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**FACTORS AFFECTING TO MANAGERIAL SUCCESS OF AN INTER-  
ORGANIZATIONAL STRATEGIC RELATIONSHIP**

Empirical evidence from buyer-supplier relationships in Finnish technology industry

Master's Thesis in  
Strategic Management

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**ABSTRACT**

As the technological development and the change of the business environment are faster than ever, sustainable competitive advantage has become increasingly challenging to attain. To foster competitiveness many companies have formed strategic alliances. However, gaining expected value from the relationship has proved to be difficult. The issue appears to be in attaining the value rather than lacking the potential value. Hence, the motivation for this thesis and the primary objective of this study is to identify some of the key factors that influence the managerial success of an inter-organizational strategic relationship.

To provide a solid picture of the factors affecting the managerial success of an inter-organizational strategic relationship there are three key theoretical areas that this thesis examines. Firstly, it appears to be important to understand why companies prefer collaboration in areas requiring knowledge exchange, secondly to identify the factors affecting the inter-organizational knowledge exchange, and thirdly to establish how such relationships can be managed. Hence, the literature part of this thesis examines the latest articles published in top management and strategic management journals regarding these three key theoretical areas. In addition, to support the creation of a holistic picture, the thesis introduces findings of a qualitative empirical study from the Finnish technology industry.

The findings of the study suggest that there are at least five themes that are important for the success of a strategic relationship: 1.) Existence of a market need; 2.) Realistic ability to fulfill the need together; 3.) Willingness and commitment; 4.) Capability to implement the jointly agreed strategy; 5.) Continuous two way communication at all hierarchical levels.

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**KEYWORDS:** Strategic Management; Knowledge Exchange; Vertical Relationship; Resource-Based View; Buyer-Supplier Relationship



## 1 INTRODUCTION

In the current economic climate technological development and the change of markets are more rapid than ever. Hence, sustainable competitive advantage has become increasingly challenging to attain. (Das & Teng 2000: 34.) Simultaneously conscious customers demanding solutions integrating products and services drive companies to get access to a wide range of resources in order to meet the customer-specific needs (Davies 2004: 734). During the recent decades, the Resource-Based View as a strategic management approach has become increasingly popular way of searching competitiveness (Maritan & Peteraf 2011: 1374), and even though, the Resource-Based Theory does not directly refer to inter-organizational business networks, specialization in core competences increase the need for the strategic networking (Vesalainen 2006: 35; Squire et al. 2008: 463).

Vesalainen's statement is aligned with the argumentation of Das and Teng's (2000: 34) as they argue that the future competitiveness lies on the creation of collaborative advantage through strategic alliances. Therefore, cooperation between companies has become increasingly popular. However, gaining expected value from the relationship has proved to be more challenging than thought and in many cases it has led into dissatisfaction and failure of alliances (Deeds & Rothaermel 2003; Teng 2007; Walter, Lechner & Kellermanns 2008; Phelps 2010: 907). The issue appears to be in attaining the value rather than lacking the potential value (Madhok & Tallman 1998: 326). Therefore, the factors affecting to managerial success of inter-organizational strategic relationship appears to be an attractive area to examine. Hence, the motivation for this paper lies on the aspiration to provide an insight into some of the key factors that affect the successful management of an inter-organizational strategic relationship.

## 1.1 The research problem

The primary objective of the study is to identify the key factors that influence the managerial success of an inter-organizational strategic relationship. The aim of the paper is approached by providing insight into the latest academic research and by gathering empirical data from Finnish technology industry. As a secondary objective, the research examines whether the topics discussed in the latest management literature cover the same issues that the managers encounter and observe in real life. Hence, the motivation of the research lies on the aspiration to reveal whether the scholars have focused on the topics that occupies the minds of the managers.

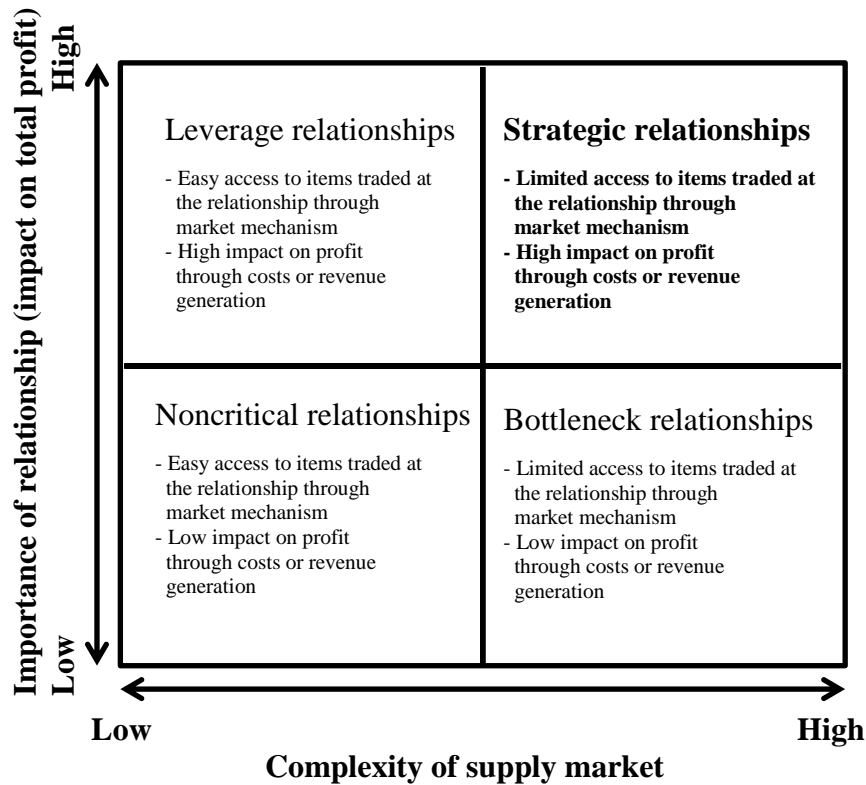
Therefore, the primary research question of the paper is as follows:

- What are the most important factors affecting to managerial success of an inter-organizational strategic relationship?

## 1.2 Outline of the study

In outlining the framework of the paper, the starting point has been in the Kraljic's four-field model of the strategic purchasing. The model is adapted to define what is meant by the inter-organizational strategic relationship. According to Kraljic (1983: 112–113) materials and items that are to be purchased and used in the production may be divided into four categories based on their impact on total profit and the complexity of purchasing (see **Figure 1**). By identifying available options for purchasing a company may develop supply strategies for the critical items.

Kraljic's model has two dimensions: profit impact of the item and the complexity of supply market. Profit impact refers to the measuring instruments such as purchasing volume, share of total costs, impact on quality, or impact on business growth generation of the item. The complexity of purchasing, for one, considers the risk of not being able to purchase the item through the markets in the future and it can be evaluated in terms of availability, substitutability, quantity of suppliers, total market demand for the item, make or buy decision possibility and storage risk. (Kraljic 1983: 112–113.) As represented in the **Figure 1**, strategic items or strategic relationships have high impact



**Figure 1.** The four fields of strategic purchasing. (Adapted from Kraljic 1983: 111)

on profit and they are complex to attain through the markets. Items that may be put into remaining three classes lack either or both, the profit impact or purchasing complexity. In this paper the focus is on strategic items or in more specifically on the strategic resources that involve knowledge exchange. Hence, the definition of strategic item and Kraljic's four category logics are here extended to cover all the resources – not just materials and items – affecting to the processes of an organization. Thereby, Kraljic's model for purchasing strategy development is here applied to define the model of strategic relationship. Accordingly the author defines the strategic relationship as: “*a relationship in which the object of the exchange has both high impacts on total profit and is complex to purchase through markets resulting*”.

The definition may be seen to be aligned with the definition of various other authors as several scholars define strategic alliance to be an inter-firm cooperative relationship aiming to achieve strategic goals (Parkhe 1993; Gulati 1995a; Teng 2007: 120). In addition, Squire, Cousins and Brown (2008) state that strategic resources are those

which enable an organization to earn supernormal profits. There are three characteristics raising strategic resources above other resources. Firstly, they must enable the exploitation of opportunities or to facilitate the prevention of threats and thereby be valuable for the organization. Secondly, the resource must be rare and not possessed by many operators in the market. Thirdly, the strategic resources must be non-imitable and non-substitutable. (Squire et al. 2008: 463.) These characteristics are discussed more in depth later on this paper.

As discussed above, strategic relationships tend to be knowledge intensive. By emphasizing Khoja and Maranville (2009: 54) knowledge in this paper refers to any information, skill or belief that can be exploited in running organization's activities. Knowledge may be further divided into explicit and tacit knowledge based on the nature of the knowledge. According to several authors (Becerra, Lunnan & Huemer 2008; Easterby-Smith, Lyles & Tsang 2008: 682; Khoja & Maranville 2009) explicit knowledge may be defined to be something that can be written down and taught and it is easy to codify and transfer; whereas tacit knowledge cannot be codified, it is difficult to formalize and transfer, tend to be experiential, and therefore, is embedded in routines and practices of an organization.

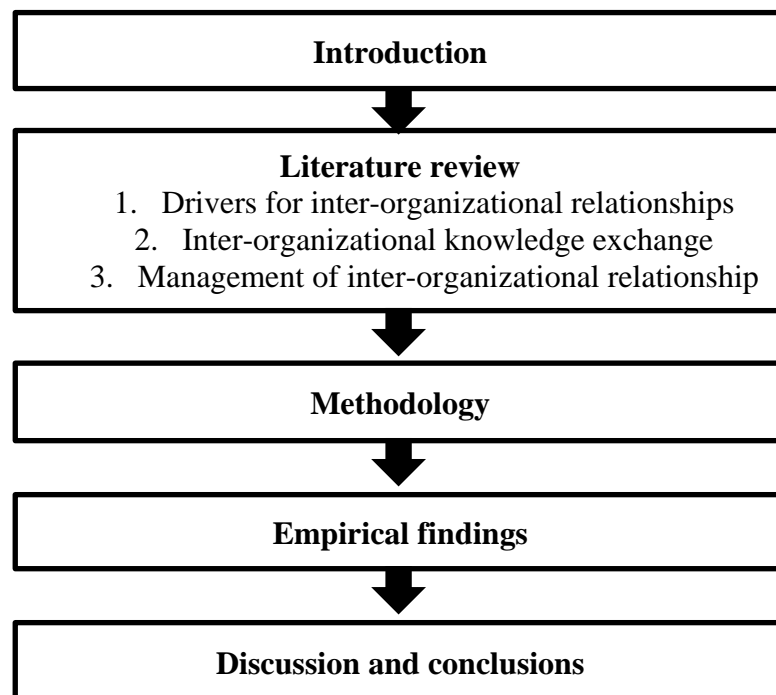
Von Hippel (1994) refers to characteristics of knowledge that is difficult to transfer with term "stickiness". Szulanski (1996) classified three factors contributing to the stickiness; characteristics of the donor, characteristics of the recipient and the context where the knowledge is transferred. Easterby-Smith et al. (2008: 685) suggest that stickiness factors are relevant in inter-organizational context as well if not even more important. Hence, this paper aspires to discover factors affecting especially to the inter-organizational exchange characterized with sticky (implicit/tacit) knowledge.

Moreover, even though the strategic relationships may be vertical or horizontal, the focus on this study is especially on the vertical relationships. To support examination of the vertical relationships the empirical evidence provides an insight into buyer-supplier relationships. However, the literature review will consider the factors that are equally important to both vertical and horizontal relationships. This is simply because according

to Parmigiani & Rivera-Santos (2011: 1108), to holistically approach inter-organizational relationships one must understand the fundamental drivers behind the collaboration and organizations can simultaneously be in both vertical and horizontal relationship with each other. Hence, in this paper terms such as alliance or partnership do not necessarily indicate the direction (horizontal or vertical) of the relationship. They rather refer to a relationship that is deep and important.

