

“There is always some egoistic, commercial motive. This is natural.” (Manager 1, Company 1)

“It is crucial to understand how the other party’s performance is measured. If you understand this, you can better analyze what the other party is looking for. Sometime communicating this (one’s own Key Performance Indicators) openly can also be an advantage.” (Senior Executive 1, Company 1)

In Case 2, no such vision could be created (even if there were some attempts) and in Case 4, this was not even attempted. Especially in Case 4 this had a negative impact, and management of Company 4 later said that they felt they should have put more effort into joint planning.

Too complex alliance structure (3) and Overemphasis on contract rather than emphasis on business (4). In Cases 1 and 2, the companies clearly designed complex structures for the alliance creations. In these two creation processes, the focus was also too much on the contract instead of the business (even if *also* creating a joint vision was emphasized in Case 1), which had a negative effect on the outcome, and made the process longer. In Case 3, interviewees felt that there was a focus on business issues, and also a strive to keep the scope as simple as possible (although some felt that even a simpler agreement structure could have been beneficial), which had a positive effect on the outcome. In Case 4 the focus was on business, and the agreement structure was simple (which was seen to have a very positive impact on the success of the IS initiative), but because of a lack of shared vision and the changes in market conditions Company 4 was not pleased with the outcome of the partnership.

Insufficient top management support and involvement (5). Basically all alliances in this study experienced sufficient top management support and involvement⁴¹. As such this issue did not cause any inefficiency in the creation processes. In Case 2, there were some issues related to the differences of opinion among management, which affected the process, but as a whole top management was actively involved in the process also in this case. This element was brought forward by many interviewees as something that

⁴¹ Particular consideration during the analysis was given to the fact that the interviewees had in many cases been involved in the alliance creation processes. Hence, there could have been a bias towards underestimating the problems related to management actions.

can cause problems. Sufficient support and involvement by top management was in all of the cases also seen as a positive thing, which hence contributed positively to the creation processes.

Wrong lead negotiator incentives (6). The lead negotiator role, however, was more controversial. In cases 1 and 3, no problems related to the lead negotiators or their incentives were found. In both cases representatives of the companies mentioned that they understood that the incentive of the PSP A people was to sell more services in the long run, but in neither of the cases this was seen to have a negative impact on the creation process. In Case 2, the lead negotiators from PSP A's side had (due to increasing demand to sign outsourcing contracts) a strong pressure to push the outsourcing part of the alliance forward, to such extent that the sales and marketing partnerships received very little attention. On the other hand, the lead negotiator from Company 2's side was in charge of buying the services internally, and outsourcing parts of IT services would only have meant an increased work load for him personally with no upside in creating the alliance. His incentive was then to make the contract as watertight as possible regarding all the details, in order to minimize his work in the future. In retrospect both parties agreed that, avoiding being blinded by short-term incentives and putting more emphasis on the IT partnership could have created something valuable –although smaller– for both parties. A manager with much experience of alliances stated that he had seen a similar thing happen many times:

“Individual ambitions can lead the negotiations to the wrong track.” (Manager 1, Company 1)

Also related to this, in Case 4, Company 4 representatives pointed out that the incentive of the PSP A people was to just sell more short-term, which they felt was harmful for the cooperation.

Stockholm syndrome (7). A concept, which was brought up by one of the managers of Company 1 was the notion of “*Stockholm syndrome*” in alliance creation. Stockholm syndrome refers to a hostage situation, where the hostage falls in love with the kidnapper. The concept is quite closely related to escalating commitment (see e.g. Staw 1976, Haspeslagh and Jemison 1991) where managers keep investing in an initiative that has been unsuccessful in hope of future success. I suggest that in an alliance context, this concept implies that being extensively involved in alliance creation, the negotiators either start to optimize the benefits of the other party, or they fall in love with the alliance (creation) itself. In the later alternative, the people cannot pursue the alliance objectively or even differentiate between the goals of the alliance process and the goals of the (own) company⁴².

⁴² Whether “syndrome” is the correct word to use in this context can be problematized, due to its negative connotation. However, the Cambridge online dictionary (Dictionary.Cambridge.org) defines syndrome as “*a type of negative behaviour or mental state that is typical of a person in a particular situation*”. It is this type of negative behavior (as described above) under particular circumstances (alliance creation) that is here referred to.

“The effort and social bonds associated with the alliance creation process could often blur the objectivity of the people creating the alliance, and there is a risk that the link to strategy is lost”
(Senior Executive 1, Company 1)

In Case 1 there were many indicators of Stockholm syndrome. Because of the long process and the amount of work the parties had put into creating the alliance (and the fact that the parties were working so closely together), the objectivity was clearly blurred. Only at the very end, it was admitted that the alliance structure was too complex and that the markets had changed so much that only limited parts of the alliance were actually viable. The experiences from Case 2 were similar. Company 4 also felt that its team also experienced Stockholm syndrome as it became so dependent on PSP A and its services. In the end the team did not really optimize the benefit of Company 4, but rather the benefit of PSP A.

Negative social bonds and chemistry in the relation (8). The social bonds and “chemistry” among the people in all the alliances were seen as good, and basically all the interviewees felt that this had a very positive effect on the alliance creation. Only in Case 2, there were –in my personal view– some elements of negative links between people on the different sides, but also in this case the negative elements were limited, and there were other people with very strong social bonds to compensate for this. The same goes for the sense of trust in the other party.

Lack of sense of trust between the parties (9). Only in Case 2 there were some negative issues related to trust, but this was also quite hard to verify, and probably also a matter of differences in culture. Common for many interviews was that the interviewees spontaneously (without probe questions) brought forward the importance of trust and personal relations in alliance creation.

“One of PSP A’s Senior Executives was a key player in all of this. He has been in contact with Company 3 for five years. He was also involved during the negotiation. He really is a person we trust and like.” (Senior Executive 2, Company 3)

“6 months is a short time for alliance negotiations. If something is done in 6 months, there needs to be trust and commitment in place already” (Senior Executive 1, Company 1)

“Trust is very important. Trust can be personal trust or firm trust. One can compensate the lack of the other.” (Senior Executive 1, Company 1)

Opportunism by one or both of the parties (10). In Case 4 both companies reported a sense of trust in each other, but later Company 4 felt that its trust had been exploited by opportunistic behaviour of PSP A. Company 4 felt that PSP A had taken advantage of the close cooperation and purposefully put itself in a position where it can sell more. Similarly, Company 2 reported that PSP A had used its newly established IT branch as a sign of power to convince it to go through with the alliance, and in this sense acted opportunistically instead of building the alliance creation on trust.

The table below summarizes the process related elements discussed above.

<i>Process related elements</i>				
<i>Element</i>	<i>Case 1</i>	<i>Case 2</i>	<i>Case 3</i>	<i>Case 4</i>
1. <i>Creation process too long</i>	- <i>(Yes, 9 months)</i>	- <i>(Yes, 9 months)</i>	- <i>(Slightly, 6 months)</i>	+ <i>(No, several smaller steps)</i>
2. <i>Shared vision not created during alliance creation</i>	+ <i>(Yes, created. Goals not same but aligned)</i>	- <i>(No, attempts to do so, but no real success)</i>	+ <i>(Yes, created. Goals not same but aligned)</i>	- <i>(No)</i>
3. <i>Too complex alliance scope / structure</i>	- <i>(Complex)</i>	- <i>(Complex)</i>	+ - <i>(Somewhat complex)</i>	+ <i>(Simple)</i>
4. <i>Overemphasis on contract rather than emphasis on business</i>	- <i>(Yes, Contract. Early also business)</i>	- <i>(Yes, Contract)</i>	+ <i>(No, Business)</i>	+ <i>(No, Business)</i>
5. <i>Insufficient top management support and involvement</i>	+ <i>(No, sufficient)</i>	+ - <i>(No, sufficient, but varying)</i>	+ <i>(No, sufficient)</i>	+ <i>(No, sufficient)</i>
6. <i>Wrong lead negotiator incentives</i>	+ <i>(Negotiator incentives ok)</i>	- <i>(Incentive issues, both within Co 2 and PSP A)</i>	+ <i>(Negotiator incentives ok)</i>	- <i>(Incentives ok –later expressed problems)</i>
7. <i>“Stockholm syndrome”</i>	- <i>(Yes, both sides failed to see changes later in the process)</i>	- <i>(Yes, did not see the benefit of a smaller scope)</i>	+ <i>(No)</i>	- <i>(Yes, later on Company 4 side)</i>

8. <i>Negative social bonds, "chemistry" in relations</i>	+ (No, good chemistry)	+ - (Partly good chemistry)	+ (No, good chemistry)	+ (No, good chemistry)
9. <i>Lack of sense of trust between the parties</i>	+ (No)	- (Yes, as reported by both parties)	+ (No)	+ (Generally no, but later less trust from Company 4's side)
10. <i>Opportunism by one or both of the parties</i>	+ (No)	+ - (Slightly, on PSP A side, by using the IT branch as "lever")	+ (No)	- (Yes, on PSP A side as reported by Company 5)

Table 13. Cross-case matrix of process related inefficiency elements

4.6.2.2. Context related elements

The cases further suggested that inefficiencies in alliance creation are not only caused by elements within the process but also by elements from the surrounding context. The context related elements are elements which are found outside of (and which are not directly related to) the alliance creation activities. Such elements are the different aspects of the two negotiating companies, such as strategic context, strategic intent, ownership, structure and culture. A brief description of each context related inefficiency element is given below followed by a summarizing matrix.

Strategic intent unclear in the beginning of the process (Context related inefficiency element number 1). When looking at the strategic intent of the case companies it can be said that they were clear in all cases. I.e. when the alliance creation began, the companies had a clear long-term goal that they were actively pursuing. The strategic intents were also well aligned with the strategic context, although dark clouds were already visible in the horizon (see below) in form of changes in the market conditions.

Strategic intent not communicated to or accepted by key stakeholders (2). The strategic intents, however, were not equally well communicated and accepted within all the case companies. Similarly to suggestions derived from the pilot case, Company 2 had a new strategic intent which had not (at least yet) been accepted by everyone. It seemed that at least the controversial ownership and its cultural background contributed to this.

No clear link between alliance creation and strategic intent (3). Largely for the same reasons, Case 2 also stands out as the case where the link between the strategic intent and the alliance strategy was unclear. In Case 2, the fact that the new strategic intent was not widely accepted made the link to the alliance strategy ambiguous. This also affected the alliance strategy, which itself was unclear, and the fact that it was hard to find a “common ground” with PSP A, where the strategies of both companies would have been aligned (a reason why this was hard to do, could also have been that the companies were pooling the same type of resources –i.e. IT professionals–, which meant a risk for overlapping).

Alliance strategy unclear (4). In contrast to Company 2, Company 1 (and its subsidiary ASP 1), had a clearly stated and accepted strategic intent, an explicit alliance strategy as part of its strategy documentation. The alliance strategy was hence clear, and among the resources the companies brought to the negotiating table there were almost no overlapping, which made the strategic objectives of the two companies easy to align, as also indicated by the interviewees. This was also the case with Company 3, which had an explicit alliance strategy document. Company 4 had not created any alliance strategy (neither as a part of strategy nor for the cooperation with PSP A), and this proved to be difficult as there were some changes in market conditions, and suddenly the company realized it had a “strong partnership” with PSP A, without any explicit strategic goals for such cooperation.

Strategic intent / Alliance strategy not aligned with partner's (5). In cases 1 and 3 it seemed that a shared vision with PSP A was quite easy to create. It seemed that the key reason for this was that the strategic intent and the corresponding alliance strategy was well aligned with that of PSP A. In both cases it seemed that this was because the businesses were complementary to each other. In Case 2, both companies aimed at least partly for a similar business, which made creating the alliance harder. In Case 4, the implicit alliance strategy of Company 4 changed, which led to a situation where the alliance was no longer aligned with the strategic intent of either of the two companies.

Changes in strategic context (6), ownership (7), corporate structure (8) or other major changes (9) during creation process. As the alliance creation processes of many of the case alliances were long, it was in retrospect not a surprise that there was also time for some changes to occur in the strategic context during the creation. Cases 1, 3 and 4 experienced either the beginning of the downturn in the economy during the creation process, or other global events such as wars or terrorist attacks, which had an unexpected negative impact on the economy and hence also the alliance. In Case 2, the long process also meant that PSP A introduced an IT branch of its own, which clearly impacted the alliance creation and the position of Company 2. In Case 1 there were also major changes in corporate structure and strategy during the creation process and later in the ownership of the company. These factors clearly affected the outcome of the alliance creation negatively.

Ownership set restrictions on alliance (10). Also the owners played interesting roles in many of the cases. In Case 1 there was an ownership change, which brought uncertainty to the end of the alliance creation process. In Case 2 the negotiators and the management team of Company 2 had already accepted the agreement, but the whole initiative was unexpectedly (at least for parts of management) shut down by the owners

of the company. Also in Case 3, the major owner of Company 3 decided that it would not support selling major revenue sources, and thus made the process longer and more complex.

Difference in size of companies (11). Although only explicitly reported in Case 2, the cases suggested that a big difference in size (employees, turnover, and geographical scope) may cause some inefficiency. In Case 2, the interviewees of Company 2 reported that it was hard not to be suspicious and careful when negotiating with a much bigger company. Correspondingly in Case 1, where the size difference was the smallest, this did not negatively affect the alliance creation.

No prior relation (12) or bad reputation of the parties (13). In cases 1, 2 and 3 it was felt that a good reputation and prior relations to PSP A were key prerequisites for starting discussions in the first place.

“There would probably not have been any alliance negotiations in the first place if we had not had good experiences in working previously with PSP A.” (Senior Executive 2, Company 1)

This was also supported by the fact that in Case 4 the good experiences from the first phases of cooperation meant that it was easier to enter into deeper cooperation.

Right to play (14). Interviewees from all case companies also suggested that in creating international alliances there is a “*right to play*”, in other words a company has to have a certain size, international presence or valuable resources to be able to negotiate with the leading companies in the field at all (given that this is the aspiration).

“Our partners are typically much bigger than us; we definitely see that there is a ‘right to play’ restriction in all major alliance negotiations. You have to have some global presence, customer, products etc.” (Senior Executive 3, Company 3)

All of the four companies reported and had some sort of resources that allowed them to negotiate alliances with PSP A. Since all companies were established companies in their respective fields, this element had a more positive than negative effect. This can be compared to the suggestion brought forward in the pilot case where the company had to struggle to get to the negotiating table. Company 4 did not experience this in the case alliance, but reported that they had faced this issue in previous negotiations.

Lack of competence to create the alliance (15). In cases 1 and 3 both companies clearly had experience in alliance creation and the alliance capabilities needed. This was also seen to have a positive effect.

“A possible pitfall is also that the other company cannot create partnerships, even if the strategies match.” (Senior Executive 1, Company 1)

On the other hand, in Company 2 the interviewees reported that they had quite little experience in alliance creation. Company 4 was also in a similar situation, and reported that they had learned their lesson and were now building an alliance capability⁴³.

<i>Context related elements</i>				
<i>Element</i>	<i>Case 1</i>	<i>Case 2</i>	<i>Case 3</i>	<i>Case 4</i>
<i>1. Strategic intent (long-term business direction) of Case Company unclear in the beginning of the process</i>	+ <i>(Clear)</i>	+ <i>(Clear)</i>	+ <i>(Clear)</i>	+ <i>(Clear)</i>
<i>2. Strategic intent of Case Company not communicated to or accepted by key stakeholders</i>	+ <i>(No, communicated and accepted ok)</i>	- <i>(Yes, differences within Company 2)</i>	+ <i>(No, communicated and accepted ok)</i>	+ <i>(No, communicated and accepted ok)</i>
<i>3. No clear link between alliance creation and strategic intent</i>	+ <i>(Clear)</i>	- <i>(Unclear, because of different views within Company2)</i>	+ <i>(Clear)</i>	+ <i>(Clear, unclear long-term)</i>
<i>4. Alliance strategy unclear</i>	+ <i>(Clear, and explicitly formulated)</i>	- <i>(Unclear, because of different views)</i>	+ <i>(Clear)</i>	- <i>(Unclear long-term)</i>
<i>5. Strategic intent / Alliance strategy not aligned with</i>	+ <i>(Yes, complementary)</i>	- <i>(No, overlapping)</i>	+ <i>(Yes, complementary)</i>	- <i>(Not aligned)</i>

⁴³ It is worth noting that as expressed by Senior Executive 1 from PSP A, also the alliance creation teams from its side were quite inexperienced in alliance creation. On the other hand, they had much experience in negotiating and contracting and had alliance experts as part-time members of the team.

<i>partner's</i>	<i>businesses)</i>	<i>in business, and little clarity)</i>	<i>businesses)</i>	<i>after changes)</i>
6. <i>Changes in strategic context during creation</i>	- <i>(Yes, downturn)</i>	- <i>(Yes, IT Branch of PSP A)</i>	- <i>(Yes, downturn)</i>	- <i>(Yes, downturn)</i>
7. <i>Changes in ownership during creation</i>	- <i>(Yes)</i>	NA <i>(No)</i>	NA <i>(No)</i>	NA <i>(No)</i>
8. <i>Changes in corporate structure during creation</i>	- <i>(Yes)</i>	NA <i>(No)</i>	NA <i>(No)</i>	NA <i>(No)</i>
9. <i>Other major changes within the company (strategy, process, etc) during creation</i>	- <i>(Yes, major changes in strategy)</i>	NA <i>(No)</i>	NA <i>(No)</i>	NA <i>(No)</i>
10. <i>Ownership set restrictions on alliance or unexpected decision related to this</i>	- <i>(Yes, ownership change)</i>	- <i>(Yes, decision not to sign contract)</i>	- <i>(Yes, decision to keep some business in house)</i>	NA <i>(No)</i>
11. <i>Difference in size of companies</i>	+ <i>(Less)</i>	- <i>(More)</i>	- <i>(More)</i>	NA <i>(More)</i>
12. <i>No prior relations of parties</i>	+ <i>(Yes, prior relations)</i>	+ <i>(Yes, prior relations)</i>	+ <i>(Yes, prior relations)</i>	NA/+ <i>(No, but stepwise approach)</i>
13. <i>Bad reputation of the parties</i>	+ <i>(No, good reputation as reported)</i>	+ <i>(No, good reputation as reported)</i>	+ <i>(No, good reputation as reported)</i>	+ <i>(No, good reputation as reported)</i>

14. "Right to play" (e.g. Company 3)	+	+	+	+
	(Yes, size of Company 1)	(Yes, size in own market and low cost resources)	(Yes, global operations, size of Company 3)	(Yes, global operations, size of Company 4)
15. Lack of competence to create the alliance (one or both parties)?	+	-	+	-
	(No, both parties ok)	(Yes, in Company 2)	(No, both parties ok)	(Yes, in Company 4)

Table 14. Cross-case matrix of context related inefficiency elements

4.6.3. Summary

The alliances presented in this chapter are of a varying nature. Even so, the analysis has shown that several similarities in terms of the inefficiency elements that affected the alliance creations can be found. Hence it is critical to keep in mind two things.

First, the matrices do not claim direct causality between the single inefficiency elements and the outcome of the case. It is rather argued that the elements collectively contributed to the outcome of the case. Further, researcher subjectivity –as discussed previously- related to this should also be kept in mind. While I have tried to build a logical chain of evidence (Miles and Huberman 1994) throughout the analysis, the risk of subjective bias always remains, especially in cases where the researcher is close to the subject of the study (see e.g. Walkerdine et al. 2002).

Second, it could be argued that some links in form of controversies exist between the elements. An example of this is that alliance creations were seen as too long and that it at the same time could be beneficial to establish a shared vision. The dilemma here is how a company can establish a thorough shared vision (which requires time), and simultaneously reduce the time spent on alliance creation. Another example could be the controversy between the fact that it is good to have positive social bonds and trust in the creation, but that Stockholm syndrome should be avoided. The controversy here is also that if a company has good social bonds and becomes close to the other party, there is a higher risk for Stockholm syndrome. I suggest that as the purpose is not to create any kind of a "formula" which would explain the outcome of these alliance creations. I argue that the elements presented should have been kept in mind by the companies, and as such, they could have understood that they should have used enough time for creating a shared vision, while also understanding (and weighing this against the risk) that too long a creation process can cause other problems.

This chapter has produced findings, which have included three matrices of characteristics and inefficiency elements in the cases of this study. However, as

previously stated, –following the thought of Dubois and Gadde (2002) who argue that a purely explorative case study is not scientifically interesting enough– it is not the objective of this study to be purely explorative. It is hence of interest what other companies and scholars can learn from these cases, and to try to identify some “*underlying structures*”, which according to a critical realist approach may be found also in other cases outside of the study. The next chapter draws together the main findings of the cases in this study and aims to build a model on alliance creation, which incorporates the different “tendencies” and elements presented.

5. THE DYNAMICS OF ALLIANCE CREATION

The aim of this chapter is to give some insight mainly related to research question number 3. This question, as presented in the beginning of this study was:

- 3) Is it possible to – based on the identified elements and their effect on the process– create a model which would more accurately capture the essence of the creation of strategic alliances?

The reflections related to the research objectives are presented by first linking back the findings to the theoretical framework (the revised alliance framework) of the study in section 5.1. Next, two central topics in alliance creation are discussed, namely the role of the strategic intent and alliance strategy (section 5.2) and how the process could be made more efficient (section 5.3). A model which links the found elements and the discussion is presented in section 5.4. The chapter ends with a summary of the main arguments of the study (section 5.5).

5.1. Creating strategic alliances

The cases presented in this study suggest that alliance creation is not an efficient process. Even if all the “stages” (see e.g. Mitsunashi 2002 or Whipple and Frankel 1998 or the five-step synthesis of previous literature) of an alliance creation model are followed, success is not guaranteed as there are a number of elements which affect the process. Instead, the process can be characterized by a dynamic interplay between learning and re-alignment of the process, driven by a number of inefficiency elements. The figure below presents a high-level picture, where the most important sources of inefficiency are placed within the theoretical framework of the study.

It is notable that already “*taking a few steps*” back and looking at the alliance creation through the theoretical framework instead of any sequential alliance creation model can assist in creating alliances that support the strategy better. The cases suggest that keeping the framework in mind will help avoid the different inefficiencies, and better understand the dynamic nature of the alliance creation process. The process can then further be elaborated by going deeper into the different aspects of the framework.

First, the cases suggest that alliance creation needs to be aligned with the strategic intent (“A” in the figure), developed by the company in alignment with the company’s strategic context, communicated, understood and accepted by the employees and approved by the owners. Based on such a strategic intent, an explicit alliance strategy can be built –one that is well aligned with the strategic intent. The findings further suggest that this could be a solid starting point for alliance creation (regardless whether the genesis of the alliance comes from strategic planning, opportunity or if it is a necessity dictated by the law).

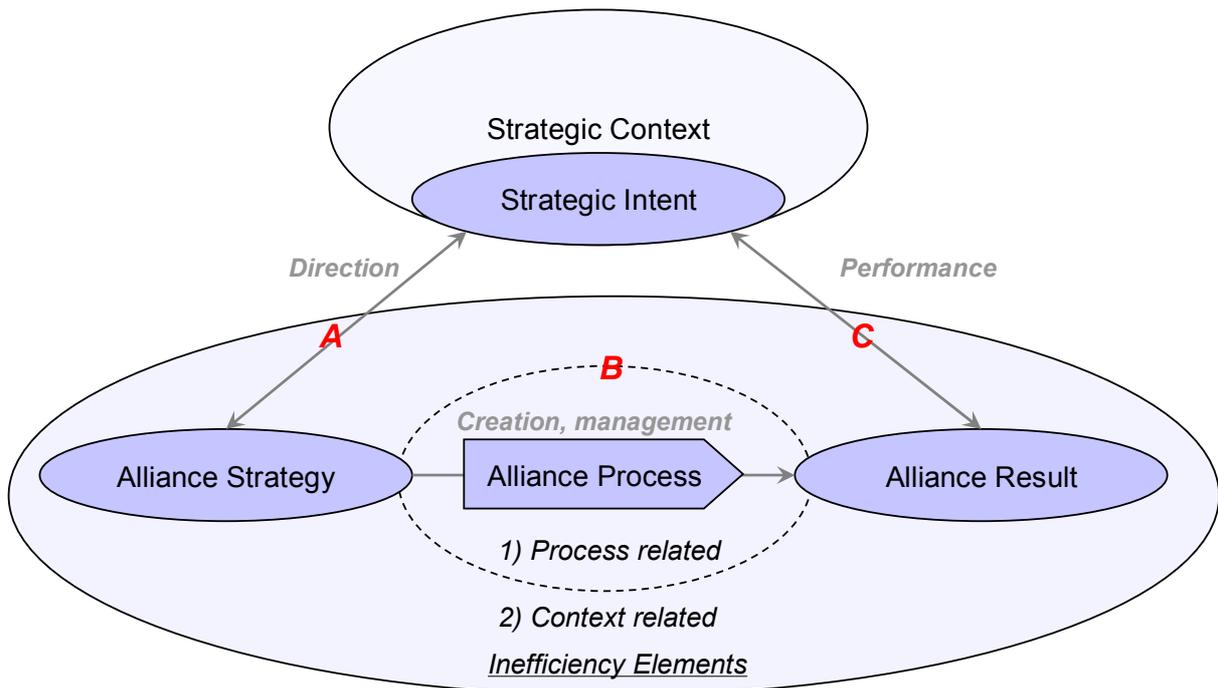


Figure 21. Sources of alliance creation inefficiency

During the alliance creation process, there may be several elements (“B” in the Figure) both within and outside of the process, which affect the outcome of the creation. I here suggest that one of the main drivers of these inefficiency elements is the length of the alliance creation process. I.e. the more time it takes, the more time there is for changes in the market, competition, ownership, employment etc, which have an effect on the process and its outcome. Also –as reported by many of the interviewees– valuable opportunities may be lost during a long alliance creation process. Further, a long alliance creation process may blur the vision due to e.g. Stockholm Syndrome or it can build mistrust if the focus is too much on legal issues and contracts (see Zand 1972). In short it can be said that there seems to be a need for much faster alliance creation.

It seems that alliance creation is still inevitably a relatively long process (even if the time could be reduced, as argued later), and as such it is crucial to identify the risks associated with this. The value of identifying inefficiency elements would hence lie in getting support *for monitoring the elements that affect the process. If some major inefficiency occurs, the company (or companies) could assess whether the alliance creation and alliance strategy for the alliance in question support the strategic intent anymore. This could further lead to an assessment on whether if the alliance strategy (and the direction of the alliance creation) need to be revised or if the process needs to be abandoned all together.*

Hence, “A” and “B” can lead to a situation, where in a worst case scenario, the creation process itself is carried out as planned, but because of the lack of learning and re-alignment, the resulting alliance does not support the strategic intent of the company (as

presented with capital “C” in the figure, similar to the “gap” proposed by Arino and Doz 2000).

If one accepts that in many alliance creation processes there may be the problems presented by A, B and C, the question arises what a company or a team of managers could do to remedy the situation and create alliances that actually support the strategic intent of the company?

The cases suggest that there are at least two logical answers. First, ensuring that alliance strategy truly supports the strategic intent of the company (and understanding what the alliance strategy and strategic intent of the other party are) and second, going through the alliance creation process in a way that minimizes the possibility for inefficiencies to occur during it.

5.2. Strategic intent and alliance strategy

Based on the findings presented in the previous chapter I suggest that the first step of successfully creating alliances is for the focal company to create a thorough understanding of its strategic intent. Further, it seems that this strategic intent should be based on the strategic context of the firm.

If (as I did) one asks management if they understand the strategic intent, the most probable answer would be “of course”. The top managers would then also be happy to tell you what the strategic intent is aiming at, and what kind of methods were used to analyze the strategic context. As at least cases 1 and 2 suggest, it is not always the case, however, that people involved in creating the strategic intent, are also actively involved in the alliance creation. Hence, there is a possibility that the strategic intent –even if it is clear and properly based on the strategic context– is not operationalized, i.e. that the people involved in the alliance creation either:

1. Do not understand the strategic intent (even if they perhaps know part of the wording), or *understand* the strategic intent *differently*.
2. Do not accept or agree on the strategic intent, and *deliberately* distort it in some way suitable for them⁴⁴ or
3. Have a *low cognisance*, i.e. do not actively think about the strategic intent, and about implementing it through alliances, but rather see the alliance creation process as such as

⁴⁴ A beneficial approach for further understanding this aspect of the gap might be agency theory. Jensen and Meckling (1976) have suggested that agency theory focuses on the relationship in which one or more persons (the principal(s)) engage another person (the agent) to perform work on their behalf. Landström (1993) later generalized that agency theory is related to the problem of cooperation where two parties have different goals.

a task to complete. In this case they, unaware of the situation, –rather than deliberately– fail to operationalize the strategic intent into the creation process.

As discussed previously, it seemed that in Case 2 parts of management had a differing understanding of the new strategic intent. In Case 2, the lead negotiator also seemed to have incentives which directed him towards what could be called deliberate misunderstanding. Further, in Case 1, the alliance creation team seemed to be focused on finalizing the process, and hence did not actively link it to the strategic intent. The three reasons for a gap forming between the strategic intent and the alliance creation process are also shown in the figure below. If, for one of the reasons, the strategic intent is not linked to the alliance creation, there seems to be a risk that also the results of the alliance are unaligned with the strategic intent of the company.

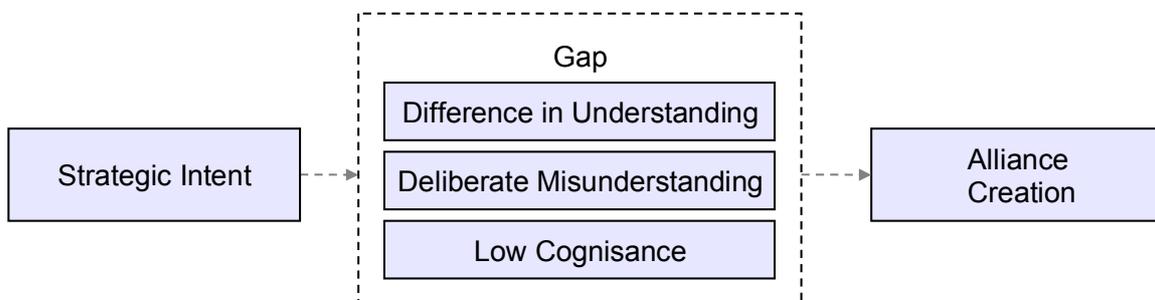


Figure 22. The alliance strategy gap

To avoid a situation where the alliance creation starts unaligned with the strategic intent, I suggest that an alliance strategy is helpful. An alliance strategy could also further be created both on a general level (i.e. to explicitly state in which areas the company needs alliances, and what it will benefit from these alliances) as a part of overall strategy documentation and on a more specific level (i.e. to explicitly state what the goals are for a specific alliance).

As shown in the figure below, making the (both general and specific level) alliance strategy explicit⁴⁵, and this way creating a link between the strategic intent and a single alliance creation process, could narrow the gap, and hence reduce the risk for inefficiencies.

⁴⁵ Note that making these strategies explicit does not automatically solve problems and that in fact it might make the process more inflexible. However, if the documents are used as guidelines, and if these guidelines allow for changes and better communication of potential changes, such an approach might still be valuable to the process. Thus, it is suggested that there is no controversy between having a dynamic process of continuous learning and re-alignment and utilizing explicit strategy documentation. The documentation is rather suggested to facilitate the learning process.



Figure 23. *The role of alliance strategy*

Besides suggesting the importance of ensuring the proper alignment of the potential alliance with the strategic intent of the company, the findings also highlight certain areas of the actual alliance creation dialogue between the parties, as explained in the following section.

5.3. Towards a more efficient alliance creation process

“The negotiations with Company 1 were quite long, and the contract became too complex in the end. We did not see the change in strategy, ownership, company structure and markets –the downturn began during the negotiations– which made the outcome different from the intended. Perhaps also the people on the other side started to feel threatened about their position –and lost focus– when the environment was changing so much.” (Senior Executive 1, PSP A)

“We should have perhaps re-thought and clarified our goals and started with a more simple scope and structure of the partnership.” (Senior Executive 1, PSP A)

In this section I will discuss the inefficiency elements related to the capital “B” in the “Sources of alliance creation inefficiency” figure. I will especially suggest two things. *First*, the need to create a shared vision for the alliance. *Second*, I propose that the length of the alliance creation process is a key inefficiency driver. Further, I will discuss the findings related to the use of time and effort in alliance creation. Here, the cases suggest that in some alliance creation processes 80% of the time is spent on negotiating contracts and details and 20% creating business plans and a shared vision, while it could in some cases be beneficial for the proportion to be reversed.