### 1.3 The research process and structure of the study

This study exploits the linear-analytic structure (see **Figure 2**), which means that the paper firstly introduces a problem and then continues with the review of the relevant prior literature. Thereafter, the methods are described and the empirical data presented and discussed. Finally the conclusions and implications are provided. This is the most common structure in academic journal articles as well as in many case studies. (Sounders et al. 2009: 176.)



**Figure 2.** The structure of the study.

The general research process has followed three major milestones. In seeking the answers to the research questions the research has exploited the results of the latest academic works in the field of inter-organizational relationships and knowledge transfer and thereby the first major step was conducting a comprehensive review of the latest research results. The theoretical assumptions were since enriched by collecting primary empirical data through qualitative research methods. Finally, the theory and the primary research data were brought together through discussion and the propositions to answer the research questions generated at the third phase.

The construction of the literature review has followed five-phase procedure. After outlining the focus of the study, systemic literature review was carried out by: firstly identifying the top journals in the fields of general management and strategic management; secondly reviewing at the topic level all the articles published in selected journals since year 2007; thirdly collecting articles related to inter-organizational relationship management and knowledge transfer; fourthly further filtering articles not directly related to the research problem areas; and finally compiling organized presentation of the findings of the recent academic works.

The journals which were taken into consideration as a source for this study were selected by exploiting the Academic Journal Quality Guide (2010) published by Association of Business Schools. As a result, 7 journals – Academy of Management Journal, Academy of Management Review, Academy of Strategic Management Journal, British Journal of Management, Harvard Business Review, Journal of Management and Journal of Management Studies – and all the issues published since 2007 were reviewed at the topic level, meaning that around 4000 articles in total were examined from which around 300 were selected to abstract level analysis. From the filtered pile of articles, 69 articles were found to be related to research questions and 31 articles were since selected for the comprehensive examination.

After the literature review, the research methods for the empirical data collection were selected and the empirical data was collected. The primary empirical data was gathered from Finnish technology industry by exploiting semi structured interviews as a research



method. The decisions regarding the empirical data collection are discussed more in depth in the methodology part after the literature review. Thereafter, the empirical findings and findings from the literature are drawn together through discussion and conclusions.

#### 1.4 Central terminology

<b>Capability</b>	<p>1.) An ability to exploit the resources in a way that produces preferred outcome. (Maritan &amp; Peteraf 2011)</p> <p>2.) Capabilities may refer to either organizational routines (Winter 2003) or management routines (Schilke &amp; Goerzen 2010)</p>
<b>Competence</b>	<p>“A cluster of related abilities, commitments, knowledge, and skills that enable a person (or an organization) to act effectively in a job or situation.” (BusinessDictionary.com 2013)</p>
<b>Dyadic</b>	<p>focus on knowledge transfer between two organizations (inter-organizational level) (Squire et al. 2008)</p>
<b>Dynamic capability</b>	<p>“...a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness.” (Mason &amp; Leek 2008)</p>
<b>End customer</b>	<p>The customer who is the last buyer in a value chain.</p>
<b>Focal company</b>	<p>The company that is under examination.</p>
<b>Horizontal collaboration</b>	<p>Cooperation with competitors (Belderbos , Gilsing &amp; Lokshin 2011)</p>
<b>Inter-network relationship</b>	<p>Relationship between two networks.</p>
<b>Inter-organizational relationship</b>	<p>Relationship between two organizations.</p>
<b>Inter-personal relationship</b>	<p>Relationship between two individuals.</p>
<b>Intra-network relationship</b>	<p>Relationship between collectives inside a network.</p>

<b>Intra-organizational</b>	Relationship between collectives inside an organization.
<b>Knowing capability</b>	Organization's ability to capture, integrate and reorganize internal and external skills and resources to adapt the changing environment. (Khoja & Maranville 2009)
<b>Nodal</b>	Can be used to refer to knowledge transfer inside an organizational boundaries (intra-organizational level) (Squire et al. 2008)
<b>Partnership</b>	“A type of business organization in which two or more individuals pool money, skills, and other resources, and share profit and loss in accordance with terms of the partnership agreement. In absence of such agreement, a partnership is assumed to exist where the participants in an enterprise agree to share the associated risks and rewards proportionately.” (BusinessDictionary 2013)
<b>Portfolio</b>	The portfolio consist of all the relationships owned by one organization (Heimeriks & Duyster 2007)
<b>Quasi-integration</b>	Relational contracting meaning that two market operators have hierarchical elements in their relationship (Walker & Poppo, 1991)
<b>Resource</b>	An asset or input (tangible or intangible) used in production that organization owns, controls or has access to.
<b>Resource Based Theory (RBT)</b>	The most influential theory of recent years regarding strategic management (Maritan & Peteraf 2011)
<b>Resource Based View (RBV)</b>	The same concept as RBT but used by different authors. (Teng 2007)
<b>Structural hole</b>	“When two of the ego's contacts do not share a tie, a structural hole exists between them” (Burt 1992; Phelps, Heidl & Wadhwa 2011)
<b>Strategic factor markets</b>	Markets where an organization can buy and sell resources that enable them to execute its strategy. (Maritan & Peteraf 2011)

<b>Strategic alliance</b>	An inter-firm cooperative relationship aiming to achieve strategic goals (Teng 2007)
<b>Systemic</b>	Examining the exchange among the entire group of networked organizations (intra-network and inter-network levels) (Squire et al. 2008)
<b>Vertical collaboration</b>	Cooperation with suppliers and/or customers (Belderbos et al. 2011)

## 2 LITERATURE REVIEW

In aspiration to provide a solid picture of the factors affecting to the managerial success of a strategic inter-organizational relationship there are three key theoretical areas that this paper examines. Firstly it appears to be important to understand why companies prefer collaborating in areas that require knowledge exchange with each other, secondly what are the factors affecting to the inter-organizational knowledge exchange, and thirdly how can one manage such relationship. Therefore, the literature review of this paper consists of three main areas: drivers for strategic relationships; main factors affecting to the inter-organizational knowledge exchange; and the management of an inter-firm relationship. In the **Table 1** below, there is a list of the key articles contributing to the content of the literature review.

**Table 1.** The main articles.

<i>Area of the literature review</i>	<i>Authors</i>
Drivers for strategic relationships	Teng (2007); Squire et al. (2008); Mitsuhashi & Greve (2009); Pangarkar (2009); Ramaswamy & Gouillart (2010); Wassmer (2010); Maritan & Peteraf (2011); Parmigiani & Rivera-Santos (2011)
Inter-organizational knowledge exchange	Gottschalg & Zollo (2007); Lazer & Friedman (2007); Teng (2007); Becerra et al. (2008); Easterby-Smith et al. (2008); Harryson, Dudkowski & Stern (2008); Mason & Leek (2008); Pérez-Nordtvedt, Kedia, Datta, & Rasheed (2008); Samarra & Biggiero (2008); Squire et al. (2008); Van Wijk, Jansen & Lyles (2008); Walter et al. (2008) Khoja & Maranville (2009); Makadok & Coff (2009); Mitsuhashi & Greve (2009); Becht (2010); Grimpe & Kaiser (2010); Martin (2010); Phelps (2010); Ramaswamy & Gouillart (2010); Wassmer (2010); Lindenberg & Foss (2011); Phelps et al. (2011)
Management of an inter-organizational relationship	Heimeriks & Duyster (2007); Teng (2007); Esterby-Smith et al. (2008); Pugh & Dixon (2008); Squire et al. (2008); Walter et al. (2008); Dimitratos, Lioukas, Ibeh & Wheeler (2009); Dirks, Lewicki & Zaheer (2009); Janowicz-Panjaitan & Khrisnan (2009); Mitsuhashi & Greve (2009); Pangarkar (2009); Greve, Mitsuhashi & Rowley (2010); Grimpe & Kaiser (2010); Martin & Eisenhardt (2010); Phelps (2010); Schilke & Goerzen (2010); Wassmer (2010); Das & Kumar (2011); Phelps et al. (2011)

The first part of the literature review discuss about the drivers. The review discovered that inter-organizational relationships (IORs) may consist of a relatively rich variety of drivers and possible collaborative forms. Drivers for collaboration may vary from gaining access to valuable resources, developing innovations, reducing transaction costs, learning from the partner, minimizing risk, moving into a more favorable competing position at the market, or to ease completely new market penetration (Pangarkar 2009: 982; Wassmer 2010: 148). Hence, collaboration forms that are often discussed include strategic alliances, joint ventures, buyer-supplier agreements, licensing, joint R&D, co-branding, franchising, cross-sectors partnerships, networks, trade associations and consortia (Teng 2007: 120; Parmigiani & Rivera-Santos 2011: 1109).

Even though the drivers and collaboration forms vary, one may aspire to seek commonalities among the drivers and forms. Based on the findings regarding the literature review, one may identify at least ways to approach the drivers: strategic management point of view; and co-exploration & co-exploitation point of view. Hence, topics 2.1 and 2.2 discuss the alternative approaches to classify the key drivers.

Second area of the literature review consists of the topics related to the inter-organizational knowledge exchange. In the latest management literature knowledge exchange (Phelps et al. 2011) is also discussed under the terms of knowledge transfer (Squire et al. 2008) and knowledge sharing (Van Wijk et al. 2008). Despite the term that is used, one must notice that the knowledge exchange is always carried out through a relationship established by two parties. Hence, the success of the transfer is dependent on the characteristics of the knowledge itself and the characteristics of both the sender and the recipient (Esterby-Smith et al. 2008: 685).

In addition to characteristics of the knowledge; and the characteristics of both donor and the receiver; the context in which the exchange is occurring affects the success of the exchange (Esterby-Smith et al. 2008: 685). The review show that the context can be examined at various levels (see **Table 2** at page 64). Recent management literature

recognizes five levels: inter-personal, intra-organizational, inter-organizational, intra-network and inter-network levels (Squire et al. 2008: 463; Phelps et al. 2011: 1).

Even though knowledge transfer can be analyzed at various levels, knowledge exchange may be always tracked down to the individual level as the individuals eventually are the basic learning units of the organization (Deeds 2003: 40). As the level of analysis change from the inter-individual level to the higher levels, the number of possible hindering or facilitating factors increases as all the factors at lower levels affect to the highest level of analysis. This means that the factors at the inter-individual and intra-organizational levels affect directly to the inter-organizational level of knowledge exchange and thereby influence the success of a strategic relationship. Hence, nodal (intra-firm) and dyadic (inter-firm) knowledge exchange appears to be tightly bounded (Esterby-Smith et al. 2008: 687).

In practice the interdependency may be easily observed. After bringing the ideas inside the organization, intra-organizational knowledge transfer mechanisms are used in facilitating the exploitation and commercialization of the new idea (Grimpe & Kaiser 2010: 1501–1502). Hence, the internal knowledge exchange mechanisms are required to be able to actually exploit the externally received knowledge (Pugh & Dixon 2008: 21–22; Van Wijk et al. 2008) and therefore intra-organizational knowledge sharing seems to be necessity to successful inter-organizational knowledge transfer (Van Wijk et al. 2008).

In addition, one can also question the definition of the internal and the external knowledge. Khoja and Maranville (2009) approach the concept of internal knowledge from the intra-organizational collective point of view and consider knowledge as external if it is not possessed by the focal collective. This means that they define the knowledge as external even though it is possessed by another unit inside the company's own hierarchy leading to conclusion that the legal boundaries do not determine whether the knowledge is external or internal. (Khoja & Maranville 2009: 53.) Pugh and Dixon (2008: 21–22) point out that knowledge captured by one part of the organization hardly ever benefit other departments with its full potential. This supports the idea that one

should not even try to outline intra-organizational knowledge transfer when trying to holistically understand the inter-organizational knowledge exchange.