5.3.1. Shared vision

The cases in this study suggest that it could be beneficial for a company to establish an alliance strategy and then continue to choosing its potential alliance partner(s). As suggested by the cases in this study, not all companies have access to even getting a first meeting with the most preferred partners. Still, given that such an access is possible the two companies then agree on the way in which the alliance creates value for each of the parties.

I choose here to talk about shared *vision*, because I feel that in a truly *strategic* alliance, the cooperation is not just around a single, clear-cut initiative (if such initiatives exist in real life at all...), but it is of such nature, that the alliance can evolve around a certain theme or area of business.

Following the definition used for *strategic intent* in this study, *shared vision* is also closely related to the long term business direction of the alliance. Spekman et al (1996, p. 348) also argue for a common vision of the alliance parties and describe it as “*the wish for ‘what can be’ [which] becomes shared within both firms*”.

As suggested by the cases in this study, a good way of creating a shared vision might be to start with creating a thorough understanding of each other’s business and organization. The logic here could be similar to what I suggest could be done internally within the company that starts to pursue the alliance; first to understand the overall goals of both parties, then to understand how cooperative agreements could fit into achieving these goals and last to understand how the specific alliance adds to the journey towards these goals. The learning about the other party that takes place could be called a process of deliberate, joint *sense making* (see e.g. Weick 1995). The sense making process could e.g. consist of interacting with the other party and gradually identifying and understanding the incentives and objectives of the other party (adapted from Mintzberg et al. 1998). In this process it is also important to understand that the goals of the two parties can be different, but *they have to be aligned in the shared vision*.

Many interviewees brought up the idea that it seems that some alliance creation processes should be stopped already after (or during) the creating of a shared vision. Already in this stage it would also be crucial to identify risks related to inefficiency elements. If following this view, it would then be imperative to critically review whether the alliance creation is proceeding in a direction which truly seems to support the strategic intents of both parties, and if not, why.

As suggested by the last weeks and months of creation in some of the cases (i.e. the challenges related to internal approval processes and wordings of press releases), a critical task during the process of creating a shared vision is also to find a common terminology, or at least understand the terminology of the counterpart. If one organization is creating a “*strategic alliance*” and the other is creating “*cooperation in an industry segment*” it could mean that the cooperation is much more central, and valuable to one part. I would suggest that few companies (at least in the North European ICT market) use the word “*alliance*” or “*strategic alliance*” in the same way as it is dominantly used in today’s academic literature⁴⁶. I am not, however, arguing that alliances of completely different importance to the two companies should be avoided. In fact, it might be quite natural that the alliance is not exactly equally important for both

⁴⁶ Related to this I also claim that it is actually beneficial for a company to create a terminology that ranks cooperative agreements according to certain characteristics, so that the importance of the cooperation can determine the time and effort that should be put into creating and managing it.

parties. Rather the key issue here seems to be *awareness* of this fact and how it might affect the alliance creation.

Even if a joint vision could be created, the findings show that the problem related to the length of the alliance creation process could still remain. As one of the interviewees puts it:

“There was a clear strategy established during the negotiations, but it was still quite a long process.” (Senior Executive 1, Company 3)

In other words, a solid vision created together by the alliance partners might not change the fact that there seem to be many elements in an alliance creation process that make the process very time consuming.

5.3.2. *Speeding up the process*

During an interview, one of the interviewees asked me if I knew the difference between specialty and bulk chemicals (he had a history working for a chemical company). As I answered that I did not, he said “*six months*”.

The manager’s question illustrates well how the business environments of many companies work today. Products are increasingly short-lived, and competitors are eager to copy any innovations or strategic changes found to be beneficial. If this is true in the chemical industry, it certainly seems to be true in the ICT industry.

Brown and Eisenhardt (1997) have noted that many industries can increasingly be characterized as “*high-velocity*” environments, where companies have to operate in “*continuous change*”. The correct type of strategic management in such industries could be characterized as “*time-pacing*” (Eisenhardt and Brown 1998). In time-pacing companies do not merely react to changes in the environment, but rather they build up their processes and culture so that they can proactively handle challenges imposed on the company by the environment.

If extended to an alliance creation context, time-pacing could be beneficial for companies creating alliances in high-velocity industries. In a global economy, where companies use quarters of a year to measure their success, an alliance creation process of 9-12 months seems quite long. This concern was also raised by the majority of the interviewees. During such a long time, many things can happen; competitors introduce new products, market demand changes, prices fluctuate, management changes and so on. With a long and inflexible alliance creation process based on contracting, it is cumbersome to react to such changes. Hence it becomes critical to examine whether – by better understanding the complex and dynamic nature of alliance creation– alliances could be created faster, i.e. more efficiently. As one of the interviewees put it:

“I have many times been in negotiations which have taken over a year to complete, and also in some cases, the cooperation itself has then only lasted a year... We see a great need for creating

the cooperation faster. A key thing is to find a large, joint benefit; perhaps this way you can start the cooperation very fast.” (Senior Executive 3, Company 4)

In other words, contracting and negotiating details take time. This is of course not only a bad thing. As the pilot case suggested, spending too little time on alliance creation can also cause various problems. Still, e.g. in Cases 1 and 2 much of the time in the alliance creation processes was spent negotiating detailed conditions in the alliance contract compared to the time spent on issues related to strategy and business planning.

The cases hence raise an interesting notion; if most of the alliance creation time is spent on contracting, an obvious answer to the question on how to reduce the time spent on alliance creation would then be not to write contracts at all. As alliances are often compared to marriages, it would be nice if also an alliance –like a marriage– could be started without 50-page contracts. As one of the interviewees (Senior Executive 3, Company 2) semi-seriously said:

“Of course lawyers have to make a living, and so there are people who promote distrust and contracts. It is still very peculiar that in private life we can behave and be polite and reasonable towards each other without contracts, but in business we change our behavior.”

No matter how appealing the thought of being able to be “*polite without contracts*” is, it obviously seemed naïve to the interviewee. The existence or lack of *trust* is here suggested to be a key concept. A company does not usually trust its alliance partner enough to just start cooperating without any contracts, especially if large financial stakes are involved. The following section takes input from the case findings and combines it with views from previous studies in an attempt to create a view of trust aligned with the alliance creation model presented later in this chapter.

5.3.2.1. *The role of trust in alliance creation*

Most of the interviewees stated that trust was a key element of any successful cooperation. When further asked about where this trust comes from, people usually mentioned working together in the past. In other words, if you have worked with someone in the past –and the cooperation has been satisfactory for both– you have learned to trust him or her over time. In addition, some of the interviewees added that when you trust someone, you would not have to make (as detailed) contracts when you continue the cooperation in another area. This raises an interesting paradox:

With a partner you trust, you would not need a detailed contract to cooperate, and the alliance creation process would be more efficient. If then trust is created mainly by past cooperation, is there any chance to make the first alliance creation process more efficient?

Also previous research (Gulati 1995; Inkpen and Currall 1998; Ring and Van de Ven 1992) has raised similar thoughts. The argument made by several scholars has been that trust can be used to replace complex written contracts (and this view in turn has further

been criticized by e.g. Poppo and Zenger 2002, for being overly binary, as explained later in this chapter).

In Case 1, Company 1 and PSP A were able to very quickly re-negotiate the alliance contract after the failure (due to changes in the strategic context) of the initial alliance structure. Both parties characterized the second round as easy and successful, and many interviewees highlighted the trust that had been created as a key driver for the efficient alliance creation process in the second round.

What is then the implication of trust on alliance creation? Is it always beneficial to trust the other party and not use time on details and contracting?

If it is assumed that companies would be able to create alliances more efficiently based on trust, an interesting question is whether trust can be created or measured in any way. Noteboom (1999) has suggested that “*to ‘produce’... trust is as paradoxical as to order spontaneity: if it worked it would not be real*”. He (p. 24) also suggests that trust is an assessment of a limited risk of opportunism.

I find that Noteboom contradicts himself in the phrases above. If trust is an assessment of the risk of opportunism, it sounds like it would be a deliberate process. Hence, it could be produced, through the action of assessment. Following this argument, I suggest that the following statement is helpful for understanding trust in alliance creation:

A company should assess the risk of opportunism, and the damage caused by the potential opportunism and weigh it against the benefit created by trustful behavior⁴⁷.

Or in other words:

(Potential benefit of trustful behavior) - (Probability of opportunistic behavior X Potential damage caused by opportunism) = The benefit of trust

The above means that it is (probably) not always beneficial for a company to trust its counterpart. This is especially true in cases where a) the potential benefit of trustful behavior is low, b) the probability of opportunism by the counterpart is high or c) the potential damage caused by opportunism is high.

I further suggest that this type of assessment of trust might be a beneficial way of aligning trust and alliance creation. E.g. Child and Faulkner (1998) have suggested three types of trust – *calculative* trust (involves calculated risk), *predictive* trust (about predicting how agents will gain), and *affective* trust (emotional commitment of the parties). The view presented above could be seen as having elements of calculative and predictive view of trust, but also incorporating some aspects of affective trust. It could here be discussed whether pure affective trust a) should or should not exist in a business

⁴⁷ Trustful behavior here refers to putting the own company in a potentially vulnerable situation, by not shielding oneself from opportunistic behavior (i.e. the other party taking advantage of the vulnerability to pursue own interests) by contracts.

context and whether b) pure affective trust could not also be beneficial for alliance creation. The argument I make here is that affective trust might be beneficial as long as the trustful behavior does not seem to include an immoderate amount of risk (i.e. potential loss vs. potential gain). In other areas of life and science, other ways of defining trust may be more accurate, but based on the findings from the case studies and the views of the interviewees it seems the definition presented here could be useful in an alliance creation context.

The potential benefit of trustful behavior and the potential damage caused by opportunism can only be judged case-by-case. I suggest that it could be beneficial to try to have some numeric values for this assessment (as in a standard business planning process, where future costs and revenues are estimated), but also a more qualitative assessment could be valuable.

The probability of opportunistic behavior could hence also be assessed case by case. Here, however, game theory can offer some guidelines. As the probability of opportunistic behavior can depend on the potential benefit caused by the opportunistic behavior to the counterpart (the other alliance party), assessment of this potential counterparty benefit can be used to analyze the probability of opportunistic behavior. What is also important to understand is the role of “repeated games”, i.e. potential future damage the opportunistic behavior may cause the counterpart. As Turocy and von Stengel (2001, p.10) put it:

“Game theorists have tried to tackle the obvious ‘inefficiency’ of the outcome of the Prisoner’s Dilemma game. For example, the game is fundamentally changed by playing it more than once. In such a repeated game, patterns of cooperation can be established as rational behavior when players’ fear of punishment in the future outweighs their gain from defecting today.”

When applying this in an alliance creation context, it is not only “future games” between the alliance parties that are of importance. Also the future games (i.e. alliance creations and other business contacts) by the other party and third parties may be affected. Many companies today operate in a very transparent market in the sense that information (also unofficial information) moves fast between companies. In such circumstances, the opportunistic behavior of one of the parties may damage its *reputation* on the markets as an alliance partner. It could hence be argued that the focal company should assess the damage opportunistic behavior of the other party would cause it. In other words:

Probability of opportunistic behavior of the other party = (Benefit of opportunistic behavior to the other party) – (Damage caused to the other party in future games with the focal company) – (Damage caused to the other party in future games with third parties, i.e. to reputation)

It is notable, however, that this method of assessment of the benefit of trustful behavior should not be exaggerated. In a worst-case scenario, much effort is put on trying to find any reasons for the counterpart to act opportunistically, which may then be noticed by the other party, and become a self-realizing prophecy. Still, I argue that consideration should be given to this, especially if the damage caused by the potential opportunistic

behavior is high. Also, trust and opportunism are central concepts, and neither alone is a feasible way to look at cooperation between companies (Blau 1964), but in fact any cooperation is likely to experience a mix of both. Even so, this view provides more value to understanding alliance creation than either extreme alone (Powell 1990; Gulati 1995; Chiles and McMakin 1996, Noteboom 1996; Noteboom 1999), by e.g. reducing uncertainty and allowing greater flexibility (compared to stating all conditions in a detailed contract, which shields the parties from opportunism of the other).

Another aspect of trust is the one brought forward by most of the interviewees, i.e. that trust is created by previous cooperation. It seemed that many interviewees saw this affective side of trust as “*real trust*” compared to any form of calculative or predictive trust. In this sense, again taking the marriage example, a marriage is preceded by dating and getting to know each other. The difference to the marriage analogy is, however, that a “traditional” (sequential, process oriented) alliance creation can be seen as just dating. Analogous to this, I propose a pilot cooperation in alliance creation, where the parties could learn about each other while cooperating on a smaller scale. This thought was also expressed by one of the interviewees:

“As an analogy marriage is often first started with dating, and then slowly you advance toward engagement and marriage. An interesting idea would be that there would be enough trust to agree (at least preliminary) that the couple will someday get married. This is an interesting idea; this is perhaps sometimes done in alliance creation, but not systematically.” (Senior Executive 3, Company 4)

This idea is different from the usual marriage analogy. If two people could already in an early stage agree on a joint “vision” about their forthcoming marriage, the time before the actual marriage would probably be spent in a different manner. The couple could start planning for the future, instead of playing a game, where the two people gradually start to trust each other. How well this would work in an actual marriage, I do not know, but it is worth considering the effects in an alliance creation context.

5.3.2.2. *Using pilot cooperation*

If two companies agree on a joint vision, and also assess the limited risk of –and loss in case of– opportunism, the findings in this study suggest that they could start *pilot cooperation* already after e.g. two or three months. The companies would immediately start getting the benefits from the alliance, and simultaneously “*affective trust*” –i.e. the kind that is built on social contacts and affection (following Child and Faulkner 1998) between people, that many interviewees in this study felt was “real”– would be built up. This way, both companies would much sooner get feedback on how the actual cooperation is perceived within the organizations and by customers. The risk of the cooperation being undermined by inefficiency elements could also be smaller, as this mode of alliance creation would remain more flexible to changes in the strategic context.

Later –if the experiences from the pilot cooperation have been positive, and the parties agree that they want to expand the cooperation– the contract would logically be much easier and less time-consuming to create, since the contract negotiations would be between companies that trust each other. As such, the suggestion of this study is not to argue for replacing written contracts with relational trust. Rather, the argument is – following and extending the suggestions of Poppo and Zenger (2002) –that the two work as valuable complements to each other, and that the *early phases* of alliance creation should focus on activities related to pilot cooperation, learning and sense-making rather than contracting, which can be valuable later in the process⁴⁸.

If on the other hand the experiences of the pilot cooperation have been negative, the cooperation could be stopped or redirected with less effort. Also, this way very little effort would have been put into the contracting, which would make the loss of the cooperation minimal.

A central aspect of pilot cooperation is also that it would reduce the damage caused by potential opportunism. A pilot cooperation is smaller than the actual alliance, and could be started even if assessment shows that there is a risk for opportunism by the other party.

Pilot cooperation may also help keep the alliance creation simpler and faster, as expressed by one of the interviewees:

“Perhaps what we learned was that we could have tried to keep the negotiations even simpler. Bundling a lot of things is always hard and takes a lot of time, which is always a big disadvantage” (Senior Executive 3, PSP A)

In summary, I suggest that creating alliances with the help of pilot cooperation may help avoid several problems. First, it can limit the risk of opportunism of the other party. Second, it can radically speed up the alliance creation process, and third, it can help promote trust between the parties and build the basis for deepened cooperation in the future. The learning that takes place during the pilot cooperation can also positively influence other alliance creation processes of the parties, because the parties may be able to avoid making the same mistakes related to other cooperation opportunities.

5.4. A model for creating strategic alliances

The third research question presented in the introduction of this study aimed at finding a “*new model for creating strategic alliances*”. The starting point for creating such a

⁴⁸ Poppo and Zenger (2002) suggest a “complementarity” between contracts and trust, but do not make any suggestions related to timing of the two. The findings of this study support the authors’ view of complementarity but also suggest that a certain sequentiality may be needed, i.e. that if starting with emphasizing trust and relational governance, contracts may be easier to create at a later stage, if needed e.g. because of increasing financial commitments.

model was a literature review, which seemed to give a limited picture of the dynamic and inefficient nature of alliance creation as suggested by the findings in chapter four and the further analysis and discussion in this chapter.

In the figure below, I have tried to capture the essence of an alternative way to describe alliance creation. Compared to the summary of the models presented in the literature review, this model is not –nor is it intended to be– very clear-cut. My intention is neither to say that the different steps related to partner-search, partner selection and e.g. contracting should be forgotten, but rather to consider the alliance creation from a different view. In this way, the two views *complement* each other:

One aims to describe the process in terms of sequential actions, while the other aims at describing the mindset and overall picture.

In trying to explain the nature of alliance creation, trust is –as argued in the previous section– a central concept. However, following the thoughts of Demirbag et al (2002), I also suggest that a challenge of explaining things with the help of a concept like trust is that it is not easily measurable or definable. Based on the case evidence, I still firmly believe that trust is an important part of efficiently creating strategic alliances. As such, I have tried to break it down into manageable constructs (see previous sections on assessment of opportunism and pilot cooperation). With the help of these distinctions, I hope to contribute to the discussion and encourage a more pragmatic treatment of trust in alliance creation.

The figure below shows a summary of what could be called an integrative view of the findings from this study and relevant information from previous studies. It is important to note that the model takes a more expansive view on alliance creation. On a more detailed level, there are a number of important actions to take within the alliance creation process, such as writing Letters of Intent and Non Disclosure Agreements (NDAs), going through Due Diligence processes. This is however not the focus of this study. What is, however, is the argument, that there are several things that may impact the process, and both the models and the inefficiency elements presented in this study are contributing to a better understanding of alliance creation.

The model starts with the reviewing of the strategic intent. Naturally a complete review of the strategic intent should not be done each time there is a potential alliance creation process starting. There are, however, two things essential to this step. First, that the strategic intent truly is aligned with the strategic context and second, that the outcome of this consideration is that the strategic intent is understood and accepted (in the same way) by the people involved in the alliance creation.

The second key consideration is actually the first step in the dialogous alliance creation process. As explained earlier, it seems a key thing is to have a clear alliance strategy that links the goals for the alliance to the general alliance strategy and the overall strategic intent of the company. Based on the alliance strategy, this consideration then involves openly assessing the risks related to different inefficiency elements. When this is done, the actual dialogue can start with creating a shared vision for the cooperation. This includes learning and creating an understanding of the other party's business, structure, strategic intent and alliance strategy. In addition, according to the model, the

process can only move forward if and when a sufficiently sound shared vision has been created.

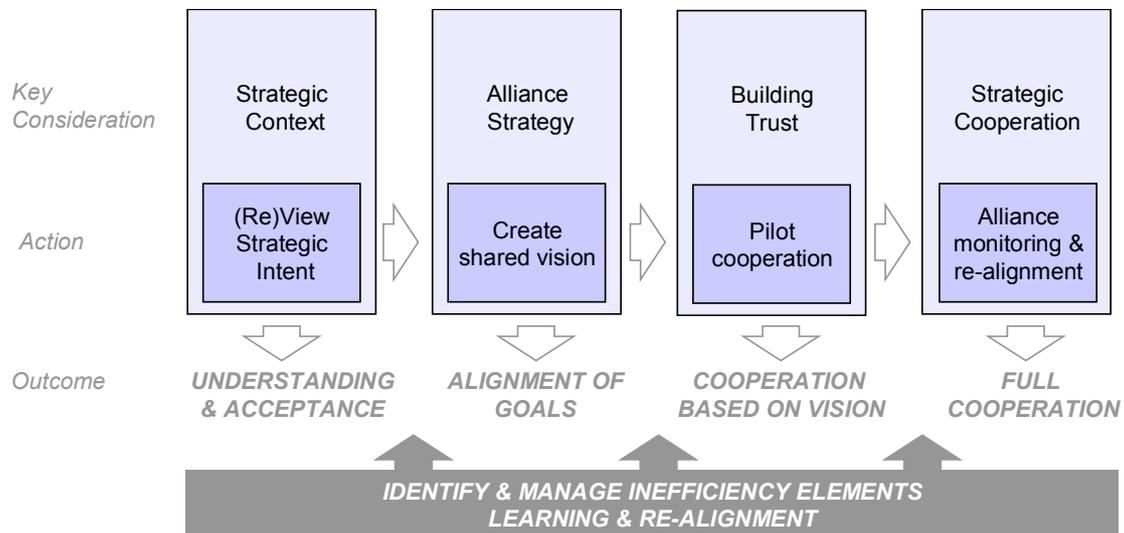


Figure 24. A model for creating strategic alliances

Further, (following the findings from e.g. Case 1) the model suggests that creating trust is actually already started when creating a shared vision of the cooperation. If both parties truly get the feeling that they communicate openly about their respective alliance strategies, this limits the risk of opportunism. I here propose that one of the primary sources of opportunism could be a situation where the strategic intents and alliance strategies are not aligned. If one party wants to create an alliance even if its strategic intent is unaligned with the other party's, this could mean that there is some hidden agenda, which is bound to increase the risk for opportunism.

It is interesting e.g. to consider the example of a media and advertising agency wanting to create an alliance with a big telecom operator to create "content services" (e.g. different sorts of mobile services). The content service business might be far away from the core of the agency's strategic intent, but instead it might have some alternative motive for the alliance. The agency could want to e.g. get access to some big customers through the telecom operator or it might just want to sell its services to the telecom operator itself. If the telecom operator invests time during the first parts of the negotiations to understand the media agency's business and strategic intent it can identify such ulterior motives and decide whether it wants to continue with the alliance creation or not. If the operator decides it wants to continue the discussion, this can be done in a more open fashion after the issues have been raised and analyzed jointly. It might be e.g. that the operator feels it is totally acceptable that the media agency is after contacts to its customers, because in return for this the operator gets content for its telecom services.

With the example above I aim to illustrate that “alignment of goals” does not necessarily have to mean that the two parties are aiming for the same thing (e.g. like two airlines in an airline alliance). A shared vision can also be created based on different goals. The important thing, rather, is that the companies understand each other’s business and see beyond the “hidden agendas”, which should be communicated openly, so that both parties start to develop a trust towards each other.

In some of the existing models on alliance creation, creating some sort of joint goals for the cooperation would be followed by detailed contracting. In the model above, however, the next consideration is pilot cooperation in order to create a deeper sense of trust and further enable learning about the other party and the strategic context. The foundation for trust is created by the shared vision, but as many interviewees stated, trust is also often built on social relationships, which in turn are created through working on things together and through success in that work. The idea here is to try to identify some sort of a pilot area where the companies can start to cooperate and test their joint vision in practice (I recognize this is not easy or even possible in all cases, and this is discussed more in detail in the next section). The joint cooperation could be preceded by some short form of a contract or Memorandum of Understanding, but the key issue is to not go into the detailed contracting and use months of work on details before the start of the cooperation. This way also unnecessary conflict could be avoided (as suggested by Young and Wilkinson 1989).

If the pilot cooperation is a success, the companies have achieved at least three benefits over the “traditional” alliance creation approach:

1. The pilot cooperation has created valuable knowledge for the further development of the alliance
2. The pilot cooperation may in itself have created some value (e.g. sales, sales leads, prototypes)
3. The pilot cooperation has created trust between the parties.

If comparing the benefits of this method with writing a detailed contract, which a) does not enable any learning regarding the actual cooperation⁴⁹ b) does not create any direct value for the companies and c) is suggested (Zand 1972) to create distrust between the parties, the benefits are quite self-explanatory. I further suggest that after a successful pilot cooperation, the creation of a more comprehensive alliance agreement could be a *more efficient and faster process* compared to doing it before the parties have

⁴⁹ Even if a long alliance creation process might enable some learning about the other party, as displayed e.g. in Case 1 (However, it is hard here to differentiate between how much of this should be credited to the successful joint visioning process and how much to the making of the actual contract. It could be argued that the learning and trust in Case 1 was actually largely a result of the visioning process, not the contracting).

cooperated and created a sense of trust (see earlier comparison with Poppo and Zenger 2002).

The last consideration of the alliance creation model is a reminder that alliance creation is not a one-time deal. A number of scholars (see e.g. Doz 1996, Doz and Hamel 1998) have pointed out the need to constantly monitor and re-align the alliance with the changes in the partner companies and the strategic context. Here, especially interesting is the view that cooperation in alliances is characterized by a constant evolution and learning between the parties. Doz (1996, pp. 60-63) more specifically suggests that learning in alliances takes place along certain dimensions (“*environment*”, “*task*”, “*process*”, “*skills*”, “*goals*”) and that this learning results in three-phased evolution (“*learning*”, “*reevaluation*” and “*readjustment*”). However, whereas Doz’s study is only concerned with the evolutionary aspects of alliances *after* the alliance is formed, the findings of this study and correspondingly the model above argue for an evolutionary aspect also *before* the alliance is formed, i.e. during alliance creation. As companies follow the model and engage in creating a shared vision, building trust and pilot cooperation they engage in a process of learning about each other, reevaluating the situation and optimally also readjusting (as argued before, based on e.g. the results of the joint visioning or the pilot cooperation) to the new information. The findings in this study further suggest that it might be beneficial for the learning and re-alignment that takes place in alliance creation to be guided by monitoring of inefficiency elements, as discussed next.

5.4.1. *Monitoring and learning from inefficiencies*

It is not only the length of the process, the lack of a shared vision or trust that drive these conclusions towards a model like the one presented in the previous section. All of the inefficiency elements further underline the fact that companies need to stay alert, monitor, learn and react to any potential problems caused by different facts or events within the alliance creation process or by the context in which it is executed. Because of the fact that such inefficiencies clearly seem to exist, a model that overemphasizes clear-cut steps might increase the risk for failed alliance creation processes.

The table below summarizes the elements found by this study (new elements underlined), and the ones found in previous studies (marked by a reference). The table further shows that several new elements have been identified by this study. Still, there undoubtedly are a wealth of elements, which are not listed here, and as such, there is a need for a more conceptual analysis of the sources of inefficiencies.

<i>Process related elements</i>	<i>Context related elements</i>
1. <u>Risk of creation process being too long?</u>	1. <i>Is the own strategic intent clear?</i> <i>(Also in Lewis 1990, Forrest 1992⁵⁰)</i>
2. <u>Shared vision created during alliance creation?</u>	2. <u>Is the strategic intent of communicated and accepted by people involved?</u>
3. <u>Risk for too complex alliance scope / structure?</u>	3. <i>Is there a clear link between alliance strategy and strategic intent?</i> <i>(Also in Lewis 1990, Forrest 1992)</i>
4. <u>Risk of overemphasis on contract rather than emphasis on business?</u>	4. <u>Is the alliance strategy (general and specific) clearly formulated?</u>
5. <i>Sufficient top management support and involvement?</i> <i>(Also in Lewis 1990, Forrest 1992)</i>	5. <i>Is the Strategic intent / Alliance strategy aligned with partner's?</i> <i>(Also in Lewis 1990, Forrest 1992)</i>
6. <i>Do the negotiating team members have the right skills?</i> <i>(From Forrest 1992)</i>	6. <u>Is there a risk for changes in strategic context (of either company) during the alliance creation process⁵¹?</u> <i>(Also in Lewis 1990, Forrest 1992)</i>
7. <u>Risk for wrong lead negotiator incentives?</u>	7. <u>Is there a risk for changes in ownership (of either company) during the alliance creation process?</u>
8. <u>Risk for "Stockholm syndrome"?</u>	8. <u>Is there risk for changes in corporate structure (of either company) during the alliance creation process?</u>

⁵⁰ Elements that have also been presented in previous research are marked "Also in". Elements which have been presented in previous research, but not found in this study are marked "From".

⁵¹ "Timing" of the alliance (from Forrest 1992) is not presented here as an element of its own. It is rather split into several elements also (but not only) related to timing, such as changes in strategic context, ownership, strategy.

<p>9. <i>Risk for negative social bonds and “chemistry”? Differences in culture?</i></p> <p><i>(Also in Lewis 1990, Lorange and Roos 1991a, Forrest 1992, Jolly 2002)</i></p>	<p>9. <u><i>What other major changes within the companies (strategy, processes, management etc) can occur?</i></u></p>
<p>10. <i>Is there a (risk for) lack of trust between the parties?</i></p> <p><i>(Also in Forrest 1992, Cobianchi 1994, Noteboom 1999)</i></p>	<p>10. <u><i>Are there ownership set restrictions on the alliance or risk for unexpected decision related to this?</i></u></p>
<p>11. <u><i>What is the risk of, and damage caused by, opportunism?</i></u></p>	<p>11. <u><i>Is there a difference in size of the companies, could this have an effect on the process?</i></u></p>
<p>12. <i>Is there a risk for not keeping forward momentum?</i></p> <p><i>(From Lorange and Roos 1991a)</i></p>	<p>12. <i>Do the parties have prior relations? What do the parties know about each other?</i></p> <p><i>(Also in Larson 1992)</i></p>
	<p>13. <u><i>What is the reputation of the other party? Does this affect the risk of opportunism?</i></u></p>
	<p>14. <u><i>Does the company have the “Right to play”? What constitutes this right in the industry / area?</i></u></p>
	<p>15. <u><i>Do the parties have the competence to create the alliance? What is the risk related to this?</i></u></p>

Table 15. *Inefficiency elements in alliance creation*

The table above includes each new element just as it was found in the cases of this study. Analyzing or categorizing the inefficiency elements further involves the same types of risks as alliance creation models that are pronouncedly sequential. If the elements are listed or categorized in an overly detailed manner, the effect can be counterproductive. If it is recognized that inefficiency elements exist in alliance creation, and that information about what these elements are is available, practitioners involved in alliance creation may become blinded by these lists and fail to see other elements –perhaps unique to the case– that are not presented in the lists. It is, however,

of interest to explore how the found inefficiency elements fit in with existing literature and if some useful further categorization can be achieved.

It has in the findings of this study consistently been proposed that the inefficiency elements can be divided into context and process related inefficiency elements. I suggest that these two categories can be further divided into two. When creating alliances, a difference can be made between whether the potential partner(s) has (have) been contacted or not. As argued throughout this study, an alliance creation process should not start from the first time the two parties meet, but that much consideration and analysis should have been done in the focal company before this⁵². Here I choose to distinguish between the *Pre-dialogue* and *Dialogue* phases. Pre-dialogue elements, are mostly concerned with inefficiencies related to the positions of each party going into the alliance creation dialogue. Correspondingly, dialogue elements are inefficiencies that affect the alliance creation process during its more active and dyadic stage. The notion of a dialogue here better captures the essence of creating true strategic cooperation. Using the word “negotiation” would inevitably bring to mind two parties that have some conflicting interests that have to be bargained over instead of two partners who are jointly creating something new, which is beneficial for both.

As shown in the table below, the inefficiency elements found in this study fit well into the categorization of Doz (1996). As such it is the proposal of this study that –based on the evidence from the cases– the model and categorization of Doz can be extended to alliance creation. It is here suggested that the process related inefficiencies correspond to Doz’s aspects of *task, process of cooperation, skills of the partners and goals and motives*. Correspondingly, the *environment* aspect of Doz’s model is analogous to the context related inefficiencies found in this study. Within each area proposed by Doz, several elements can be found, which extends the theory and enables companies to further identify areas in which learning can and should occur in alliance creation. This learning then enables an evolutionary perspective on alliance creation, which in turn can help companies avoid inefficiencies.

The table below shows each element mapped according to the three dimensions (Process–Context, Dialogue–Pre-Dialogue and the aspects of Doz 1996) presented above. Each element refers with a capital letter and a number (e.g. P2 = Process related inefficiency element number 2; “*Shared vision created during alliance creation?*”) to the previous table of inefficiency elements, and should as such be quite self-explanatory. There are a few aspects of the further categorization that need to be highlighted, however. *First*, the distinction between Dialogue and Non-Dialogue elements. I recognize that at least the elements P5, P6, P7 and elements C1-4 are equally important to monitor during the dialogue as pre-dialogue. In the same way, it could be argued that element P3 is also something, which needs to be considered before entering into the dialogue. The choice of category was here made primarily based on what the evidence from the cases in this study emphasized. *Second*, the distinction

⁵² Even though, I also recognize the possibility that the alliance is created based on an opportunity, as a more passive process, but also in this case the more passive company needs to make some internal analysis before rushing into the dialogue.

between goals and environment. Here it could be questioned, whether as Doz (1996, p. 69) categorizes it, there is a clear distinction between the two. The question is, whether it could in fact be argued that the issues related to strategic context, strategic intent and alliance strategy are so interlinked that they should all be –from the viewpoint of the creation process– seen as the same type of elements within the context category.