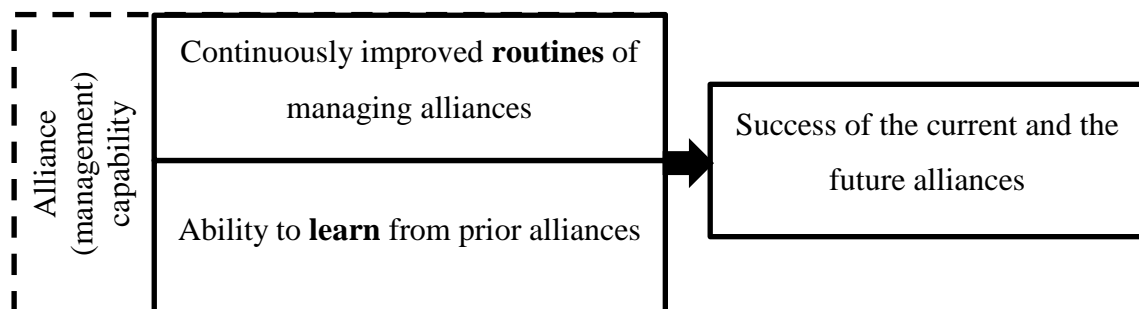
As a conclusion, argumentation above suggests that the legal boundaries may not be the only barrier to the knowledge transfer or not even the greatest factor. When analyzing knowledge transfer at the inter-organizational level, one should not ignore the factors at lower levels as the success appear to be dependent on all the levels simultaneously. Therefore, the chapters 2.3, 2.4 and 2.5 consider all the levels of knowledge exchange simultaneously even though the focus of this paper is on inter-organizational level. Moreover, even though the definition of the internal and the external knowledge is not commonly agreed, in this paper the external knowledge refers to the knowledge received from other organization.

In the third part of the literature review the focus is on the findings regarding management of an inter-organizational relationship. According to Schilke and Goerzen (2010: 1212) organizations differ in terms of their ability to create value through alliances. Especially relationships involving transfer of complex knowledge appear to be challenging for managers to handle and despite all the effort, eventually the majority of alliances fail (Walter et al. 2008: 530). However, managerial routines tend to have significant impact on the success of an inter-organizational relationship (Schilke & Goerzen 2010: 1212). Therefore, it is beneficial to also examine the management of a strategic relationship.

The latest management literature recognizes several concepts aspiring to explain and model the successful management of inter-organizational relationships. Heimeriks and Duyster (2007) discuss about alliance capability, Schilke and Goerzen (2010) emphasize alliance management capability and Wassmer (2010) alliance portfolio management but equally Mason & Leek's (2008) dynamic knowledge transfer capability may be seen as a relevant approach to examine the managerial practices affecting alliance performance.

These concepts have some similarities, overlapping ideas and interrelated suggestions. Despite the concept, the majority of scholars (Heimeriks & Duyster 2007; Dimitratos et al. 2009; Mitsuhashi & Greve 2009; Wassmer 2010) emphasize the idea that alliances may be analyzed at two basic levels: single relationship; and portfolio level. Relationship level analysis focus on dyadic tie referring to relationship between two organizations (Dimitratos et al. 2009; Mitsuhashi & Greve 2009). Whereas the portfolio level analysis consider all the relationships owned by one organization (Heimeriks & Duyster 2007; Wassmer 2010).

Another idea connecting these capabilities is the dual emphasis on (1) clearly identified routines to manage alliances and (2) ability to learn from experience to improve these routines (see **Figure 3**). For example according to Wassmer (2010: 159) alliance capability involves mechanisms to learn from experience in prior alliances and routines that are developed through learning. Similarly, Schilke and Goerzen (2010: 1198) argue that organization possessing strong alliance management capability is continuously improving their alliance management routines. Moreover, Wassmer (2010: 161) state that holistic approach to alliance portfolio management includes formalized processes to analyze both singular alliances and portfolio, but also facilitated knowledge transfer to share alliance related knowledge and best practices of how to manage alliances. Hence, in the chapters 2.6 and 2.7 the managerial routines and the learning routines are discussed. In the final chapter of the literature review, all these three areas: drivers, knowledge exchange and the management are drawn together and summarized.



**Figure 3.** Alliance (management) capability. (Adapted from Wassmer 2010: 159)



## 2.1 Drivers for a relationship: Strategic management viewpoint

From the strategic management point of view, IORs may be formed to respond to the changes at the industry structure or to use alliances to proactively reform an industry by providing unforeseen value propositions. Therefore, strategic IORs may be seen as defensive or offensive depending on the driver of the relationship. (Wassmer 2010: 149–150.) Despite the driver, the corporate strategies often tend to create resource gaps between the existing resources and resources required to follow the chosen strategy (Teng 2007: 120–121). Strategic renewal often means relatively significant changes in the scope of the main business or transforming the entire way of doing the existing business and such transformation requires new resources and capabilities. To be able to re-deploy the existing resources, the organization must renew the resource profile and introduce new elements into it. (Floyd & Lane 2000.) Resource gaps may consider either property- or knowledge-based resources (Teng 2007: 130). This study is especially interested in the latter type of resources.

The Resource-based theory (RBT) – or as some scholars (Barney 1991; Wernerfelt 1984; Teng 2007) name it, the Resource-based view (RBV) – has become the most influential theory of recent years regarding strategic management (Maritan & Peteraf 2011: 1374) by examining heterogeneous internal resources contributing to the competitive advantage (Teng 2007: 120). Resource heterogeneity means that an organization has a unique resource portfolio in its industry. To attain heterogeneity, an organization must possess valuable or superior resources that are scarce. The organization should, therefore, aspire to avoid resource similarity, both in type and quantity with its competitors (Teng 2007: 127). RBV relies on the assumption that the competitive advantage may be gained through immobile (Squire et al. 2008: 463), non-imitable or non-substitutable resources (Wernerfelt 1984; Barney 1991; Teng 2007: 120).

Heterogeneous resource positions develop and change over time (Maritan & Peteraf 2011: 1384). Hence, strategic resources are the product of path-related evolution, which is always unique and traditionally thought to be firm-related (Squire et al. 2008: 463). However, some recent studies have argued that not only internal resources affect the

competitive advantage (Das & Teng 2000; Squire et al. 2008; Wassmer 2010; Maritan & Peteraf 2011: 1384).

Every interaction – including interaction with external sources – affects the resources and modifies them (Maritan & Peteraf 2011: 1384). By pooling together all the accessible resources including intra-organizational resources, resources available through dyadic relationships (relationships between two organizations) and resources of the entire network, the RBV approach may be further widened to the Extended Resource-Based View (ERBV) (Squire et al. 2008: 463). Characteristics of both external and internal interactions, therefore, also have an impact on the resource base (Maritan & Peteraf 2011: 1384).

The Resource-based theory and the capability approach provide two angles to consider in achieving strategically important external resources. Firstly, a partner may directly possess such desired resources and secondly, the relationship itself may become a great source for unique combination of practices and characteristics and, therefore, is seen as a valuable resource as well. (Wassmer 2010: 153–155.) The focus on the extended view is drawing the attention away from the intra-organizational resource portfolio to the relationship level or network level portfolio of heterogeneous resources. For many industries there are incredible restructuring possibilities by exploiting the latest technologies and other resources not traditionally deployed at the industry. (Teng 2007: 135.)

The latest management literature recognizes four options to strive for resource heterogeneity and fill the resource gap. The first option would be filling the gap with internal resources by reallocating the existing resources. This option would give the organization full control over the contributing resources, but in many cases internal resource development or reallocation may not be the most economic or competitiveness-boosting option. (Teng 2007: 123.) The organization may also completely lack the required competences to develop the resources needed, or even if they could, they may not be able to do it in timely manner. In today's turbulent business environment being too slow often means not being at all. (Teng 2007: 123; Mitsuhashi

& Greve 2009: 978.)

If the required resources may not be efficiently and effectively developed internally, the gap must be filled by exploiting external sources. The second option would be to acquire resources from the factor market. To be able to do so, the resources must be tradable. Most of the tangible resources may be purchased through labor, product and capital markets. Some technologies, knowledge and organizational resources are also available through licensing, consulting and outsourcing. Benefits of the market transactions are low costs, efficiency and ability to easily choose and change the supplier. (Teng 2007: 125.) This approach often relies on the transaction cost rationale which aspires to minimize the costs of transaction and production (Das & Teng 2000: 36). The approach, however, is limited to the existence of the markets for the wanted resource and secondly if the resource is easily accessible through market transaction the competitive advantage achieved through the new resource combination may not be sustainable (Teng 2007: 125).

The third option would be to acquire a firm possessing the resources wanted. By integrating an entire company to its own hierarchy, a focal firm would get access to all the resources of the purchased firm (Teng 2007: 125). The difficulty with acquisition is that it may be relatively expensive if the target firm is strong and has a stable market position or if the resources wanted represent a relatively small portion of all the resources that the target firm has. However, Hennart and Reddy (1997: 4) point out that if the unwanted resources are easily separated from valuable ones and sold further, acquisition can be a highly attractive alternative.

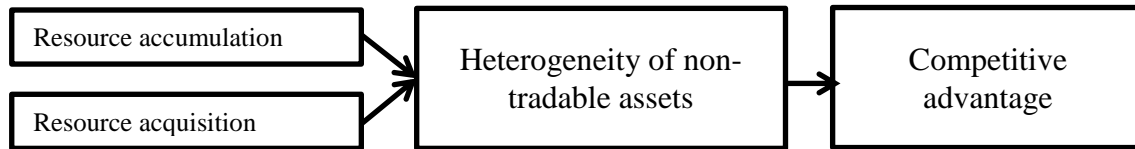
The risk of overpaying is also present as a result of information asymmetry that the buyer and seller has regarding the value of the resources wanted. Moreover, it is possible to buy a firm with heavy problems that are not visible from the outside. Integrating two firms is also difficult requiring a substantial amount of time and divesting an unwanted asset may not be a simple task either as Birkinshaw, Bresman and Håkanson (2000) state that many acquisitions eventually fail to create the wanted synergy. (Teng 2007: 125.)

The fourth option is to form an IOR with a firm possessing the resources wanted. A strategic alliance allows companies to temporarily exploit the resources of another firm through mutually agreed cooperation. Alliances are flexible arrangements to share risks and costs between organizations. However, good partners are extremely hard to identify and the relationship is difficult to manage and control. Also differing objectives of partners may cause conflicts or raise opportunistic behavior. As the resources wanted are owned by the partner, there is always a risk of losing the resources complicating the long-term planning. (Teng 2007: 125.)

Conventional business design and strategy setting have also restrictions regarding the narrow minded focus on economics of the firm and the industry. Strictly holding the focus on the traditional competitive thinking, the organization aspires to defend its position and bargaining power. In such case the company tends to build barriers to protect its competitive advantage and, therefore, alternative strategic moves are limited. By buying other operators from the market or establishing joint ventures with another market operator, the organization sends a rather strong signal about what is coming next with their strategy execution making the focal company predictable. In contrast, by enabling free interaction with surrounding stakeholders, companies may acquire surprising resources and knowledge from external sources and mix them with the existing knowledge base and thus introduce unforeseen products and services. Moreover, as this type of exchange is more invisible, it is hard to observe outside the organization and thereby copy facilitating the creation of the sustainable competitive advantage. (Ramaswamy & Guillard 2010: 106.)