	<i>Process related</i>			<i>Context related</i>	
<i>Doz (1996)</i>	<i>Tasks</i>	<i>Process</i>	<i>Skills</i>	<i>Goals</i>	<i>Environment</i>
<i>Pre-Dialogue</i>		<i>P5 (top mgmt)</i>	<i>P6 (team)</i>	<i>P7 (incentives)</i> <i>P11(opportunism)</i>	<i>C1-4 (strategy)</i> <i>C10 (ownership)</i> <i>C11 (size)</i> <i>C12 (prior relations)</i> <i>C13 (reputation)</i> <i>C14 (right to play)</i> <i>C15 (competence)</i>
<i>Dialogue</i>	<i>P3 (complexity)</i>	<i>P1 (too long)</i> <i>P4 (contract)</i> <i>P8 (Stockh.s.)</i> <i>P9 (social)</i> <i>P10 (trust)</i> <i>P12 (momentum)</i>		<i>P2 (vision)</i>	<i>C5 (aligned strat.)</i> <i>C6-9 (context)</i>

Table 16. *Categorizations of inefficiency elements in alliance creation*

The categorization –as also argued above– does not give any “one-off recipes” for avoiding inefficiency in alliance creation. The aim of the above is rather to present categories in which learning takes place within alliance creation. The learning in each area further occurs related to specific elements, and in an optimal situation, the learning may help avoid or mitigate the inefficiency caused by the element. Further, following this line of thought, learning could occur not only related to the current alliance creation

process, but it could also help avoid inefficiencies in future alliance creation processes with the same partner (as in Case 1), with other partners and the process in general (see e.g. Argyris and Schön 1978, related to single and double looped learning).

The list of elements within the categories does not claim to be complete, but rather to list the elements found by this study. As such, it presents *one* (but not *the*) listing of elements and a framework to help scholars and practitioners structure the assessment and identify further elements in the categories. Following this, inefficiencies may be further studied and monitored in practice, in order to, together with the model for alliance creation presented previously, allow for better facilitated learning, more efficient alliance creation processes and further studies of the proposed approach.

5.5. Summary

This chapter has proposed a new model for creating strategic alliances based on the empirical findings of the study. The purpose of the chapter has been to suggest that alliance creation is a dynamic process, characterized by learning and inefficiencies and quite poorly described by any existing models. The roles of joint visioning, pilot cooperation and building of trust have been highlighted as key tasks in creating alliances. The suggestion has further been that these tasks should be carried out by companies, while constantly monitoring inefficiencies and re-aligning their efforts accordingly. According to this view, alliance creation can best be described as a dynamic process, where learning is vital. The categorization presented in the previous section is suggested to be a good guideline for facilitating this learning.

The discussion around the proposed model is continued in the next chapter. It is recognized that the findings are drawn from cases that represent an industry which may quite strongly emphasize a dynamic view and the need for rapid alliance creation processes. Other limitations are also discussed, followed by a discussion on the contributions of this study.

6. DISCUSSION

This chapter aims at drawing together the study and its main contributions. The findings and suggestions are critically reviewed and potential limitations of the study are highlighted. Two different philosophies in alliance creation (section 6.1) are presented followed by a discussion on the limitations of the models and findings suggested by this study (section 6.2). The chapter is rounded up by presenting the scientific and practical significance of the findings (6.3) and by suggesting topics for further research (6.4). A brief summary is finally presented in section 6.5.

6.1. Basic philosophies in alliance creation

As argued in this study, it seems that models that describe alliance creation have been influenced by literature related to different kinds of equity cooperation and joint ventures. As such, it seems that relatively little effort has been made on looking at the dynamic side of alliance creation. I therefore suggest that in some types of cooperation a different mindset might be beneficial. An interesting question is whether such a mindset, i.e. alliance creation “*through pilot cooperation and trust*” then always beneficial?

I suggest that conceptually one could distinguish between two major approaches –or philosophies –in alliance creation. The two philosophies can be argued to be the extremes of a scale that actually could better be described as “shades of gray”. Nevertheless, I suggest that the two can be useful in framing both the academic and practical mindsets of alliance creation. As presented in the figure below, the first is targeting strategic alliances through a *contractual* approach while the other uses the *strategic* approach.

The model presented below always involves two companies and always starts from a situation where the companies have an “arms-length” relationship, i.e. they are like any two players in the market.

I suggest that when utilizing a *contractual approach*, alliance creation is looked upon as any type of inter-firm contracting, i.e. the process is described similarly to how one would describe the process of buying a service or making an investment. With this mindset, a company identifies a certain goal and then starts to negotiate and create a contract with another party. The goal is that the contract will ensure that the company will achieve its goal regardless of what happens, much in the same way as making a contract with the electricity company would enable a home to get electricity if the bills are paid in time. The emphasis of this perspective is put on describing the stages of the process in detail. For companies this means getting every single detail in the contract right and hedging one self from any likely or unlikely events, so that no matter what happens the goal will still be met. With such a mindset, the focal firm recognizes that there are certain uncertainties that can affect the fulfillment of the contract, but its aim is to document and manage these uncertainties through the paragraphs in the contract.

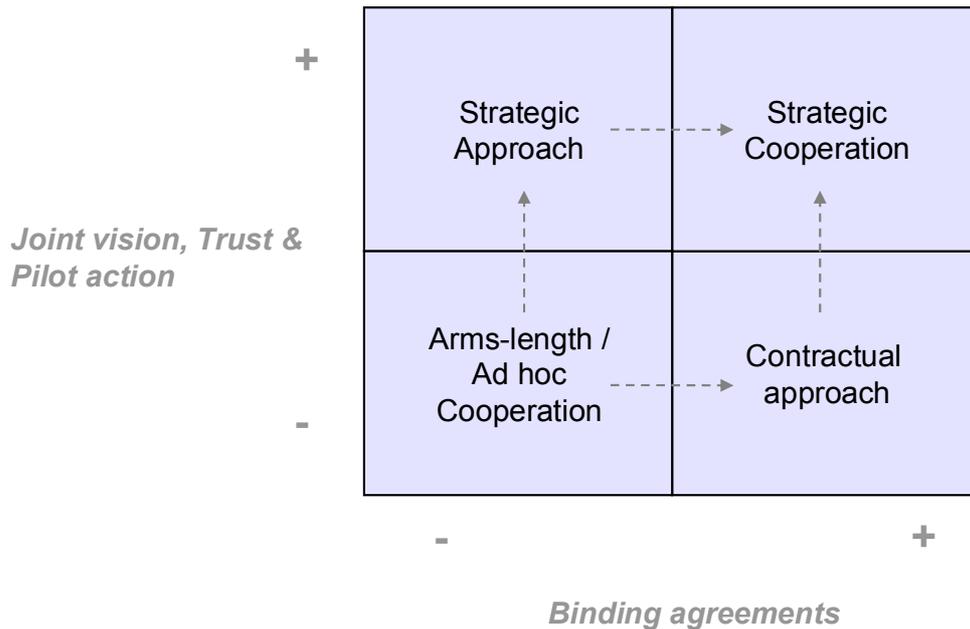


Figure 25. *Philosophies in alliance creation*

A contract is still a very inflexible approach to alliance creation. As Ohmae (1989 p. 148) puts it “*contracts can –even at their best– only reflect an understanding of costs and markets and technologies at the moment companies sign them*”. Following Ohmae and the previous discussion about the length of alliance creations, I suggest that in a worst-case scenario a contract is never up to date. As the alliance creation process drags on because of detailed contracting, previously completed parts of the contract can be obsolete at the time of signing the overall alliance agreement.

The *strategic approach* describes alliance creation more in terms of a strategic, business-driven process. It recognizes the limitations of contracting and emphasizes the dynamic nature of the process, which is caused by inefficiencies both within the process itself, the companies and the strategic context. A company that employs the strategic approach still heads for the same goal as when using a contractual approach. The difference is that here the company is more concerned with creating the strategic alliance based on a shared vision about the future, instead of based on detailed contracts. This mindset could in many ways be compared to a marriage between a man and a woman. It is in this aspect central that the companies start with trying to understand each other’s business and the needs and wants related to this. If this learning process suggests that a shared future seems possible, the companies then proceed to testing the joint vision through pilot cooperation that will show if the jointly visioned future is possible or if the vision needs to be realigned in some way. The pilot cooperation can also show that there really is no chance for a joint future and in this case, the cooperation can be ended. This type of *strategic alliance creation* has –as argued in the previous chapter– several benefits especially in areas where the future is uncertain and where time is a critical aspect in alliance creation.

Another important aspect of the strategic approach is that it could be more suitable for creating trust between the alliance parties. It has been suggested that using much time on creating detailed contracts can in fact produce mistrust (Zand 1972), which in the worst case can make the whole cooperation fail. Elements of this were also seen in Case 2. The question then is when it is beneficial to use a strategic approach and when a contractual approach.

Following the thoughts of Poppo and Zenger (2002), I recognize that contracts are needed. However, besides the complementarity, I also argue for the sequentiality of alliance governance based on trust and governance based on contracts. Hence, the strategic approach can also include preliminary contracts for the pilot cooperation and later more detailed contracts⁵³. The suggestion here is that as the parties learn about each other and the context –and as trust is built– contracts become easier to create.

Because the cases in this study strongly suggest a strategic approach to alliance creation, the discussion about which approach is relevant in which context is also directly related to the limitations of the study, as discussed in the section below.

6.2. Limitations

As suggested in the previous section, the approach suggested by this study and the way the study was conducted might include some limitations. Limitations regarding pilot cooperation, the nature of the case alliances, cultural and geographical aspects and the volatile market situation in 2001-2004 are shortly discussed below.

When reflecting upon where the approach to alliance creation suggested by this study could be relevant, one dimension is to consider how much time, resources and money are invested in pilot cooperation. In this study, all cases were of such nature that a smaller (pilot) alliance scope could have been useful, which could be quite typical for the ICT industry, where e.g. large manufacturing plants are seldom built. On the other hand, if e.g. pilot cooperation is of such nature that it cannot be done (e.g. when jointly designing and manufacturing a new car) without major investments already in the beginning a contractual approach might still be needed. In such a case, it could still also be important to put much effort on creating the joint vision prior to the contracting activities. It could further be argued, that also in the capital-intensive alliances the cooperation could be started by some less capital-intensive pilot projects to enable learning and then to possibly be able to create the main contract more efficiently.

Another aspect of the issue is the nature of the cooperation and the two companies. E.g. Perks and Easton (2000) have analyzed situations where an alliance created the situation of “*partner as customer*”. If e.g. –as in the four cases in this study– the two companies have some sort of buyer-seller dimension in their cooperation, there could be a bias towards detailed contracts as a) this is how the cooperation has been defined in earlier deals between the companies or b) as the buyer can suspect that the seller has some

⁵³ In theory an alliance could be built entirely without contracts, but I argue that in practice –as investments get larger- a contract is almost always utilized at some point.

ulterior motives for the alliance (i.e. to sell more. In this case, the buying party might want to create a contract which prevents any obligations to buy) or c) as it might be a motive for the seller to make a contract that would obligate the buyer to buy more through e.g. some sort of exclusivity agreements.

Further, the culture and business tradition of the companies and the geographies in which the alliance is created may influence the choice of alliance creation approach. As this study shows, trust is seen as a natural and important issue in North European alliances. Case 2 also shows that in the so-called transitional economies in Europe, people tend to be more suspicious and an alliance creation approach that is based on trust may not be as useful as in other contexts.

The cases in this study were researched under a very turbulent period of time (see appendices for stock market volatility). Whether such turbulence in fact is the “standard” for the ICT industry can be discussed, but it is more likely that the years 2001-2004 were on average more volatile in terms of e.g. stock market fluctuations than many other four-year periods. This might also have caused the context related inefficiency elements to seem exaggeratedly important. When the environment is volatile, and the markets change rapidly, the time used for alliance creation becomes more critical, which may cause a bias towards a strategic rather than a contractual approach to creating alliances.

6.3. Scientific and practical significance of the results

The main purpose –as defined in the introduction– of this study was to identify the elements, which have an impact on alliance creation processes, and to create a model, which better explains the complex and dynamic nature of these processes. Following this, the contributions of the study are presented in this section. Further, as an argument was made for the symbiosis of practice and theory, both scientific and practical contributions are discussed next.

6.3.1. Scientific contributions

There are several scientifically significant findings in this study. Many of these findings are probably a result of a profound access to the alliance creation processes, a form of research, which was not found in the literature reviews of the literature immediately relevant to alliance creation. Contributions are made in four main areas. *First*, a wealth of inefficiency elements were found in the alliance creation of the cases. These elements were further analyzed and categorized in a way that extends current theories related to dynamics and learning in alliances. *Second*, displaying alliance strategy, alliance creation and management and alliance results as a direct way to implement and create strategy is also suggested to be a valuable contribution. *Third*, the study adds to the literature that emphasizes the role of trust in alliance creation. *Fourth*, the gradual approach to alliance creation, the use of pilot cooperation and the link of pilot cooperation to trust and the introduction of a new “basic philosophy” in alliance creation is also suggested to be a scientifically significant contribution.

There are inefficiency elements in alliance creation. Although under different names (e.g. “risks” or “uncertainties”) this has also been suggested by previous literature (Lewis 1990, Forrest 1992, Lorange and Roos 1991a, Jolly 2002, Cobianchi 1994, Noteboom 1999). New elements found in this study are the complexity of the alliance scope (or structure), the overemphasis on contracting, the incentives of the negotiators and several elements related to the strategic context of the company including limitations and changes in ownership. The concept of Stockholm syndrome in alliance creation contributes to the scientific discussion around different forms of escalating commitment (Staw 1976). Escalating commitment has been studied related to certain strategic action, e.g. to investments in specific technologies (Tang 1988). Haspeslagh and Jemison (1991) have since associated the concept with cooperation in acquisitions. It is in this study argued that a form of escalating commitment, Stockholm syndrome can further be identified within alliance creation processes. The time needed for creating alliances has also been highlighted in existing literature (Hoffmann and Schlosser 2001, p. 361), but the negative side of a long creation process and the potential inefficiencies associated with it are extending the scientific discussion. To recognize that the length of the alliance creation process can be a problem extends the thoughts related to time-pacing (Brown and Eisenhardt 1997, Eisenhardt and Brown 1998) and can lead the research of “high-velocity” environments into new fields as suggested by the approach presented in this study. Further, this study contributes to the academic alliance literature by presenting different categorizations of the inefficiency elements. These categories make a conceptual contribution, which may also be significant for further studies.

Seeing alliance as an extension of strategy is also suggested by many authors (Eisenhardt and Schoonhoven 1996, Das and Teng 2000, Axelrod 1984, Parkhe 1993, Oliver 1990, Lorange et al. 1991, Cravens et al. 1993). What was not, however, found in extant literature is a framework that would emphasize the dynamic nature of strategy (Eisenhardt and Martin 2000) and changes in the strategic context, linking it to alliance creation as a way to implement the strategic intent as portrayed in the theoretical framework of this study. A key contribution here is extending Doz’s (1996) model of learning in alliances to alliance creation. By empirically showing that the aspects of Doz can be applied to alliance creation, and that within each aspect certain elements of inefficiency (or *learning*) can be found, this study suggests that the dynamic nature of alliances is in place also before the actual cooperation is started. Hence, this study also empirically extends the conceptual research of Iyer (2002) who calls for more studies related to the dynamics and mechanisms of learning in alliances.

The model for creating strategic alliances and the categories of inefficiency elements aim at giving an inclusive picture of alliances as a central part of strategy and a specific part of operations. In this view, it is also central that the strategic intent is understood and the alliance strategy is based on this. Related to this also the argument for the existence and nature of alliance strategy gaps is a contribution to the scientific discussion.

Trust is in this study seen as a key component of alliances and alliance creation. Several authors (Cobianchi 1994; Noteboom 1999; Gulati 1995; Inkpen and Currall 1998; Ring and Van de Ven 1992) have argued for the role of trust in alliance creation, among these perhaps foremost Noteboom (1999), who suggests that trust may make inter-firm

cooperation more efficient. However, as pointed out by Demirbag et al (2002), trust is often defined quite vaguely in academic research. The contribution of this study is that it seeks to elaborate on the role of trust in alliance creation. The scientific contribution of this study is here composed of three things. *First*, emphasizing the role of trust and positioning it in an alliance creation model aim at anchoring trust in an active process rather than leaving it as a separate concept. *Second*, the study creates a concrete and useful way of defining the benefit of trust, by building on the different aspects of trust (Child and Faulkner 1998) and presenting a model for the pragmatic assessment of the benefit of trust and the risk of opportunism. *Third*, the study emphasizes the role of trust (as opposed to contracts) in the early phases of alliance creation. As such it extends the theory of Poppo and Zenger (2002), who argue for the complementarity of trust and contracts. More specifically this extension suggests that while both are needed, it may be beneficial to first base the alliance creation on trust and later introduce written contracts.

The model for creating strategic alliances gradually is also a contribution to this area of science. Some scholars have previously argued for a “*gradual approach*” to alliance creation. E.g. Larson (1992) and Iyer (2002) have argued that alliance creation should be done gradually. Also Lewis (1990) and Pett and Dibrell (2001) have made suggestions towards this direction. These suggestions are still on a very abstract level, and have hence been in need of clarification. This study also suggests a gradual approach but attempts to break it into more clearly definable notions, emphasizing the joint vision (following sense making of Weick 1995), trust and pilot cooperation in this approach. Central in this model is also that it emphasizes the importance of critically examining whether a gradual (more “*visionary*” or “*strategic*”) approach is feasible or whether a contract based approach still might be more appropriate.

6.3.2. *Practical contributions*

On a general level this study suggests managers involved in business should consider alliances as a viable option in far more situations than they probably do now. The argument here is that an alliance does not need to be the result of a cumbersome, one-year creation process, but that created more efficiently a shorter creation process may be possible. This in turn would enable new application areas for alliances. On a more detailed level, this is achieved by the three main contributions of this study to practitioners.

First, it suggests that alliances are a central part of a company’s strategic resources and hence its competitiveness. In many strategic decisions, alliance should be an option to consider. The integrated strategy framework may help practitioners position their strategic initiatives in relation to the resources, the network and the alliances of the company. *Second*, the study suggests that companies would “*take one step back*” before starting an alliance creation process. The suggestion here is that companies can avoid many problems if they go into the alliance creation truly prepared and keeping the strategic goals in mind. The dynamic nature of the environment where alliances are created is also central in this context. It seems an increasing number of industries could be described as “*high-velocity*” environments (see e.g. Brown and Eisenhardt 1997),

where being able to move fast is a critical part of any company's success. Hence, the time spent on alliance creation can be a decisive factor between success and failure. *Third*, the inefficiency elements identified and the model created based on the cases can help companies avoid many pitfalls and go through the alliance creation process more successfully. The categories of potential inefficiency may also help companies identify new potential inefficiencies and ways to prevent them. Finally, based on the suggestions of this study, practitioners can also critically analyze the situation they face and choose the appropriate type of alliance creation process based on the strategic context, the assessment of the benefit of trustful behavior and the risk of opportunism by its alliance partner(s).

6.4. Suggestions for further research

In the introduction of this study I set out to find elements of inefficiency in alliance creation. E.g. Iyer (2002), Ring (2000) and Lin and Darling (1999) argue that existing research emphasizes the formal side of alliance creation and that the more informal, evolutionary and dynamic aspects of the process should be explored. As showed by this study, such aspects exist. Still, the search for new elements and better models and frameworks should not stop, but rather continue on a vaster front of research. The categories of inefficiency elements may be a valuable starting point in this aspect. In addition to this, there are four areas in which I propose further research is needed.

First, this study suggests that research on the discourses related to alliances is needed. The different words used in different companies and different contexts –and the effect this possibly has on the behavior of companies related to alliance creation and management– show that scholars should try to make sense of the field. It is not useful nor academically precise to just simply talk about “alliances” as the practitioners clearly seem to use a variety of definitions and words that rank the cooperative arrangements e.g. according to importance. Whether this is a culturally or geographically determined phenomenon is also interesting.

Second, following the alliance creation model created in this study, it could also be academically valuable to empirically test the pros and cons of a such a “strategic” or “dynamic” approach through some kind of action research. The model could then be elaborated further, so that a more detailed model, incorporating the aspects overlooked by this study could be added.

Third, there is a need to test how the two philosophies in alliance creation work in different industries and different cultures. The proposition put forward by this study is that a “strategic” approach may be more relevant in a context like the North European ICT sector, where (the lack of) time and (a culture of high) trust are central elements. Correspondingly a proposition might be that a “contractual” approach might still be more useful in more self-serving cultures and in more stable and mature industries, where contracts are needed to govern large investments and where time (“time-pacing”) might be a less critical aspect.

Fourth –and last– it is my suggestion that further research would be conducted on the relative importance of the different inefficiency elements found in this study. It could be

interesting to see how inefficiencies differ in e.g. endogamic and exogamic alliances. In addition, a quantitative study could explore how managers across industries and cultures perceive the importance of each element. This way, weights could be added to the model, which would make the alliance creation model even more useful also for practitioners.

6.5. Summary

In this study I have argued that the view on alliance creation presented in the current academic literature is limited, and that extending the learning aspects of Doz (1996) to alliance creation helps to better explain the dynamic nature of alliance creation. In the existing literature, some scholars (Mitsuhashi 2002, Whipple and Frankel 1998) present models that describe the alliance creation process without much consideration of inefficiencies, which may affect the process. Others (Lewis 1990, Forrest 1992, Lorange and Roos 1991a, Jolly 2002, Cobiauchi 1994, Noteboom 1999) explore these factors, but do not try or fail to create a model that would include the inefficiencies and give expansive consideration to the learning and dynamic aspects of alliance creation.

The cases in this study have suggested that many inefficiency elements can be found in alliance creation. These elements can further be divided into categories, which help explain the inefficiencies of alliance creation. The categories –combined with two models brought forward by the study– suggest that inefficiency can be avoided through learning during the creation process. Some elements are especially central to this argumentation. First, the elements related to the clarity and acceptance of the strategic intent of the company, the potential lack of an alliance strategy and the elements related to changes in the strategic context. Second, the elements related to the length of the alliance creation processes and the problems a long process entails.

In this study I have further suggested that the different inefficiency elements may create a situation, where the alliance process is –sequentially and successfully– followed to the end, but where the different inefficiencies create a situation where the results are not aligned with the strategic intent. The proposed solution is to monitor and assess the risk for inefficiency elements during the alliance creation process. The learning, which occurs during the alliance creation process as a result of the monitoring can then lead to realignments in the process. As such, the study also proposes that the aspects of learning in alliances (Doz 1996) can be extended to alliance creation.

Furthermore, this study has proposed two models to mitigate the risk related to inefficiencies. The first model argues that keeping a more expansive view of the alliance creation process is beneficial. The second model argues for the importance of a dynamic alliance creation process. This is achieved by creating an understanding of the other alliance partner's business, creating a shared vision (following e.g. Weick 1995), using pilot cooperation and building trust within the process. An analytical approach to assessing the benefits of trust is also central in this view.

The alliance creation approach suggested by this study, which emphasizes trust and pilot cooperation, has been critically reviewed against contracting as a way to create alliances. Extending the views of Poppo and Zenger (2002) this study has further

proposed that while contracts are still valid instruments in alliance creation, it could be better to initially start the dialogue by utilizing relational governance and trust. What is, however, needed is an extended critical assessment of the level of which detailed contracts should be used, in which context, and at which stage of the alliance life cycle. This is also a suggestion for further research to explore.

In conclusion, it can be said that during this “research journey” my personal view, that alliances are a vital part of any firm’s strategy, has been fortified. Technology, globalization, increased customer awareness and exposure to competing offerings have led to a situation where only the best resources in each area of business operations are good enough. What is needed from academia are studies that produce not only high-quality scientific research, but also findings which can be further developed into relevant and useful guidelines for practitioners.

It is my suspicion that an increasing number of companies find themselves in the same situation as Company 4 in this study: they are engaging in cooperative arrangements without an active and deliberate alliance strategy behind them or a proper alliance capability to manage them. I hope this study can help such companies, following the idea presented in a quote in the foreword of this study:

“The job of the writer is to bring insight, to open up the reader’s mind so that he or she can approach unique problems thoughtfully.” (Mintzberg in Normann 2001)

I hope this study can help practitioners identify areas of importance when they are creating strategies and pursuing alliances. I also hope that this study is a valuable complement to the scholarly community, and that it helps continue the academic discussion on this important topic.

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8. APPENDICES

8.1. Pilot case Boo.com –Full case description

I chose Boo.com as the pilot case mainly for three reasons. First, boo.com is a very central case when looking at the ICT sector in North Europe; it was the biggest eCommerce venture of the end of the 20th century. Second, very good material existed on the case, because the owners of boo.com have written two books about the company from two very different angles⁵⁴. Third, because the strategy intent of boo.com was to quickly become a leading global eCommerce player, it had to base its strategy on building alliances around the world.

The case is presented below. The background and operations of boo.com are presented first. Later the alliance issues are highlighted and finally the case conclusions are discussed.

8.1.1. *Background and business concept*

Boo.com was originally the idea of Swedes Ernst Malmsten and Kajsa Leander. Together with Patrik Hedelin their vision was to form an Internet venture that would revolutionize the fashion and sportswear industry. All three had experience from Bokus.com (Lindstedt 2001, p. 82), a Nordic online bookstore. Bokus went live in August 1997 and Leander and Malmsten were minority owners (Lindstedt 2001, p. 140), but soon they wanted out to try something new.

The boo.com idea was born during the spring and summer of 1998 (Kunnath and Sedick 2001, p. 4). The business idea had a couple of core foundations, e.g. “*global demand*”, which meant that the founders of boo.com saw that fashion trends –demand– had become global, and hence supply should also be the same everywhere. The founders thought, that “*the nature of contemporary culture was such that, say, a Lacoste T-shirt or a pair of Adidas trainers has the same appeal to people whether they lived in Rome, Rio, Tokyo or New York*” (Malmsten et al 2002, p. 22).

According to the boo.com ideology there was a growing global population that had “*much money and little time*” that would like to use the Internet for fashion shopping (Lindstedt 2001, p. 112). The boo.com web site was supposed to be the first part of “*second generation Internet*”, which meant that the site would have a “*physical feeling*” with “*virtual dressing rooms*” and a virtual shop assistant called “*Ms Boo*” (Lindstedt 2001, p.115).

⁵⁴ At the later stages of the company’s existence, the owners disagreed on most things. Later two of the owners decided to write a book explaining their own view of the company. This allowed an opportunity for *triangulation* of data between the two books (and other material).

So-called “*First mover advantage*” –which was also generally one of the corner stones of the “new economy”– was a central slogan also for the early days of boo.com. The business model was largely to be like the Internet book and CD shop Amazon.com, i.e. with short lead times and minimal inventories, (Lindstedt 2001, p. 30). A major difference from many other Internet business models was that it was not to be based on discounted prices. In fact the opposite was true; the focus was on high margin sports brands (Lindstedt 2001, p.31), which the founders were convinced would sell well to the target customers with “*much money and little time*”. The revenue estimates before the first financing round were made by JP Morgan: 98 M\$ in 1999 and 365 M\$ in 2000 (Lindstedt 2001, p.84).

8.1.1.1. *18 months of business*

During its 18 months of existence, boo.com went through five investment rounds. There are several estimates of how much money boo.com raised and spent during this time, ranging from 120 to 135 M€ (see e.g. Kunnath and Sedick 2001 or Pujari 2001).

The three owners put in approximately 0,8 M\$ of their own money into the business (Lindstedt 2001, p. 85). Later, the first investment round in February 1999 generated roughly 12 M\$, for which 32% of the company was sold out to investors (Lindstedt 2001, p. 97). The investors in the first round were such established industry players as: Sedco with 5 M\$, LVMH (Louis Vuitton Moet Hennessey) with 3,8 M\$, Benetton with 3,2 M\$ and AME 0,5 M\$

The initial management responsibilities were divided so that Ernst Malmsten was in charge of the business concept, logistics and technology, Kajsa Leander of marketing and design and Patrik Hedelin of finance and legal issues (Malmsten et al. 2002, p. 36). Boo.com quickly started hiring staff in several countries, and by May 1999, the company had already employed 150 people in their offices in London, New York, Stockholm, Paris, Amsterdam and Munich (Kunnath and Sedick 2001, p. 8). Later also other offices were opened, e.g in Spain and Italy (Lindstedt 2001, p. 105).

The second financing round was closed in July 1999 (Lindstedt 2001, p. 161) and the third round in August 1999. In the third round 22 M\$ was raised, and at that time boo.com was valued at 170 M\$. Two months later –at the time of the fourth round of financing– the company was valued at 390 M\$ (Lindstedt 2001, p. 194).

The launch of the web site was planned for April 1999, but as a result of many problems with the technology, the launch was postponed numerous times. Before the actual launch of the site, the company had over 300 000 pre-registered customers. (Lindstedt 2001, p. 202). This was seen as a very good sign for the launch that took place the 3rd of November 1999. Still, only about 50 orders per day were made the weeks after launch, which was about 10% of the estimates made (Lindstedt 2001, p. 203).

In December the actual sales figures still gave a prognosis of only 10 M\$ per year (Lindstedt 2001, p. 211). At this time the company had already built up inventories worth 7-8 M\$, something which was not at all part of their strategy (Lindstedt 2001, p. 213).

The products of boo.com were more or less exactly priced to the same level as in “*physical shops*”, which naturally led to many customers questioning the benefits of an online shop. After building up large inventories before Christmas, boo.com decided that they had to start selling their products at a discount up to 40%. This was of course contradictory to what the company had promised its suppliers, but boo.com made strong efforts to state the discount was actually a seasonal sale. Still, bad press kept building, and boo.com’s situation began to be increasingly harder (Kunnath and Sedick 2001, pp. 14-15)

A 28 M\$ convertible loan was issued in March 2000 (Lindstedt 2001, p. 260), just two months before the liquidation decision in a board meeting on May 17th 2000. (Lindstedt 2001, p. 270). After the meeting, senior management issued press releases saying that KPMG had been asked to be the liquidators of the company. The management expressed their disappointment and their hopes for the liquidators to see the potential that they believed still lay in boo.com (Kunnath and Sedick 2001, p. 18).

After also informing the employees of this decision, the management closed the doors to the boo.com office after just six months of active business operations.

8.1.2. *The alliances (The business network)*

To be able to meet a global demand, *global presence* was the core strategy of boo.com. As the company was built basically from scratch, without any physical or significant intangible assets, cooperating with other companies was the only way to execute that strategy. The cooperation boo.com engaged in with other companies in different areas (here divided as follows; *Financing and investor relations, Suppliers, Marketing, IT and Supply chain, other partnerships and general*) is discussed below.

8.1.2.1. Financing and investor relations

The first step in creating boo.com was to find financing. The founders of the company understood that they would need a partner that would have a recognized name, and global credibility if they wanted to raise enough money to build up a business of this magnitude. After negotiating with (and failing to get) other investment banks, JP Morgan was chosen to be the financial advisor of boo.com in August 1998 (Lindstedt 2001, p. 74). The commercial part of the arrangement was that JP Morgan would get 7% of all the money it raised from investors. The payment was made in equity, i.e. boo.com shares (Lindstedt 2001, p.78).

Later, boo.com management saw that JP Morgan had been good for the credibility in the beginning, but that it was not an optimal partner in the long run. According to Malmsten (2002, pp. 184-186), CFO Hedelin said, “*We’ve outgrown JP Morgan. There’s no way I want them handling our IPO*”. Hedelin and Malmsten then had a disagreement and discussion about what was supposed to be done in the situation. Hedelin pointed out that JP Morgan had had problems raising money in the previous round of financing, while Malmsten felt that they had still been a big help, and asked if

they could try to develop their partnership instead of breaking it. Malmsten felt that Hedelin had personal reasons to want JP Morgan out, because negotiating with other banks put him in a favorable position, and because Hedelin had developed a bad relationship with some of JP Morgan's employees.