As a conclusion, the discussion above suggests that in order to achieve sustainable competitive advantage, the resource portfolio must be heterogeneous and consist of valuable, rare, imperfectly imitable and imperfectly substitutable resources. One should not match singular resources to these conditions, but rather examine the entire resource portfolio of the firm as an entity including external sources as well. (Teng 2007: 127–128.) Organizations may reach the portfolio heterogeneity by acquiring resources from strategic factor markets or through strategic relationships (resource acquisition) or by

generating the resources internally (resource accumulation). Maritan and Peteraf (2011: 1374) argue that both of these mechanisms are to be examined and exploited to achieve the heterogeneous resource position most efficiently (see **Figure 4**).



**Figure 4.** Heterogeneity of resources affecting sustainable competitive advantage. (Adapted from Maritan & Peteraf 2011: 1374)

## 2.2 Drivers for a relationship: Co-exploration & Co-exploitation

Another approach examining the collaboration drivers focuses on the goal-setting theory of the relationship. Many of the inter-organizational collaboration forms have been the focus of scholars, but only seldom are the forms discussed in the same academic paper. Parmigiani and Rivera-Santos (2011) represent an approach to point out commonalities between different forms. They argue that there are two pure forms that indicate the relationship goal-setting. The main idea is that the relationships may be aligned based on the purpose that the relationship stands for. Similarly to the strategic management reasoning discussed in the previous chapter, Parmigiani and Rivera-Santos (2011: 1109) suggest that every inter-organizational relationship may be divided into two key groups, but in contrast to strategic management literature, groups are named as co-exploitation and co-exploration.

Co-exploitation as a pure form refers to the relationship where the main objective is to execute existing knowledge, tasks, and functions through a strategically important cooperative relationship. March (1991: 71) argue that exploitation includes activities aiming mainly to efficiency. Hence, exploitation emphasizes the effort of expanding the usage of the existing knowledge, and streamlining processes to exploit the assets efficiently. The knowledge exchanged is often explicit and from the perspective of time, the exchange is ongoing (Parmigiani & Rivera-Santos 2011: 1122–1123).

Co-exploration, in contrast, refers to strategically important cooperation creating new knowledge, tasks, functions or activities. The main focus is on learning and innovation by attaining and mixing new knowledge. Learning can relate to learning from the counterpart, learning about the counterpart or learning to manage the relationship with the counterpart, and the entire process may be continuous or it may be executed in an agreed time frame. (Parmigiani & Rivera-Santos 2011: 1122–1123.)

Co-exploration is also closely related to the concept of corporate entrepreneurship (CE), which refers to organizational characteristics that are peculiar to firms mixing internal and external resources in a new way. It also may be seen as a process in which a company innovates, establishes new businesses and transforms itself (Guth & Ginsberg 1990). Dess, Lumpkin and Covin (1997) describe CE as innovative, autonomous, risk taking, proactive competitive actions. Covin and Slevin (1991: 7) emphasize the characteristics by arguing that entrepreneurial firms are proactive and innovative risk takers. Entrepreneurial firms are constantly alert for new interesting opportunities and, therefore, pursuing of opportunities may not be only seen as the objective, but as the business approach (Kaish & Gilad 1991). Entrepreneurial activities of an organization also tend to create resource gaps that the organization must fill (Teng 2007: 121).

The reality often combines these two distinct pure forms. An alliance focusing on joint research may be seen more like co-explorative, whereas joint manufacturing exploits the specialties of both organizations and stands for co-exploitation of existing capabilities. (Parmigiani & Rivera-Santos 2011: 1123.) In addition, as companies have multiple relationships simultaneously, the differing orientations of partners may complicate the cooperation (Steensma, Tihanyi, Lyles & Dhanaraj 2005). However, if the parties are entering new markets together, it may require both approaches. It is also to be noticed that the purpose of the relationship may be different among the parties. Therefore, the most important thing affecting the success of the relationship is not the governance form, but the understanding the intention, drivers and motivation of the partner. If the

intentions of counterparties differ radically from each other, it may cause tension between the partners. (Parmigiani & Rivera-Santos 2011: 1123.)

In chapter 2.8, both strategic management point of view and goal-setting theory are drawn together.

### 2.3 Characteristics of knowledge

The second part of the literature review discuss about the knowledge exchange. Under this topic the focus is on the first influential area of the knowledge exchange – the characteristics of knowledge. As discussed earlier, the resource based view names such attributes as rarity, inimitability and non-substitutability to be the factors affecting to knowledge value. RBV suggests that resources that can be seen valuable, idiosyncratic and are costly to copy or substitute may be relevant source for competitive advantage. (Squire et al. 2008: 463.)

If the resource is found valuable and contributes to competitive advantage, it fosters the attractiveness of both knowledge itself and the source possessing the knowledge. Especially knowledge characteristics such as rareness and non-substitutability have been found to be enhancing the attractiveness of the donor. Also both the characteristics of knowledge and the attractiveness of the source have direct fostering impact on the learning intention. Learning intention will be discussed more in depth in next chapter. Attractive sources are often perceived useful helping to avoid "not-invented-here" resistance towards the new external knowledge. (Pérez-Nordtvedt et al. 2008: 734–736.)

Pérez-Nordtvedt et al. (2008: 735) found that inimitability have reversely correlative relationship with comprehension of the knowledge transfer, which indicates that if the resource is inimitable, no matter other factors the knowledge transfer may not ever be complete. Finding leads to two-way conclusion: the conclusion that inimitable resources may not be completely copied even by the closest partners protecting the attractiveness of the source, but on the other hand, in some cases inimitability may be a barrier to knowledge transfer itself and, therefore, can be a factor decreasing the attractiveness. (Pérez-Nordtvedt et al. 2008: 734–736.)

Attractiveness of the knowledge may also be based on the field of expertise the knowledge is linked to. Samarra and Biggiero (2008) found that some firms tend to favor certain type of knowledge such as technological, market or managerial knowledge. Preferring certain type of knowledge easily leads to situation where engineering firms are interested only in transferring technical knowledge and thereby fails to benefit from possible transfer of wide variety of available knowledge (Esterby-Smith et al. 2008: 681).

Similarly, complementarity of the knowledge may determine attractiveness. Even though, the benefits of complementarity in internal and external knowledge bases and capabilities is widely recognized in literature (Teng 2007; Esterby-Smith et al. 2008; Van Wijk et al. 2008; Mitsuhashi & Greve 2009), Grimpe and Kaiser's (2010: 1501–1502) argue that certain amount of similar competencies are required to facilitate integration of knowledge from external sources. In their research they found empirical evidence regarding research and development (R&D) activities where Internal R&D activities appear to serve in two ways; firstly by generating firm-specific knowledge resources and secondly by creating capabilities that enable integration of external knowledge. Hence, co-investing to internal R&D and knowledge integration capability facilitates the exploitation of external knowledge.

#### 2.4 Characteristics of sender and recipient in knowledge exchange

In addition to characteristics of the knowledge, the characteristics of the donor and the receiver affect the success of the knowledge transfer. Some characteristics are more level specific than others. Similarly to the contextual factors, the number of characteristics affecting the knowledge exchange increase when moving to higher levels.

At the inter-personal level, individuals may be similar or dissimilar based on their expertise, status and personality. People sharing similar expertise are more effective in communicating with each other lowering the costs of knowledge transfer, which often means that the benefits are not exceeded by costs and that fosters the motivation of



sharing knowledge. Social status, for one, is also two sided factor. Individual with lower status tend to be more eager to share the knowledge and person with high status easily ignores the effort. Therefore, similarity in status facilitates the knowledge transfer. Similar personality for one, may foster development of trust, joint identity and respect and thereby increase motivation to collaborate and share knowledge. (Phelps et al. 2011: 11–12.)

According to Grant (1996) knowledge turns to be immobile when it is hard-to-codify and thereby challenging or impossible to communicate further. Restrictions in ability to send and receive certain type of knowledge appears to be dependent the qualifications of individual rather than the organization. Therefore, the ability of the sender to formalize and communicate the knowledge and receiver's ability to interpret assimilate and utilize the meaning and the value of the knowledge play central role in gaining success in the transfer (Cohen & Levinthal 1990; Squire et al. 2008: 464.) This is actually quite interesting topic as the way of expressing and presenting knowledge is hugely dependent on the person articulating the knowledge. Every individual interprets the information differently and a dissimilar process may lead to a dissimilar output. (Esterby-Smith et al. 2008: 683.)

People who have power in their organization are able to question the status quo, and hence, they may be more willing to adopt and implement innovations. Individuals with wide range of expertise are able to communicate efficiently with larger number of people and if they have dense knowledge network around them possessing diverse knowledge, they are able to transfer complex information to various audiences. Individuals with direct contacts from other organizational units facilitate intra-organizational learning. Social cohesion established by strong personal ties or density of network facilitates the knowledge sharing. (Phelps et al. 2011: 12.) Tie strength is discussed more in depth in later on this paper.

At the higher levels, sender-receiver similarity and complementarity affect the value of knowledge sharing as similarity facilitates effective communication with the partner whereas differences in national and organizational characters tend to have very

dissimilar knowledge bases. Diversity naturally exposes organizations to great learning opportunities, but at the same time dissimilarity make the knowledge exchange difficult and costly. (Phelps et al. 2011: 17–20.)

Transmission capacity refers to organization's experience in diverse technologies and ability to exploit the experience in transferring and implementing knowledge into partner's processes. Success in delivering innovations increases as the collective teaching capability of the organization develops. Mutual collaborative history leads to development of collaboration capability. Relationships with long history, repeated and intense cooperation and frequent partnering increase knowledge creation, transfer and adaption. (Phelps et al. 2011: 20–21.)

Pérez-Nordtvedt et al. (2008) found in their study that the learning intent of the receiving party, the perceived attractiveness of knowledge source and the relationship between knowledge exchange parties are the most important factors affecting to effective and efficient cross-border knowledge transfer. Clear learning intent facilitates quick and comprehensive absorption of new knowledge. Pérez-Nordtvedt et al. (2008) found that learning intent is necessity to knowledge transfer. (Pérez-Nordtvedt et al. 2008: 734–736.)

At the inter-organizational level, mutually agreed procedures may also facilitate the achievement of objectives set to the particular alliance. If the learning intentions of both parties and the extent of which to share knowledge are openly discussed and jointly agreed, it is easier to avoid unintended exchange of knowledge. (Walter et al. 2008: 536–538) In situation where alliance experience learning race, the relationship tend to be doomed for termination as the result of a race often is win-lose situation. Learning race will be further examined under the contextual characteristics.

Learning capability is central success factor in inter-organizational learning (Lam 2003), to which is often referred as absorptive capacity. Absorptive capacity facilitates diffusion of innovation, adoption and exploitation of the knowledge received from partners (Phelps et al. 2011: 19–21). Absorptive capacity may be defined as a

capability to adopt and exploit external knowledge (Khoja & Maranville 2009: 56). Being open to new ideas have huge impact on adoption of external knowledge (Phelps et al. 2011: 19–21). Absorptive capacity evolves overtime as the organization gain experience. Gaining such experience may facilitate learning in other relationships as well (Gulati 1995b), even though some authors argue that the absorptive capacity tends to be relationship-specific character (Dyer & Singh 1998; Lane & Lubatkin 1998; Teng 2007: 133)

Performance of counterpart may also affect knowledge exchange. Squire et al. (2008: 472) found that high performing suppliers are less absorptive to buyer's knowledge in long-term relationship and on the contrary low performing suppliers are more sensitive to buyers' thoughts. Van Wijk et al. (2008) identified similarity in company size and absorptive capacity as factors affecting positively to knowledge transfer. Even though absorptive capacity is commonly discussed factor in literature, there seems to be less explicit empirical studies revealing its existence (Esterby-Smith et al. 2008: 681).

## 2.5 Context of knowledge exchange in inter-organizational relationships

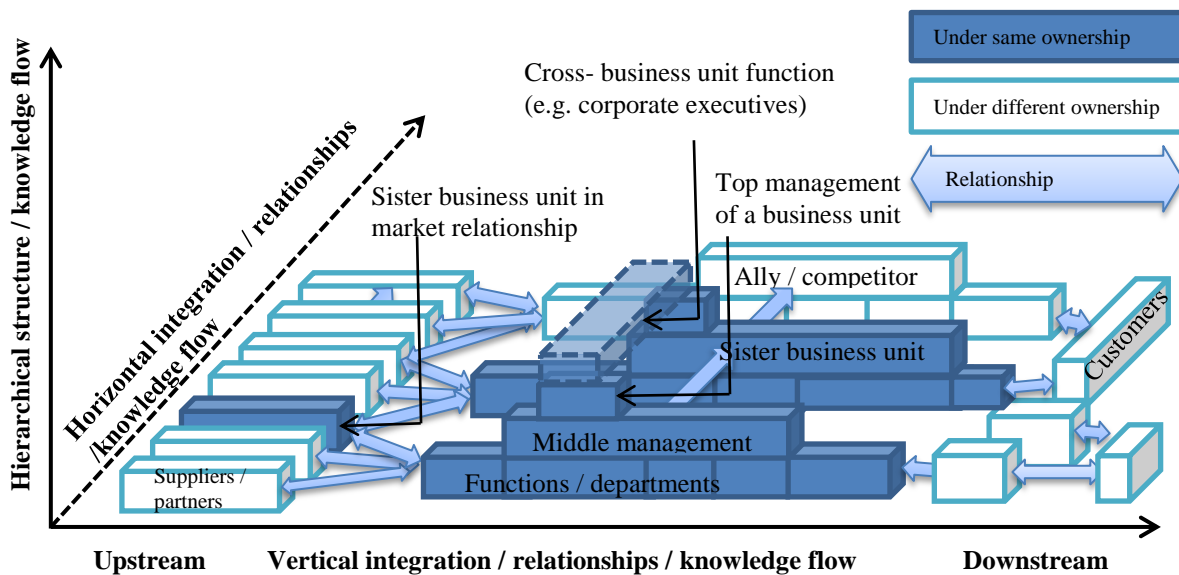
In addition to the knowledge characteristics and the characteristics of the sender and the recipient, there is a bunch of contextual factors affecting to knowledge exchange. All the factors at the inter-personal, intra-organizational and at the inter-organizational level influence the inter-organizational knowledge exchange (Squire et al. 2008: 462). In this chapter the focus is on these contextual factors.

### 2.5.1 The direction of the knowledge flow

Firstly, it is beneficial to approach the knowledge exchange by identifying the direction of the knowledge flow. By emphasizing dimensions of Porter's (1980) value chain theory, knowledge can flow vertically to customers (downstream) or suppliers (upstream); or horizontally to/from competitors, sister companies or other cooperative organizations. Mason and Leek (2008) suggest that intra-organizational knowledge flows tend to be most commonly vertical and inter-organizational flow horizontal.

However, this argumentation may be quite strictly context-related and may not be applied as a general rule.

In addition, hierarchical structure tends to have impact on both intra- and inter-organizational knowledge flows as well (Esterby-Smith et al. 2008: 687). Yanow (2004) argue that horizontal and hierarchical dimensions may have boundaries hindering knowledge flow. To further develop Yanow's argumentation, the author suggests that all the dimensions including vertical, horizontal and hierarchical directions should be considered to holistically approach the knowledge flow (see **Figure 5**).



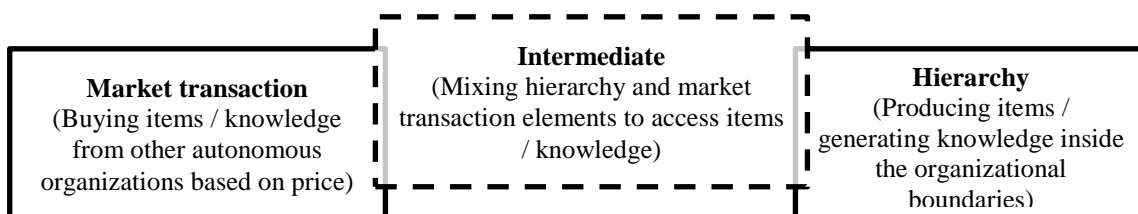
**Figure 5.** The direction of knowledge flow.

The realization of commercial potential of externally gained knowledge requires that the right people will be exposed to the acquired knowledge and be able to work the knowledge further. At the same time decision makers having power to sponsor the development must be able to observe the knowledge flows transparently despite the direction of the knowledge flow (Yanow 2004; Esterby-Smith et al. 2008: 687). In such case knowledge from customer to seller first flows vertically to upstream, then it is exposed to hierarchical barrier (gaining acceptance from sponsor) and since possibly to another vertical (to the focal company's supplier) or horizontal (to "right" individual at sister business unit) barrier.

In the **Figure 5**, there is a visualization of the knowledge flow directions. The model has irrational axis labels (horizontal / vertical) from practical presentation reasons; however, labels are consistent with Porter's (1980) value chain theory to avoid confusion. One should also notice that organizations can be simultaneously in vertical and horizontal relationship with other organization. A company can be a competitor to another but at the same time they can be a customer and supplier to each other in other field of business. Therefore, relations between organizations may not be always easily illustrated.

### 2.5.2 Governance forms

In addition to direction of knowledge flow, way of organizing governance appears to affect knowledge exchange. These two topics are interrelated as the modern forms of organizations have become increasingly diverse mixing the traditional extreme ends of market transaction and the hierarchy (transactions between operators under same ownership). When moving away from extreme ends of organizing exchange of items and knowledge, there are basically two main options: whether to increase market transactions inside the hierarchy or to introduce hierarchical elements into the relationship between autonomous market operators (see **Figure 6**). Makadok and Coff (2009) discuss about these intermediate governance models in their article and introduce "the taxonomy of hybrid governance models" by distinguishing pure market and hierarchy models from intermediate models through three dimensions (see appendix 1). (Makadok & Coff 2009: 297.)



**Figure 6.** Three basic options to organize exchange. (Adapted from Makadok & Coff 2009: 298–301)

According to Baker, Gibbons and Murphy (2001: 212) many organizations have been fostering market behavior inside the hierarchy in recent years. Restructuring governance have led to decentralization of decision-making, empowerment of employees and so called "intrapreneurship" giving the employees the feeling of owning the company (see "sister unit in market relationship" **Figure 5** in page 34). Empowerment has taken business units further from each other making the relationship more market- alike despite the mutual ownership. (Makadok & Coff 2009: 297.) In some cases, to a business unit producing one value adding part can be given full autonomy or the entire activity can be spinned off by establishing new company that continues operating the activity or the activity can be outsourced to another market operator. Changing governance into intermediate area by introducing market transaction elements such as autonomy may have several benefits like local responsiveness, but facilitated knowledge transfer appears to be missing from that list.

As a reverse action to mentioned above, to access tacit knowledge quickly and efficiently, organizations may introduce hierarchical elements into market relationship and establish a quasi-relationship (see appendix 1) or establish entirely new companies together with partners (Makadok & Coff 2009: 298). According to Teng (2007: 131) regarding transfer of tacit knowledge, acquiring the entire company possessing the desired resources or forming an alliance may be seen the most appropriate forms of organizing the knowledge exchange. Operating under the same hierarchy with clearly identified resources facilitates the integration of physical assets, but also the exchange and exploitation of intangible resources such as tacit knowledge (Inkipen 2000; Teng 2007: 134). Equity joint ventures are found to be knowledge transfer facilitating governance model. Also joint ventures support mutual knowledge creation and adaption between partners and moreover prevent unwanted knowledge leakages outside the joint venture. (Phelps et al. 2011: 20.)

However, increased formality of the cooperation may not be the only tool to foster knowledge sharing between two organizations. For example research collaboration through informal inter-individual relationship tends to have better impact on knowledge sharing than formal inter-organizational contract or structure (Phelps et al. 2011: 17). In

such direct informal relationships the exchange is rich and precise. Direct ties of individuals, which will be discussed in depth under next topic, may grant access to knowledge that is hard to gain through formal collaboration. Moreover, Cousins, Handfield, Lawson and Peterson (2006) state that experience in interacting with another organization accumulates "relational capital", which facilitates further inter-organizational exchange of knowledge more efficiently than formal contracts (Squire et al. 2008: 465).

### 2.5.3 Network structure

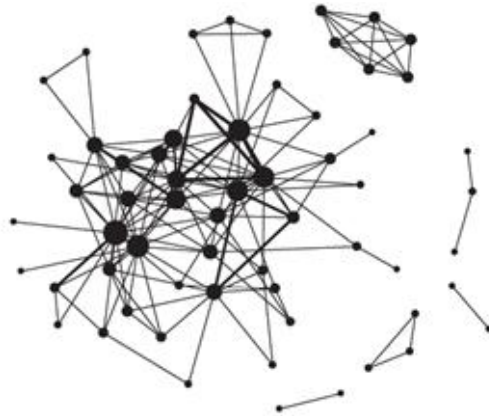
As mentioned in previous chapter, direct ties as a part of ego centrality of the network structure affect the knowledge transfer. In addition to ego centrality knowledge network structure has two other sub dimensions as well: network position and density of ties. All these three dimensions have impact on all levels of analysis.

#### *Ego structure*

First dimension, ego structure, refers to network structure of three individuals or collectives, where all the parties do not have direct ties with each other (see **Figure 7**). This means that there is a structural hole in the network where one of the parties connects two other knowledge sources to each other. Structural holes may promote the connecting individual's or collective's attractiveness as an idea generator. However, closer ties with the original source of knowledge may facilitate the spreading of the innovation. (Phelps et al. 2011: 9.) If intra-organizational network of a multinational corporation is highly ego-centric, meaning that there are structural holes inside the organization, and if the headquarters is the connecting element, the units are not likely to be willing to share their knowledge directly with each other (Phelps et al. 2011: 14).

According to Nonaka and Takeuchi (1995) the transfer of tacit knowledge relies completely on the social process of free direct interaction between "the master and journeyman". The learning conducted through observation and social experience and fostered with free dialogue tends to be more efficient in capturing the tacit knowledge (Squire et al. 2008: 465). By providing direct interface, the learner is exposed to

observation of actual operations of the counterpart, which facilitates both the gradual and the experiential learning which are essential to the exchange of tacit knowledge (Cavusgil, Calantone & Zhao 2003: 10; Squire et al. 2008: 464). Hence, organizations should enable the direct interaction between valuable resources that together may be able to generate new combinations of value. However, without trust the donor of the knowledge tend to seek possibilities to make exposure less transparent and thereby protect distinctive competencies. Thereby, protectionism hinders the knowledge transfer at all levels. (Squire et al. 2008: 472.)



**Figure 7.** Inter-organizational alliance network. (Greve et al. 2010: 310)

### *Position centrality*

Second dimension is position centrality. The more central the position is the more accessible the individual is to greater amount and diverse knowledge. The greater and diverse the accessible knowledge is, the better chance there is to combine this knowledge in order to create new novel knowledge. Moreover, the more ties individual has to early adopters of innovations, the more likely is the individual is to adopt the innovation. If the innovator itself is in a central position of knowledge network, he or she has been exposed to wide range of knowledge increasing the trustworthiness of the innovator which means that the innovation is likely to be adopted by direct connections as the source is perceived as reliable. In addition, central individuals tend to have power



over others as they are aware of surrounding information flows, and the power has positive impact on motivation to adopt and implement innovations. Individuals having ties to people in other organizations tend to be more creative as the knowledge available is diverse. (Phelps et al. 2011: 7–8.)