In August 1999, boo.com arranged a "*beauty contest*" in New York, where the big investment banks were made to compete for the position as financial advisor (who would also arrange the Initial Public Offering of the company). JP Morgan was not invited into the contest; in fact, they were not even informed of such a contest. As a result boo.com saw Goldman Sachs as the best candidate. Soon, however, Goldman Sachs withdrew, so boo.com had to go back to JP Morgan (Lindstedt 2001, p. 182-184). Before this, however, JP Morgan had invited Hedelin and Malmsten to talk about rumors they had heard about the beauty contest in New York. At first they did not admit it, but when JP Morgan explained that they hear all these things through their contacts, they had to admit they were talking with other banks (Malmsten 2002, pp.184-186).

8.1.2.2. *Suppliers*

Another crucial part of the business was partnering with fashion and sports brands to establish credibility both in the eyes of the customers and the investors. For this purpose, the founders of the company contacted KSA sport goods consultants in 1998. KSA agreed to work with boo.com on a success fee (Lindstedt 2001, p. 89). Together with KSA-consultant Tony Barsham they selected three suppliers they would target, and of those they managed to sign agreements with New Balance and North face, in the summer of 1998 (Lindstedt 2001, p. 79). In September 1999, the company had signed up twenty-two suppliers (Malmsten 2002, p. 241).

8.1.2.3. *Marketing*

Public relations and marketing were the key differentiators of boo.com. After all, the company aimed at building a lifestyle, not an online clothing shop. The total marketing and "*image creating*" budget, 42 M\$, was under Kajsa Leander as she was the director of marketing. The company wanted the lifestyle and image creation to start within the company; according to Kunnath and Sedick (2001, p. 8) boo.com spent e.g. 250.000 USD on flat screen monitors for the staff. In addition, fruit, biscuits and diet coke was delivered to the offices each day.

In Marketing boo.com teamed up with Leagas Deleneay, who agreed to work on a success fee (Lindstedt 2001, pp. 88-89). After the cooperation agreement was signed, Leagas Deleneay worked on advertisements for boo.com. The result, however, was a total disappointment for Leander, who felt the advertising agency did not "*even understand fashion*". At this time boo.com had only a preliminary agreement signed with Leagas Deleneay, and the goal of both Malmsten and the agency was to sign a more permanent agreement as soon as possible. Malmsten, unlike Leander, felt that the company had provided them with valuable help. As a compromise, Leander and Malmsten decided to offer Leagas Deleneay everything else but the creative side of

marketing, but Leagas Deleneay saw this as “*the most important part of the partnership*” and declined (Malmsten 2002, pp. 115-116).

To replace Leagas Deleneay, Leander wanted to work with Wieden & Kennedy, who had among other things done impressive work together with Nike. However, it soon became clear that they could not cooperate with boo.com, since their partnership agreement with Nike prevented this. After a while, Leander found BMP, a division of marketing giant DDB Worldwide. Both Leander and Malmsten liked the “contemporary” feeling of their work, and they soon signed a cooperation agreement (Malmsten 2002, pp. 128-133).

Leander assigned an estimated 30 M\$ account to BMP. The BMP campaign was ran in TV, print and on billboards and it featured the “geek chic” concept, with computer nerds, who were very trendy and “hip”. Everything from TV commercials to logos, to Ms Boo’s hairstyle was created with the help of famous artists, because Leander felt that this would strengthen and support their image (Kunnath and Sedick 2001, pp. 8-9).

According to Lindstedt (2001, p. 80), boo.com used the names of the partners to get other partners. There was no “*due diligence*” done by the big companies that agreed to partner with boo.com. They just assumed that if the other big companies had seen the start-up as a viable opportunity, then they could work with them also.

8.1.2.4. *IT and Supply chain*

The leading idea of boo.com’s IT –and hence sales– strategy was to create a web site that would be so advanced that it would “*stimulate people to buy*” (Lindstedt 2001, p. 114). The web site would also have a “physical feeling”, with virtual dressing rooms where the user could “try on” clothes and shoes on models that represented the user’s own size. Additionally, to achieve this physical feeling, the customers would be served by a virtual shop assistant called “*Ms boo*”. Ms boo would guide the user around the web site, and she would also talk six languages fluently (Lindstedt 2001, p. 115).

Boo.com wanted to give the IT platform building to some big, reliable partner. Also in this aspect, having a well-known partner would help the company establish credibility in the eyes of others, investors in particular (Lindstedt 2001, p. 116).

During fall in 1998, boo.com was in contact with IBM. Eventually, however, IBM was seen as a too expensive partner. The partnership negotiations were also carried out without IBM’s senior management, which annoyed especially Ernst Malmsten (Lindstedt 2001, p. 116).

Ericsson, on the other hand, were quite committed and interested to work with boo.com, but regardless of their efforts to create the technology required, they had great difficulties in integrating all the various solutions and because of the slow progress, the cooperation with them was abandoned after six months, in winter 1999. At this time, the goal was still to launch the boo.com site in April 1999, so a decision was made to build the site in-house, with focused partners in certain areas. (Lindstedt 2001, p. 117).

At the time of the decision to do the integration in-house, boo.com employed only three technical employees (Kunnath and Sedick 2001, p. 8).

The web site itself (the graphical interface) was not the only problem (even if that was also a challenge per se). Also functions like inventory management, customer care, and order management would have to be integrated in the technological platform. The technology should also be able to handle e.g. prices and taxation differently in all markets (Lindstedt 2001, p. 117).

Malmsten (2002, pp. 108-109) writes that even if the report (feasibility study) created by Ericsson was “*skimpy, ...it had at least identified the technology vendors that should supply each part of [the] platform*”. Together with CTO Steve Bennet, Malmsten decided to finalize the contracts with these companies as soon as possible, to finally get things started and “some breathing space” as a result of that.

According to Kunnath and Sedick (2001, pp. 6-7), boo.com called their selection of IT partners “*best-of-breed solution providers*”, and they included such companies as InterWorld, ATIO Cybercall and UPS Worldwide Logistics (WWL). Malmsten (2002, p. 174) also lists eVox and Organic as key IT solution providers.

Organic, a company with offices in San Francisco and New York, was in charge of the “*front-end*” of the boo.com web site, and the “*look and feel*”, which included online mannequins, zooming, spinning, and Ms Boo (Malmsten 2001, p.109). EVox took care of producing the 3D photographs for the web site. There were only a handful of companies in the world who knew how to do it, and eVox was finally chosen, not least because of their enthusiastic approach to the boo.com idea (Malmsten 2002, pp. 133-134).

Interworld was a solution provider for “*sell-side e-commerce software solutions*”. Interworld had their Commerce Exchange solution, that could be used at boo.com, but it had to be modified in order for it to meet the expectations of Leander and Malmsten. Among other things, the solution had to be able to handle sales in six different currencies and support multiple shipping methods. Further, according to Kunnath and Sedick (2001, p. 7), it was also decided that the company would use US based ATIO’s CyberCall customer care solution to create the link from the web site to the call centers. The solution would provide multi-lingual, multi-channel (e.g. e-mail, fax, telephone), instant access to customer service representatives.

UPS WWL took care of boo.com’s entire supply chain from inbound shipments from suppliers to order fulfillment and processing of returned goods. The process would guarantee shipping and delivery within five days, and it also included extra features, such as quality inspection and e.g. gift-wrapping. The idea was to create a model, which did not require the company to have any inventories, but because of certain suppliers were not able to provide just-in-time order fulfillment, UPS WWL had to take care of inventory management (Kunnath and Sedick 2001, p. 7).

The complex technological task that boo.com was faced with in the beginning of 1999 was further complicated by the fact that there were no proper requirement specifications

for the IT architecture as a whole. This often led to different teams and consultants doing the same work parallelly (Lindstedt 2001, p. 168).

The IT development was also geographically spread, with interface teams working in New York, Los Angeles and London and the administrative and support side developed in Stockholm, Linköping, Cologne and Kentucky. This led to confusion and conflicts between the consultants who were working on the different parts (Lindstedt 2001, p. 168). According to Malmsten (2002, p. 174), Luke Alvarez, who was managing the relationship with Interworld and Organic, began to be very critical towards the vendors. Interworld and Organic had barely talked to each other, not to mention coordinating their work efforts and it was quite obvious that “*some of Organic’s design ideas could not be integrated into the e-commerce engine and would have to be reworked*”. On the other hand, Alvarez was also frustrated with eVox, who operated in Los Angeles, and who needed samples of each piece of clothing in several sizes sent to them for the 3D photo shoots. The samples had to be sent by the suppliers, and the coordination was very poor. Some samples e.g. had “SAMPLE” written over them in large writing, which meant they could not be used for photographing.

After many delays, the launch of the site was decided to be the 3rd of November 1999. Just days before launch there was some testing done, which indicated that it could take up to 45 minutes to order a pair of shoes –even if the customers knew which shoes they wanted. The technology platform was to a large extent working properly, but the fact that there had not been sufficient coordination between the different efforts made the processing very slow (Lindstedt 2001, p. 201). Some tests also indicated that up to 70% of the customers were just simply “*kicked out*” from the website for no apparent reason. One of the stories boo.com used to explain these failures was that the web site was built for fast Internet connections and high-end computers. This was of course not the intention in the beginning (Lindstedt 2001, p. 202-203).

The marketing material of boo.com promised a delivery time of five days, regardless of destination. The goal was ambitious, but a lot of testing was done to ensure the objective was met (Lindstedt 2001, p. 121). The logistics process was built up in partnership with UPS and Deutsche Post (2001, p. 168) and according to Lindstedt (2001, p.164), the logistics and delivery process was the best functioning part of the company.

8.1.2.5. *Other partnerships and general*

Finance, accounting and administrative functions were built with IFS in Sweden (Lindstedt 2001, p. 168). In tax and legal concerns the company cooperated with Skadden Arp and Ernst & Young (Lindstedt 2001, p. 80). Heidrick & Struggles was the recruitment-headhunting partner for boo.com (Malmsten 2002, pp. 70, 82).

Even if all of the individual tasks were grouped under 27 areas of responsibility –“*office infrastructures, logistics, product information, pricing, front-end applications, call centres, packaging, suppliers, designing logos, advertising/PR, legal issues recruitment....*” (Malmsten et al 2002, p. 100), there was hardly anybody who really

governed the company (Lindstedt 2001, p.168). This was quite understandable considering the huge functional and geographical complexity of the business network.

According to Lindstedt, this led to a situation where nobody knew who was in charge, and that e.g. any group of people in the company could schedule a meeting and make a decision, which was later overruled by some other group just days later. Further, according to Lindstedt (2001, p. 165) e.g. Tony Barsham, who was hired to be head of logistics and distribution called the company an “anarchistic environment” to work in.

During autumn 1999, the open criticism had spread inside the management team. For example, in one discussion, management team member Marina Galanti criticized the company of not keeping to its strategic guidelines. Galanti accused Malmsten of wanting to build up “the company as if it was a multi-national company from the 50’s”, instead of building up an agile, networked Internet company. Galanti especially criticized the fact that the company had established offices around the world, with very independent local managing directors and customer service organizations in each office (Lindstedt 2001, pp. 216-217).

8.1.3. Pilot case findings

In this section I will examine Case 1 based on my pre-understanding and the “*Preliminary Alliance Framework*”.

I will first present the market context in which boo.com was formed. I will loosely use some of the different schools in strategy as guidelines to establish this. Second, I will examine the strategic intent and key resources of boo.com, and how the company built up its alliance strategy around then. I will then continue with examining the shaping and the results of the alliances (“partnerships”, as mainly used in the source material).

8.1.3.1. Strategic context and strategic intent

The strategic context boo.com was created in was characterized by a long upswing in the economy and general optimism in the business environment. The last years of the 1990’s also saw the build up of the so-called “*new economy*” with a huge demand for Internet based companies. In the fashion and retail industry, suppliers had a strong position; the industry consisted of well differentiated brands and they were very concerned about which retailers would be allowed to sell their products to the end customers. Customers were also quite strong, since they had the option to buy the exact same product also from other retailers. The threat of substitutes was not immediate, as the online commerce of consumer goods was just beginning to develop. New entrants would also probably emerge over time.

The strategic intent of the founders is best summarized in the words of CEO Malmsten (2002, p. 123):

“Boo.com aimed to harness the explosive growth in e-commerce to establish itself as the first global retailer of sportswear and fashion...[the strengths of boo.com] were a consumer-friendly,

utting-edge site and worldwide access to brands otherwise hard to find....[a] rapid expansion of [the] customer base that would build itself into a powerful brand...”

“If you want to quench your thirst, drink Coca Cola; if you want a practical car, drive a Ford; if you want to be urban and cool, buy your gear from boo. The strength of [the] brand lay in the degree to which it could represent a set of values with which our target audience strongly identified.”

The capabilities of boo.com that can be characterized as core competencies (according to the three key criteria of Hamel and Prahalad 1990) of boo.com were:

- 1) A truly global concept, which combined global fashion trends with cutting-edge online shopping, short delivery times and local customer care and pricing.
- 2) A strong image and brand, built on a cluster of attractive sportswear and fashion brands. The brand was supported by a network of magazines, other awareness-creating promotions and a flashy Internet site.

8.1.3.2. *Alliance strategy*

Because boo.com was a start-up company, there was an obvious stretch between the strategic intent and the capabilities and assets in the beginning. To remedy this stretch boo.com needed to build up capabilities of their own and form partnerships.

The alliance strategy of boo.com was quite clear and simple. *Boo.com wanted to form partnerships with strong players in all areas of business operations.* This is important to understand as a basis when looking further at what actually happened. The company wanted to ally with known companies in each area, to build a business network, which had credibility and which could perform in a world-class way in every aspect. The figure below presents the most important business partners of boo.com.

Boo.com Partners		Boo.com Partners	
Marketing	BMP	Finance	IFS
Sales	Internal	HR: Recruiting	Heidrick & Struggles
Customer Service	Internal	IT operations	Internal
Logistics & order fulfilment	Deutsche Post, UPS	Regulatory reporting	Skadden Arp, Ernst & Young
IT development	InterWorld, eVox, Organic, ATIO,..		
IT Integration	Internal		
Alliance management	Internal, (KSA)		
Order processing	UPS		
Accounts receivable	IFS		
Inventory management	Deutsche Post, UPS		

Figure 26. *The boo.com capability matrix (Loosely based on Keen and McDonald 2000)*

An interesting consideration is which partnerships could have been seen as strategic from boo.com's perspective. Following the definitions presented earlier, strategic alliances should be clearly linked to the strategic intent of the company. I would suggest that marketing, sales, customer care and order fulfillment were key differentiators of boo.com. IT was highly important, because sales were done over the Internet, but as such IT development and integration were not core competences of boo.com.

A central question is also whether boo.com tried to build any strategic alliances. At least the agreements with UPS WWL, BMP and the IT solution providers can be seen as highly strategic. These partnership agreements were in such strategic areas, that without them the whole existence of boo.com would have been impossible. Interestingly these strategic partnerships are in the areas, which could be seen as core competencies of boo.com. (A suggestion of this is that boo.com tried to leverage their delivery system to sell and deliver products for other companies as a last resort...)

8.1.3.3. *Alliance shaping*

For boo.com alliance identification, evaluation and negotiation were interesting processes. The different sources (Lindstedt 2001, Malmsten 2002) written –or at least heavily influenced– by the founders clearly show that the alliance shaping was characterized by:

- 1) *Lack of time.* (E.g. in finding and evaluating the technology partners)
- 2) Lack of common vision and clear roles within boo.com. (E.g. Leander's and Malmsten's different views on marketing partners, and Hedelin's and Malmsten's different views on financial advisor)
- 3) Lack of candidates that wanted/could work with boo.com. (E.g. financial advisors and sports brands were hard to find in the beginning, not being able to work with Wieden & Kennedy in marketing)
- 4) Personal, subjective opinions and preferences of boo.com management. (E.g. Malmsten feeling that IBM did not have enough senior management in the negotiations, Hedelin not wanting to work with JP Morgan)

It is impossible or at least hard to say whether these elements lead to inefficiency in the creation processes, or whether it could have been possible to create much more beneficial partnerships at all, but it at least shows that the factors heavily influenced, the –in itself quite clear– alliance strategy.