Similarly to knowledge exchange between individuals, position centrality has positive impact also at the higher levels of analysis. At the intra-organizational level, the more central the unit's position is in the knowledge network the richer is the variety of accessible knowledge base of direct ties. If the unit has dense relations with knowledge sources in other organizations, it may increase the internal attractiveness of the unit as a knowledge source. (Phelps et al. 2011: 13.) At the systemic level analysis, central position in the network affects positively to the organization's attractiveness as an innovation source as the central organizations are perceived to be able to commit high quality decision because of their diverse knowledge base. (Phelps et al. 2011: 17–20.) Considering offshore partners, their attractiveness as a knowledge source is increased if partner can represent verified superior performance or if they are in the central position at the business networks of their home market (Pérez-Nordtvedt et al. 2008: 734–736).

The number of inter-organizational relationships affects to knowledge exchange performance. The more the organization has direct dense ties, the greater is the source for external knowledge. (Phelps et al. 2011: 17.) High numbers of alliances also tend to have greater positive impact on firms that are entrepreneurial, aiming to high levels of innovation output or new product development. However, there is a wide range of qualitative characteristic such as alliance partner quality, relationship efficiency and breadth of alliance portfolio that affect more to the portfolio performance at inter-organizational level than raw number of ties. Regarding alliance portfolio breadth, less direct ties, but large number of indirect ties ensures access to rich source of expertise with costs of only few direct ties. Such alliance portfolio is efficient. (Wassmer 2010: 152.)

*Network density*

Regarding the third dimension, the density of network, there are arguments both behalf and against strong ties. Deep relationship is more likely to support innovation capability as the relationship is embedded with trust and involves active knowledge transfer, accumulation of social content between partners and relationship-specific investments (Wassmer 2010: 155). Strong ties also enhance development of trust itself and reciprocity, which prevent opportunistic behavior and foster cooperation. Tie strength affects especially to transfer of complex tacit knowledge and the knowledge that is private. Exploratory learning is also fostered by strong ties. (Phelps et al. 2011: 10–11.)

Only exchange that is carried through mutually understood concepts can provide a message that is meaningful to the receiver firm (Cavusgil et al. 2003). By having strong ties between individuals inside the team and strong ties between the teams, the accessible knowledge differences and collective expertise are exposed to everyone's attention enabling the greater exploitation of the entire organizational knowledge base (Khoja & Maranville 2009: 55). Similarly, success rate of knowledge transfer at inter-organizational level may be enhanced through systematic interaction with the partner firm (Inkpen 2000; Squire et al. 2008: 464).

However, dense ties are costly to maintain (Phelps et al. 2011: 17) and on the other hand, such strong ties hinder the aspiration to seek knowledge from completely new sources, reduce flexibility and market responsiveness to new rising trends, diminish readiness to start partnering with new organizations and thereby lead to relatively small network possessing homogenous competences (Wassmer 2010: 155). Phelps et al. (2011: 14–16) continue that strong ties among units or inside a team may lead to unwillingness to search knowledge outside the strong ties, which has negative impact on knowledge diversity. Also Lazer and Friedman (2007) suggest that network density reduces the network diversity overtime. Burt (1992) explains that soon everyone in the network has attained the knowledge of each other as a result of knowledge exchange. Moreover, Harryson et al. (2008) argue that new innovations come from weak tied networks or relationships. Harryson et al.'s idea may be seen to be based on assumption

that loose ties prevent the saturation to counterpart's capabilities enabling creative platform for new idea generation (Esterby-Smith et al. 2008: 684).

However, if innovation is created through recombination of existing knowledge, as Fleming (2001) argues, innovations generate new knowledge providing self-growing source for recombination. Phelps (2010: 907) argues that density of network facilitates the recombination process and the richer the diversity of knowledge resource pool is in the beginning; the greater is the possible source for innovation. Phelps' argumentation may be supported by findings of Maurer and Ebers' (2006) longitudinal qualitative study which found that organizations with dense partner networks with diverse resources enjoy greater growth and development.

Phelps' (2010) study shows that technological diversity of alliance partners increase the exploratory innovation. Moreover, the density among the network partners fosters the influence of diversity. These two - density and diversity empower exploratory innovation. When entering into new alliance or terminating existing one, managers should take into consideration the impact of their decision on the structure of the network as the density of the entire network affects to the innovation capability. (Phelps 2010: 907.)

#### 2.5.4 Geographical distance

Geographic distance may also affect to density and diversity of knowledge network and whether it is seen as positive or negative depends on the purpose of the relationship. This is because geographically near individuals are able to communicate more effectively with each other (Esterby-Smith et al. 2008: 684; Sammarra & Biggiero 2008), but at the same time their knowledge base usually are more similar than of geographically distant individuals (Phelps et al. 2011: 11). Therefore, if the relationship is established to extend knowledge base with as diverse information as possible, geographically close source may not be the most optimal.

Geographically close organizations tend to enjoy more efficient knowledge exchange (Phelps et al. 2011: 17) and organizations operating geographically close to each other

may form industrial clusters (Easterby-Smith et al. 2008: 686). Sammarra and Biggiero (2008) state that clusters are more capable to transfer knowledge inter-organizationally. Inside the cluster it is common that knowledge is transferred through informal interpersonal social networks (Easterby-Smith et al. 2008: 686). Sammarra and Biggiero (2008) suggest that geographic proximity enables the possibility of creating and sharing complex knowledge. Simply as a result geographical closeness, people are able to meet instead of sending emails or talking by phone which enable rich multichannel interaction between individuals (Esterby-Smith et al. 2008: 684). Capello (1999) continue by stating that learning that happens inside the industrial cluster accumulates local know-how crossing organizational boundaries, but remaining within the boundary of the cluster.

Hannan and Freeman (1977) introduced the idea of industry recipe meaning that even though organizations may have distinctive organizational cultures, they tend to share industry-specific policies of knowledge transfer. Therefore, there can be cluster embedded practices of knowledge transfer that are not in use outside the cluster borders. Samarra and Biggiero (2008) introduces an assumption that knowledge transfer patterns vary based on the industry. Easterby-Smith et al. (2008: 686) continue that if the pattern is industry related, researchers must recognize this and identify the boundaries of industries in order to be able to generalize the results of their studies.

There are some tools to overcome geographical distance. Strong intra-organizational ties may help to overcome barriers such as geographical distance, technological differences and competition between units. The negative impact of geographical distance may also be reduced by aligning the distant individuals under the same organizational entity such as team or business unit and choosing the team from people who have collaborated earlier as well. (Phelps et al. 2011: 14–15.) These findings may be assumed to apply at the inter-organizational level as well.

#### 2.5.5 Cultural differences

Inter-cultural knowledge transfer may be quite complicated. Even though the donor and the recipient are from the same organization, national cultural differences as well as

professional cultural differences may affect the knowledge transfer as individuals with different cultural backgrounds interpret, process and exploit the knowledge differently (Easterby-Smith et al. 2008: 686). Van Wijk et al. (2008) state that the national cultural differences may hinder knowledge transfers especially if the counterparts' cultural distance is long. In addition to national and professional cultures, Easterby-Smith et al. (2008: 683) argue that strategically meaningful knowledge tend to be firm embedded and integrated into corporate culture, which means in many cases that the knowledge cannot be separated from the firm without value loss. Moreover, Tsang (2001) found that organizational borders tend to foster the distance between nationalities affecting negatively to daily communication between organizations.

As discussed earlier in this paper, cultural differences are not the only barrier making the knowledge transfer difficult and actually, Pérez-Nordtvedt et al. (2008) did not find undeniable evidence to show direct link that cultural differences hinder the knowledge transfer. However, majority of studies and scholars find culture as one of the most important factors to consider (Hannan & Freeman 1977; Nooteboom 2000; Tsang 2001; Easterby-Smith et al. 2008; Harryson et al. 2008; Becht 2010).

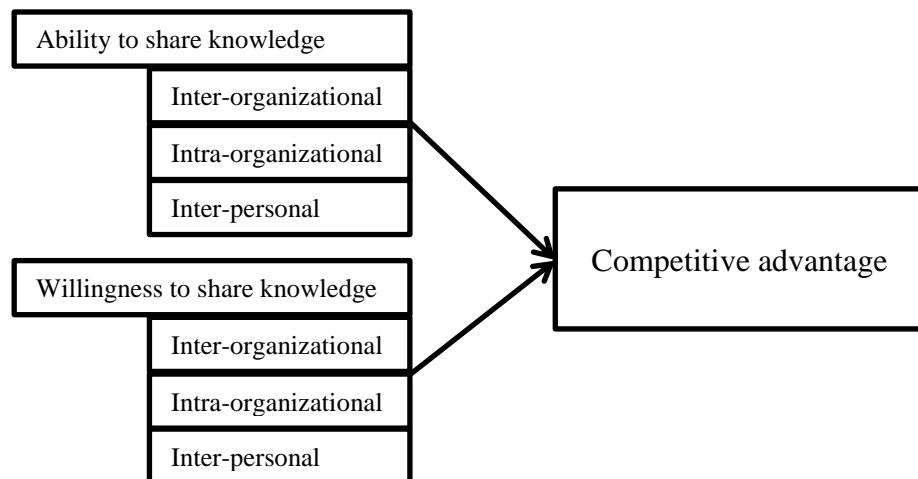
Cultural differences may also increase cognitive distance between individuals. Cognitive distance refers to the differences in individually constructed perceptions of and given meanings for observed phenomena (Nooteboom 2000). Intra-organizationally management's mission is to align the different perceptions of individuals to serve the ultimate goal of the organization, but according to Conner and Prahalad (1996) it appears that there are fewer mechanisms to align the inter-organizational perceptions to achieve the goals of cooperation. (Squire et al. 2008: 464.)

There are tools to overcome cultural barriers. Harryson et al. (2008) found in their study regarding the Volvo c70 development project that by bringing multinational teams together to socialize, they managed to overcome the cultural differences. (Esterby-Smith et al. 2008: 683) Similarly, Becht (2010) argue that by creating company culture of systematic global mobility facilitates the true understanding of global markets, various cultural operating environments, but also connects intra-organizational collectives with

each other. People regularly transferred from territory to another become global citizens exposing them to fresh challenges, learning opportunities and chance to grow as a professionals but also, most importantly, inter-cultural communicators (Becht 2010: 103–104).

### 2.5.6 Motivation & interest alignment at different levels

Regarding the knowledge exchange aiming to gain competitive advantage, equally important to be able to share knowledge is to be willing to share knowledge (**Figure 8**). Gottschalg and Zollo (2007: 418) argue that individual and collective interests must be aligned in order to gain competitive advantage. In addition to intra-organizational interest alignment, if the competitive advantage relies on knowledge received from external sources, inter-organizational interest alignment is equally affecting the competitive advantage.



**Figure 8.** Ability and willingness affecting knowledge sharing. (Adapted from Gottschalg & Zollo 2007: 434)

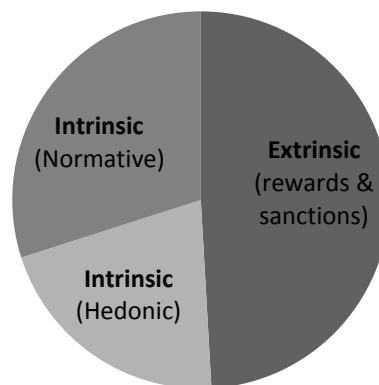
Lindenberg and Foss (2011: 509) propose that in order to gain competitive advantage, tasks and teams should be designed in a way that the direct impact on organizational goals is easily observed. Similarly, understanding the relationship between inter-organizational, intra-organizational and individual goals, increase the transparency affecting positively to collective motivation (Lindenberg & Foss 2011: 516–517).

Martin (2010: 75) continues that it is crucial to be able to deliver strategy in a way that is meaningful to frontline workers as well.