8.1.3.4. *Alliance management*

The pilot case material suggests that neither the alliance management of boo.com could be called efficient. Here, it seems the main elements influencing the activity were:

- 1) Lack of control and performance management within boo.com itself, and also of the partners.
- 2) Lack of coordination within the partner network. (E.g. Samples for eVox, overlapping IT development)
- 3) Changing (or trying to change) partners instead of developing the relationships. (E.g. ending the cooperation with Leagas Deleneay in marketing, trying to replace JP Morgan)

8.1.3.5. *Alliance results*

The results of the partnerships varied extensively.

In e.g. marketing, the relationship with BMP was working well, and the resulting advertising campaign was seen as quite good. Factors affecting this were at least the fact that Leander, who was in charge of this partnership, had a fairly good relation with BMP and also that the partnership seemed to have quite a clear division of roles between the parties.

In the IT development area, the results of the partnerships did not seem as good. The case material suggests that deadlines were missed time after time, and when the IT platform finally was ready, it was slow and filled with bugs. It seems that at least the fact that the partnerships were hastily formed to get “*some breathing space for the boo.com management*” contributed to this failure. The minimal coordination of the tasks and the performance management also played an important role. Further, the fact that the responsibilities of the partners were so closely linked and overlapping was a problem.

The logistics and order fulfillment side was by many seen as the best functioning part of boo.com. It seems that at least the fact that the logistics and order fulfillment function was a quite clear-cut area of its own to work in contributed to the success. It also seemed beneficial to choose UPS, who had experience in the field with its WWL solution. Further, the fact that UPS got to work on the task quite uninterrupted –without fear of e.g. being replaced– could also have had some positive impact.

8.1.4. *Conclusion*

Since the days of boo.com it has become quite clear that selling fashion on the Internet is not the best possible business, especially when the strategy is not to give any discounts.

It is not the intention of this case to try to prove otherwise, and claim that boo.com would have been able to successfully sell fashion and sportswear on the Internet. Still, regardless of the strategic intent, and its viability in the markets of 1999 and 2000, it seems that boo.com could have performed better (or not as badly) with some decisions made differently.

First, linking the alliances to the strategic intent. It seems that boo.com was trying to find large, reliable partners in virtually all fields, to establish trust and credibility in the markets. Boo.com wanted to reach millions of customers globally, but its capabilities to do so were virtually none in the beginning. Perhaps, to support the web site sales, boo.com could have partnered with some multinational department stores, or any other partners, that had access to the customers already. This way, the gap (or “stretch”) between the intent and the capabilities could have been filled better together with a strategic partner.

Second, there was little time or competence to create the alliances properly. Many partnerships were negotiated in a hurry, and creating a proper understanding of the other companies and the potential partnerships with them were often neglected. The primary reasons for this were the overly optimistic promises made to the market. It seems the company had e.g. too little time to a) reach an internal agreement of the exact objectives for each partnership b) to find and compare alternatives and c) to understand the partners business and make estimates and a joint plan of the work ahead. Instead the time was used to rush into contracts with the chosen providers.

Third, the company did not seem to have thorough understanding of its partners or proper performance management and joint control mechanisms. Because of this, it seemed that much overlapping work was done within the partnerships, and many deadlines were missed.

Fourth, the case data suggests that the company changed its alliance strategy without considering the consequences of doing so. When it became clear for boo.com's (actually this could also be seen as an active decision, and not a situation in which they found themselves) management that they would not take any outside IT Integrator –perhaps the most strategic partnership role of boo.com– it seems they should have assessed what this means for the whole business.

8.1.5. *Suggestions made by the pilot study*

Case boo.com highlights some interesting points when building a framework for understanding alliance creation. For boo.com strategic partnering was not about a clear cut, objective decision making. Rather, it was influenced by subjective opinions, changing circumstances and incomplete access to information and a full range of potential partners. The case hence suggests that while the “Preliminary Alliance Framework” presented earlier may be a relevant synthesis of models presented by existing literature, it could be beneficial to elaborate it, so that when studying the other cases, a more expansive framework could be used.

As the “*Boo.com Preliminary Alliance Framework*” below depicts, the material available on boo.com suggests that there were many elements, which seemed to have an impact on the alliances boo.com created. The figure should be read in such a way that the boxes (“sequential steps”, stages) each have a number of elements that influence them. These elements are presented as bars below. This means that for example “alliance strategy” is mainly influenced by “*Time & access to information*” and “*Management roles & internal clarity of vision and strategic intent*”. The framework can also be seen the other way around so that “*the availability of partners*” mainly influences the “*alliance shaping*” stage.

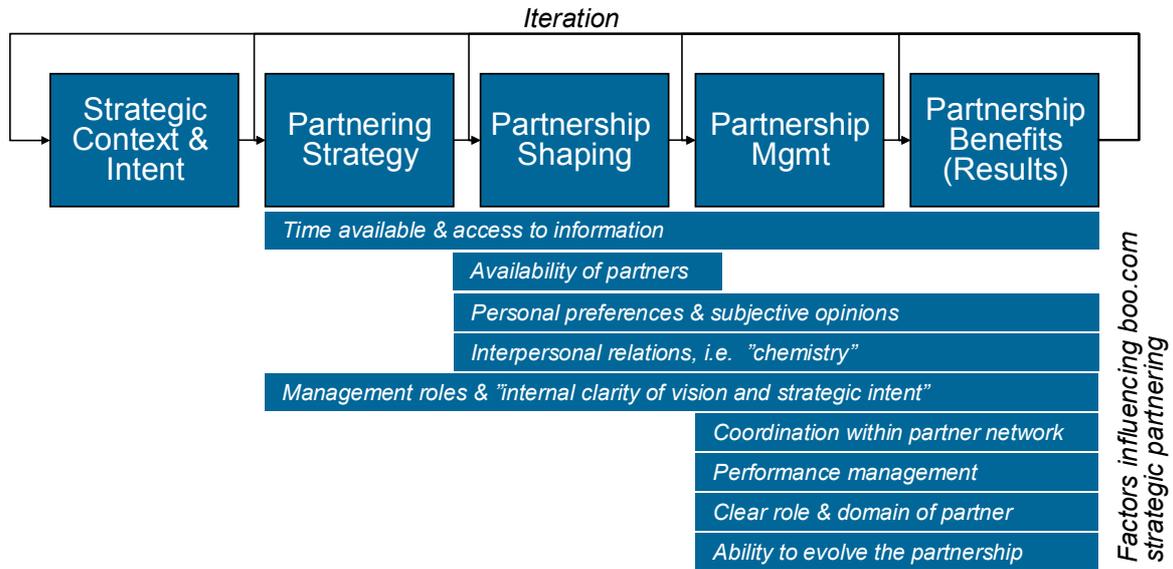


Figure 27. *Boo.com preliminary alliance framework*

The reliability of the findings of case boo.com could be questioned, since the case is based on secondary data. However, having access to material that allows triangulation of the data (through the fact that boo.com management had very different views on many things, and the fact that they wrote two books from totally different angles, without any cross-referencing), means that it has been possible for me to have greater confidence in the data I have used.

While the pilot case or its findings cannot directly be compared with the other cases, it highlights the chain of thought in the research process. As the pilot case study was done in a very early phase of the research project it shows the early mindsets of the researcher and how it evolved through a process of iteration between empirical and theoretical efforts. Especially central here are the birth of the notion of inefficiencies and certain dynamics which should be taken into consideration. The pilot case combined with elaborated literature reviews also suggested that the study narrow its focus on the different aspects of alliance creation.

8.2. Other alliance creation models

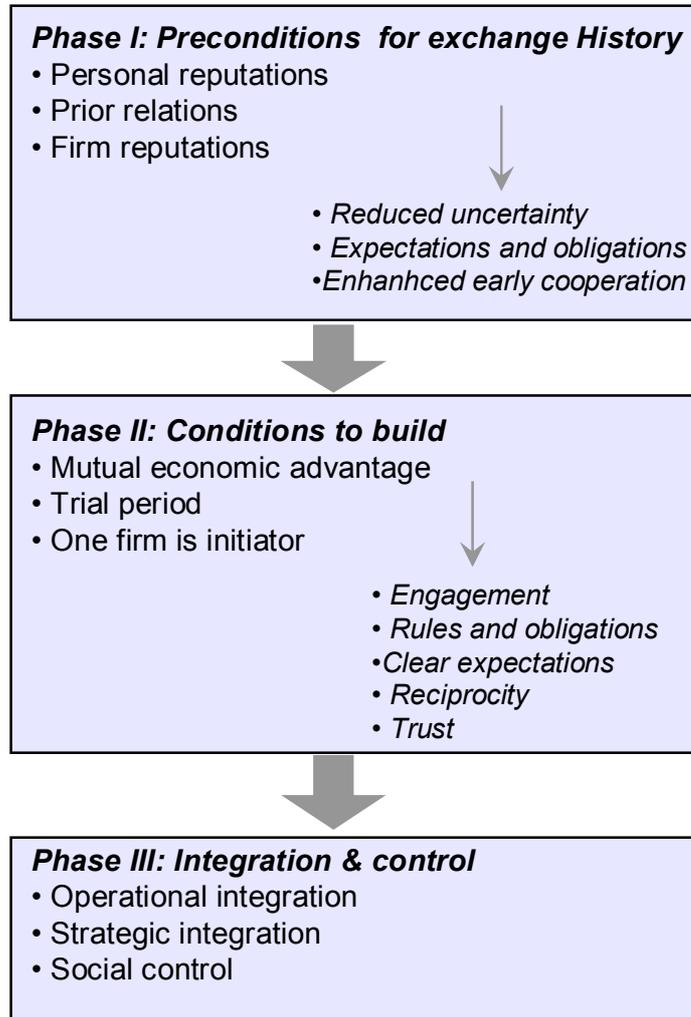


Figure 28. A model with factors affecting the formation of dyads (Larson 1992, p. 83)

8.3. ICT stock markets

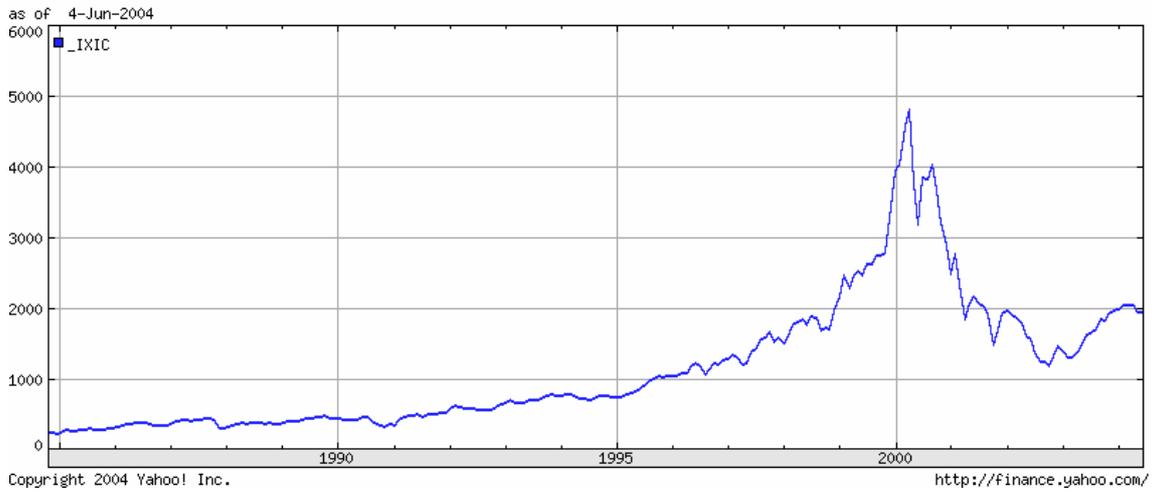


Figure 29. Nasdaq NAS/NMS COMPOSITE Index (from finance.yahoo.com 7.6.2004)

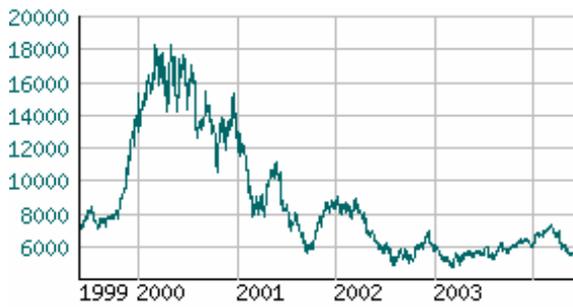


Figure 30. HEX General Index (from hex.com 7.6.2004)

8.4. Interview request letter

Hello XX,

Hope you have had a nice summer. I am now on study leave from my work at PSP A and I am writing my doctoral thesis for the Swedish School of Economics and Business Administration. The topic is strategic partnerships. The goal is to understand which factors contribute to the success of relationships between companies. As part of my studies, I would like to interview people from PSP A and *Your Company* to get their views on the cooperation between the two companies over the years. *Senior Executive /Manager Z* has showed green light for the study to take place.

I am writing now, because I hope to come to *Your Company* and interview you in the beginning of September. Would you be available for an interview between *X-Y.2003*? The interview would mainly be based on open-ended questions and take about 1½ hours.

If this is ok, please suggest a time for our meeting. I am also happy to answer any questions you might have regarding my research.

Best Regards,

Martin

8.5. Interview questionnaire

[Briefly describe the study and its objectives. Mention the proposed structure of the interview and ask how much time we have]

Background questions:

- Name of interviewee
- The title and field of responsibility of the interviewee in the company
- History (what/how long) of the employment in the case company

Context, industry and strategy

- How would you characterize the industry or market in which the company operates?
- How has the market evolved during recent years, and what is the future trend in your opinion?
- How would you describe the strategy (goal/aspiration) of the company?
- When was the current corporate (/BU) strategy developed?
- How was this strategy developed and communicated in the company?

- Are there any pros / cons with how the strategy is developed/formulated?
- Do you feel that there are any special strong / weak points in the corporate strategy?

Alliances

- Do you think that cooperation with other companies (alliances) is important for your company? Why / why not?
- What is your personal experience with partnerships /cooperation /alliances? (What have you done / learned / seen?)
- In your view; how are alliances, cooperation or partnership handled in the company?
- Is there a separate organization/resource for this (e.g. alliance mgmt/mgr?)
- Do you know if there is a formulated alliance strategy of some kind? Is yes, can you describe it?
- Are alliances / partnerships /partners grouped or ranked somehow in your company? How?
- In what areas do you think it could be especially beneficial to create an alliance?
- What makes an alliance strategic?

- What do you think would be typical benefits that could be achieved through alliances? How should they be measured (e.g. monetary benefits / other intangible benefits, like learning,...)

Cooperation with PSP A

- Do you know when the cooperation with PSP A first started?
- What kind of exposure have you had to this cooperation?
- Would you say the cooperation with PSP A is an alliance / partnership or something else? Why?
- Would you say PSP A is a *strategic* partner to your company? Why?
- Would you say the partnership with PSP A has worked? Why?
- Have there been any results from the cooperation with PSP A? What?
- Can you name some good sides about working with PSP A?
- Can you name some bad sides about working with PSP A?
- How would you characterize the negotiation (partnership creation) process conducted with PSP A? Something good / bad?
- What would you say were the most important things that made the negotiations successful?

- (If needed, suggest factors like trust, culture, commitment, communication, participation, conflict handling, information sharing)
- Was there a clear link between the strategy at the time and the partnership with PSP A, which was under creation? (Was this formulated / written / communicated?)

Additional question for the latter cases /interviews:

- How do/did you see the role of trust and opportunism in creating alliances?
- How can trust be created?
- What role does/did reputation play?
- What would you say about the length of the negotiations?
- How could the negotiation process be made more efficient (faster)?

8.6. Feedback request letter

Hello,

and thank you once again for taking part in the research for my Doctoral Thesis. As agreed when doing the interviews, I now send you the case description of what in my Thesis will be called Case X. It is the anonymized cooperation of Company X (*Real Name of Company*) and PSP A (*Real Name of Company*). I hope you can read through the case and let me know if you think something is missing, misinterpreted or if something requires more anonymization. Also all other comments or questions you have are very interesting to me.

I will be sure to send a copy of the finished Thesis to you when it is ready.

Thank you!

Best regards,

Martin

EKONOMI OCH SAMHÄLLE

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