One should notice that, employees will not unleash their full potential if they cannot generate value for themselves (Ramaswamy & Guillard 2010: 103). This is not a new finding as already around 500 B.C. Sun Tzu, the author of the world's most famous warfare book of all times – The Art of War – wrote that:

*“Rewards are necessary in order to make the soldiers see the advantage of beating the enemy; thus, when you capture spoils from the enemy, they must be used as rewards, so that all your men may have a keen desire to fight, each on his own account”* (Sun Tzu 500 B.C.: 45)

According to motivational theory, rewards, in which Sun Tzu refers to, may be seen as extrinsic. At the individual level, motivation behind interests may be either extrinsic or intrinsic (see **Figure 9**). Extrinsic motivation refers to rewards that come from external sources such as money, power and recognition. The impact of extrinsic rewards (or sanctions) on individual's motivation is always person-related. (Gottschalg & Zollo 2007: 420–421.)



**Figure 9.** Sources of motivation. (Adapted from Gottschalg & Zollo 2007: 421)

Intrinsic motivation, for one, may be further divided into hedonic motivation and normative motivation. Hedonic intrinsic motivation is involved when a person enjoys

executing the actual activity or goal that is the object for the motivation. If the task or goal engages hedonic intrinsic motivation, it often generates self-determined and competence-enhancing behavior. (Gottschalg & Zollo 2007: 420.) Enjoyment is traditionally seen as powerful motivational tool (Lindenberg & Foss 2011: 506). Normative intrinsic motivation, for one, refers to drivers of a person who consider it important to be part of a social community. Hence, values, norms and culture of an organization steer the actions and motivation of people who get motivated through normative intrinsic motivation. (Gottschalg & Zollo 2007: 420–421.)

However, it is to be noticed that every individual is a combination of both extrinsic and intrinsic motivation and therefore may be encouraged to execute tasks by exploiting wide range of methods. As an implication, Gottschalg and Zollo (2007: 421) argue that people may be motivated through rewards or sanctions (extrinsic motivation), changes in job design (hedonic intrinsic motivation) or enhanced socialization regimes (normative intrinsic motivation) such as company-wide or even inter-company-wide events or trainings. In cases where extrinsic incentives appear to be insufficiently provided, strong appreciation for company culture, norms and values may compensate the motivation. (Gottschalg & Zollo 2007: 421)

As a conclusion, motivational interests should be aligned at all levels by understanding the combination of extrinsic and intrinsic sources of motivation. At the inter-organizational level, one must understand that collective interest at organization level, unit and team levels but also the interests of the individuals. If motivational conflicts related to knowledge sharing arise, individuals are less likely to provide their best performance. Cooperation between coworkers, teams, departments, business units and eventually organizations is enabled by well aligned goals. Therefore, providing individual-related motivational drivers for people involved in intra- and inter-organizational knowledge sharing processes is essential.

#### 2.5.7 Power imbalance, learning race and protectionism

Van Wijk et al. (2008) found that in inter-organizational context the focus may be on power issues. Mason and Leek (2008) state that power imbalance between firms may



hinder the creation of the knowledge sharing routines. Therefore, one may argue that the more equal the organizations are in terms of observed power; the better is the chance to succeed in attaining free inter-organizational knowledge flow (Esterby-Smith et al. 2008: 681).

Several studies raise the concern of unintended transfer of critical knowledge and expertise in the process of inter-organizational knowledge transfer (Becerra et al. 2008; Samarra & Biggiero 2008). This may be explained with Hamel's (1991) notification that in strategic alliances the power in relationship lay on the learning capability because by quickly acquiring the partner's skills one can decrease the dependency on partner (Esterby-Smith et al. 2008: 687). Hence, unintended knowledge transfer may lead to losing the distinctive competitive advantage of the donor (Teng 2007: 130). Inkpen and Beamish (1997) continue that if the parties in the relationship become independent the relationship is likely to erode eventually leading to termination (Esterby-Smith et al. 2008: 687).

Learning race may be result of relationship that has simultaneously both cooperative and competitive elements. For example competitors may cooperate to standardize a technology and thus gain collective benefits of united consumer markets, but at the same time they must secure their other knowledge for unintended spillovers. (Walter et al. 2008: 533.) Norman (2002) found in his research that firms were more protective when the contributing capabilities were highly tacit and core and also when the partner was eager to learn and possessed similar resources.

However, Esterby-Smith et al. (2008: 683.) argue that tacit knowledge is automatically better secured because of the characteristics of the knowledge. Sammarra and Biggiero (2008), state that once the access to knowledge sources is granted to allies, it is difficult to protect the competences. According to Becerra et al. (2008) the problem is more likely to involve explicit knowledge sources as they may be easily copied if they are left freely accessible to operators in the network. Despite the characteristics of knowledge, the tools that are used to prevent unintended leakage tend to hinder the knowledge transfer (Esterby-Smith et al. 2008: 685). Simonin (2004) found that protective

behavior has negative impact on knowledge sharing also in international strategic alliances. In addition, protective mechanisms complicate the decision-making in an inter-organizational relationship (Walter et al. 2008: 533).

## 2.6 Managerial routines

In this chapter the focus is on the first part of alliance management capability, managerial routines. According to Schilke and Goerzen (2010: 1198) routines of alliance management capability consist of sensing, coordination, learning, and transformation. Moreover, managerial activities may include selecting partners, promoting cross-partner knowledge transfer, measuring performance, promoting synergies and preventing conflicts, or establishing alliance management system (Wassmer 2010: 160). One may notice that these activities can be seen to relate to a certain phase of an alliance lifecycle. In this paper, the routines are represented through the lifecycle by dividing it into three phases: relationship formulation, relationship configuration and relationship dissolution.

### 2.6.1 Relationship formulation

Before establishing an alliance, management process involves long-reaching decisions, which will have impact on management at the latter phases of the life-cycle of the relationship (Walter et al. 2008: 531). Decisions may involve areas such as market opportunity recognition (Mitsubishi & Greve 2009: 977), appropriate partner selection (Teng 2007; Wassmer 2010), alliance scope definition, governance design, establishing monitoring procedures and defining dissolution plan. In this chapter the focus is on three key issues that literature constantly discuss about: market opportunity recognition, partner candidate identification and partner match.

#### *Market opportunity and partnering opportunity recognition*

According to Schilke and Goerzen (2010: 1197), the first managerial routine of alliance management capability is sensing which refers to routines through which organizations observe the environment, analyze the market preferences and identify opportunities to

fulfill the rising market demand with the help of current or new partners. Equally to being sensitive to rising market opportunities, it is important to sense possibilities of forming new alliances. By predicting market demand, identifying required resources to fulfill the demand and sensing partner candidates possessing desired resources, are all vital ingredients of successful portfolio management. Hence, sensing requires routines that ensure proactive search for market opportunities and valuable partnering opportunities. (Schilke & Goerzen 2010: 1197.) Mitsuhashi and Greve (2009: 977) add that external opportunities must be opportunities for both organizations in order to assure the commitment of both parties. In other words, both organizations must see the relationship beneficial.

After recognizing market opportunity, the next step is to select appropriate partner. In order to succeed in alliance, the selection of the right partner organizations is vital. The right partner means that the partner possesses desired resources and has attractive organizational characteristics that match with the focal company. Eventually, the quality of the partner is determining the theoretical maximum of gains derived from an alliance (Wassmer 2010: 153). Teng (2007: 127–128) argue that organization should seek a partner candidate with complementary resources rather than supplementary ones. According to Mitsuhashi and Greve (2009: 978) majority of alliances are formed to acquire resources that are not accessible individually and more often complementary resources drive organizations to collaboration. Joint business development and mixing dissimilar resources facilitates realizing opportunities not reachable alone. Such opportunities may drive organizations to develop resources not possessed any organization alone exposing the partnering firms to a source of more sustainable competitive advantage. (Teng 2007: 127–128.) However, scale of required resources, even if the resources are similar, may also motivate to cooperate if focal firm lack required amount of resources alone (Mitsuhashi & Greve 2009: 978). As a conclusion, one may argue that market opportunity determine whether the desired resources are complementary or supplementary.

Desired resources can be also very relationship embedded and hence the relationship itself can be seen as an asset. According to Kogut (1988) strategic alliances tend to

generate relationship-specific assets that are immobile. These assets may reduce various types of costs and uncertainty and moreover enable more effective and efficient communication (Dyer 1996). Relationship specific immobility can be divided into three types: site specificity, physical specificity and human asset specificity. The first type refers to geographically close organizations that may be located next to each other decreasing the need for external transportation operator involvement. Physical specificity for one, relates to the relationship-tailored systems and machinery that cannot be easily or at all mobilized to serve another relationship. The third asset relates to the human knowledge such as experience of counterpart's behavior, trust and routines generated along the existence of the relationship, and it cannot be exploited with other relationships. (Teng 2007: 129.) Hence, in addition to complementary and supplementary resources, the motivation to form an alliance may be generating a relationship specific resource.

#### *Partner match*

Mitsubishi and Greve (2009: 975) argue that in addition to existence of desired resources, good partner match increase the performance of the alliance. They continue that in addition to processes and routines at interface functions where organization change to another, organizations should be socially similar. Social similarity is highly related to trust and mental fit between partners. Mitsubishi and Greve (2009) state that the partner must possess the desired resources to achieve the strategic goal but to be able to extensively exploit the resources, organizations must be socially similar. However, social similarity and trust are not equally compulsory in every relationship, but they are definitely required when the exchange involves tacit knowledge. (Mitsubishi & Greve 2009: 979.)

However, despite the trust, some organizations tend place protecting mechanisms such as an agreement identifying tightly what knowledge is to be exchanged, the monitoring procedures to make visible the actual exchange and limit access to certain resources. (Teng 2007: 133.) Whereas protecting valuable knowledge resources is very understandable in a relationship with competitor, protecting mechanisms tend to hinder

knowledge exchange. Das and Kumar (2011: 705) argue that even though trust is undeniably one of the most important variables in successful alliances, the antecedents of trust lie on regulatory focus. Das and Kumar (2011) found that organizations that focus on creating enabling mechanisms rather than protecting mechanisms tend to enjoy of more successful alliances. They argue that if the regulatory focus of the partner is positive (promotion focus), meaning that the attention is paid to activities enabling the success of the collaborative relationship, rather than negative (prevention focus), meaning that the focus is on preventing the failure, the relationship between partners is more likely to gain success. (Das & Kumar 2011: 682.)

As discussed earlier in this paper, alliances may be formed to either jointly explore a new value combination or to jointly exploit the existing resources, competencies and capabilities. The idea of positive regulatory focus appears to be relevant especially to relationships where tacit knowledge is involved. According to Das and Kumar (2011) promotion focused firms tend to use all necessary effort to facilitate the needed knowledge exchange. In addition, the promotion-oriented motivation focus endorses the effort of trying new and achieving unforeseen and thereby seems to fit to the exploration aimed alliances, whereas the prevention focus aims to prevent the knowledge spillovers at any cost. (Das & Kumar 2011: 704.) Hence, organizations should establish alliances with similar regulatory focus to have better match.

Reputation and experience in prior alliances also increase matching characteristics. Good reputation and experience in successful alliance operations facilitates the development of networking capability and indicates that the counterpart is less likely to act opportunistically (Mitsuhashi & Greve 2009: 975). Experience in inter-organizational collaboration may increase match quality and hence an organization may be seen as an attractive partner if it is highly experienced in inter-organizational collaboration. Therefore, collaboration capability may be seen as an asset itself opening opportunities to access wide range of external knowledge. (Grimpe & Kaiser 2010: 1502.)

### 2.6.2 Relationship configuration

After entering an alliance, there are several managerial activities and routines that may be executed. The main objective is to achieve the strategic goals through configuration of relationships of the entire alliance portfolio. Measuring key performance indicators can help in the configuration task. Moreover, as the alliance is relationship of two market operators, decisions to adjust the relationship involve both organizations. Hence, the inter-organizational decision-making process is at the heart of alliance management.

#### *Measuring performance*

Every relationship should have identified key performance indicators but also the performance of the corporate portfolio level should be measured. Portfolio analysis may also be conducted at business unit level. Performance measurement should reveal financial performance at all levels. In knowledge intensive relationship, also monitoring innovation performance could be beneficial at all levels. In addition at the corporate level, the analysis should show the success in meeting the set strategic goals, and moreover the progress of developing network structure to desired direction. Organization's ability to monitor performance is often based on their experience. For inexperienced companies the alliance level may be more beneficial whereas for experienced corporations the portfolio level of analysis tend to deliver additional value. (Wassmer 2010: 161.)

#### *Coordinating and transforming an alliance*

Based on the measured indicators, each relationship should be thereafter coordinated. Inter-organizational coordination as part of alliance management capability refers to improving the actual interaction between the partners. Each alliance has its own unique context and the individuals and processes related to a specific relationship must be aligned to streamline the cooperation. (Schilke & Goerzen 2010: 1196–1198.) In knowledge intensive partnership this means understanding strategic drivers, the characteristics of knowledge, characteristics donor and recipient, and the contextual factors which were discussed earlier in this paper. Wassmer (2010: 157–158) support

the idea by arguing that alliances may be managed by identifying characteristics of partners and then exploiting necessary tools to adjust the balance of these characteristics.

As it is not realistic to expect that the operating environment, the objectives of the organizations and processes remains unchanged, ability to transform the alliance is important. Rich interaction may facilitate transforming cooperation. The flexibility in changing mechanisms and forms of cooperation should be continuous. Even though many of the alliances transform during their lifecycle, only few organizations have identified and conceptualized the routines to manage the transformation process. (Schilke & Goerzen 2010: 1198.)

Coordination may be examined also at the alliance portfolio level. Coordination at portfolio level refers to examination of interdependencies between different alliances. The aim is to identify the interdependencies, avoid duplicate actions and promote possible synergies by connecting organizations that are currently separated by structural holes. Ultimately the idea is to make more out of the portfolio as it would have been possible by managing each relationship individually. (Schilke & Goerzen 2010: 1196–1198.) Also Wassmer (2010: 157–158) argue that alliance portfolio must be configured constantly. He states that through proactive alliance management process organization can adjust strategic position at the market.

There are three ways to configure the alliance portfolio. The first option is to coordinate or transform the existing alliances. Establishing new alliances and exiting the existing relationships represent latter two of these three basic options. Configuration may not be done by the focal firm alone. This is because changes in alliance portfolio configuration affect the partner organization as well. Similarly suggestions to change can also come from the ally as the partner may be willing to change the relationship or exit the alliance completely. (Wassmer 2010: 157–158.) This is a relevant notification highlighting the importance of the inter-organizational decision-making process.

*Decision-making*

Walter et al. (2008: 549) suggest that there are three key characteristics – openness, procession rationality and recursiveness – affecting to efficiency of inter-firm decision-making. Openness regarding decision-making process refers to receptivity of decision-makers to new ideas and information sources. Transparent process and openness of decision makers may enrich the quality and creativity of decisions by enabling diverse information flow from several internal and external information sources. (Walter et al. 2008: 535.)

Managers from different levels of the organization may possess knowledge beneficial to decision-making regarding a certain strategic alliance (Walter et al. 2008: 535). Martin and Eisenhardt (2010: 293) found in their study that regarding multibusiness corporations, the general managers of business units tend to have the most complete picture of the operations of the entire corporation. This is because unit managers are exposed to cross-unit and corporate level strategy development processes, but they are also tightly attached with the daily operations and tactics execution of their own unit. Therefore, instead of corporation executives, unit managers may be the most appropriate people to lead the cross-unit, but also cross-organization collaboration efforts. (Martin & Eisenhardt 2010: 293.)

Similarly, not only managers but also other individuals inside the focal organization and moreover inside the alliance organization may have gained valuable experience and knowledge regarding the relationship. Therefore, it would be beneficial to enable the free internal and external knowledge flow to improve the alliance performance. In addition, by enabling cross-functional participation in decision process, one may collect different perspectives, achieve acceptance, foster commitment towards the decision and thereby overcome the possible resistance of change. (Walter et al. 2008: 535.) Dimitratos et al. (2009: 766–767) support the argumentation above and suggest that companies exploiting situational decision-making policy, meaning that decisions are made by the organization and the people that possess expertise regarding the topic, tend



to be more successful. This means that decisions are made by the people having topic-related knowledge despite the organization they originally represents.

Martin and Eisenhardt (2010: 293) found that at least in intra-organizational context deliberate learning activities that occur prior to the actual decision to collaborate, improve collaboration performance. By deliberated learning activities they refer to mechanisms that enable unrestricted interaction between people in different business units and facilitate transparent and open idea development. (Martin & Eisenhardt 2010: 293.)

If internal and external knowledge sources are easily accessible, alliance managers may efficiently use "ask a friend"- card, even though they do not precisely know who would be the best "friend" to answer the question. Especially in a case, in which the decision concerns non-routine matter, the valuable information may be found from a surprising source. The diversity of the input may affect positively to development of new and not predetermined skills and capabilities. (Walter et al. 2008: 535.) Decision process embedded with openness, various alternatives and diverse sources (internal, external, different levels of hierarchy, cross-department/function), may increase the innovativeness of the decisions facilitating the adaption of changing business environment (Sharfman & Dean 1997; Ford & Gioa 2000; Walter et al. 2008: 535).

Despite the argumentation above, Walter et al. (2008: 530) did not find direct relationship between openness and alliance performance. However, one must ask how the examined organizations had facilitated the openness in their decision processes involving strategic alliances. This is highly relevant question, as there appears to be not many, if any, efficient managerial tools in the market that really enable simultaneously free internal and external knowledge flow and facilitates thereby the alliance decision process.

As mentioned earlier, In addition to openness in decision making, Walter et al. (2008: 536–537) argue that process rationality and recursiveness also influence alliance performance. Procedural rationality of decision process refers to the extent of how

extensively is the information to be gathered and which steps to be taken before the decision can be finally made. Systematic approach in gathering information can improve the quality of knowledge, raise fresh alternatives and increase available substance. In addition, discussion of ideas verifies the decisions unofficially through open debate. Therefore, procedural rationality may be seen as a mechanism, which decreases uncertainty, information asymmetry and the lack of communication. All these three elements are peculiar to alliances. (Walter et al. 2008: 536–537.)

Recursiveness refers to the decision maker's re-evaluation and movement between different strategic alternatives. Dynamic ability to respond to the changing markets is an increasingly important capability. As new opportunities arise and current ones diminish, adjusting the direction requires constant attention. However, even though reengineering and honing of the alliance may foster the strategic flexibility, recursiveness may also have negative consequences. If external sources are decided to be exploited, one must understand that it requires time and consistency in operating with the source. Predominant and irreversible resources allocated to the alliance empower trust, cooperation and learning. (Walter et al. 2008: 538.) This idea is also supported by Teng (2007: 129) as he argues that increased predictability of the counterpart gained through mutual history and developed routines may be seen as a valuable and immobile asset.

Hence, Continuous readjusting and modification of objectives and resources may be challenging to counterpart affecting negatively to cooperation performance. Instead, facing the changes in the environment together and steering mutual movements, organizations will facilitate the joint goal achievement. (Walter et al. 2008: 538.) Therefore, concerning strategic alliances, letting loose the recursiveness will probably lead to higher gains through consensus, consistency and reliability.

### 2.6.3 Relationship dissolution

Multiple researches suggest that organizations often exit alliances before they reach the set goal for the cooperation or actualization of the benefits from knowledge-exchange (Deeds & Rothaermel 2003; Teng 2007; Walter et al. 2008; Phelps 2010: 907). Even

though, strategic alliances have become increasingly popular in recent years, the failure rate is high representing 50 to 80 percent of all alliances (Walter et al. 2008: 530). Reasons for the relationship termination may be for example internal conflict, changing interests regarding the cooperation, ally instability, conflicting values and cultural distance (Teng 2007; Dirks et al. 2009). Also if something unforeseen happens in the market, the premises for collaboration may suddenly disappear. This means, that the reason for withdrawal may not be always the failure to appreciate the market conditions or arrange the cooperation to meet the market demand. (Greve et al. 2010: 317.)

However, if the market opportunity does not disappear, there appears to be one factor above others affecting the termination of cooperation. Many scholars (Teng 2007; Walter et al. 2008; Squire et al. 2008; Dirks et al. 2009; Janowicz-Panjaitan & Khrisnan 2009; Mitsuhashi & Greve 2009; Greve et al. 2010; Wassmer 2010; Das & Kumar 2011; Phelps et al. 2011) recognize trust to be the most important element determining the success of the relationship. Even though, before establishing a relationship, the prior personal social ties may encourage to enter an alliance and set the starting level for trust, the cumulative experience gained through the actual collaboration tend to determine the cumulative development of trust. (Greve et al. 2010: 317.)

Janowicz-Panjaitan and Khrisnan (2009: 248) argue that trust and violations of trust may be analyzed at two levels: corporate level, involving executives and top management; and operative level, involving the personnel actively interacting daily with people of partner organization. In addition, whether the violation is competence-based or integrity violation, the possibilities to fix the violations are unequal.

Competence- based violations, meaning that the partner fails in fulfilling the agreement even though they aspire to do so, are possible to fix with compensation if the violations occur rarely, but if they occur frequently at the corporate level; violations tend to lead to exit from the partnership. Integrity violation, which means that the partner does not act completely honestly, lead to relationship termination if it occur at the corporate level. However, if the organization is heavily dependent on the partner, exit may not be

possible. At the operative level, the integrity violations destroy the trust, but not necessarily terminate the actual business relationship. Relationship without trust often lack flexibility, has higher transaction costs and fails to support free knowledge flow. (Janowichz-Panjaitan & Khrisnan 2009: 263.)

It may be argued that trust violations at corporate level tend to be more harmful than violations at operative level. This might be also because at the operative level there is no power to terminate inter-firm agreements and directly change collaborative mechanisms. In small organizations, however, the people at the top management may be involved in daily operations and thereby directly influenced by any occurring violations. Also mechanisms and systems that enhance the transparency of all inconveniences in the relationship may bring closer different hierarchical levels affecting to tolerance against violations. (Janowichz-Panjaitan & Khrisnan 2009: 263.)

As mentioned above the trust may not be repaired in some cases. However, in aspiration to understand the repair process Dirks et al. (2009) propose that repairing corrupted relationship may be seen as temporal process. The main point in is that the assumption of natural state of trust is more than zero and as a result of disruption, the level of trust changes affecting to the cooperation between organizations. In the core of process is the recognition of what actually has changed and how the disruptive action of a party affects the exchange. (Dirks et al. 2009: 78–79.)

Moreover, after understanding the changed variables and their impact the next step in the process is choosing the most appropriate actions to correct the violation. There are three main types of action to be used: attributions, social equilibrium and structures. The first one of these refers to the concrete actions that show trust to the victim party. This may be done by sharing new knowledge to the counterpart or promoting the cooperation existed before the violation. The second type of action aspires to ease the negative feelings caused to the counterpart. Finally, the third action is creating new structures facilitating future positive exchange by providing specific mutually agreed statement of intentions, obligations and penalties in case of transgressive actions. Thereafter, the repairing efforts are measured and monitored. The focus in monitoring should be on

analyzing the current state of the exchange between the parties. If the exchange is restored, the effort has been worthwhile. (Dirks et al. 2009: 78–79.)

## 2.7 Learning routines

Heimeriks and Duyster (2007: 30) state that second part of the alliance capability is the ability to institutionalize and further exploit the gathered knowledge from prior alliances. Learning from alliances is part of organizational learning which refers to the organization's ability to capture experience and subject related data, mix the information together and improve certain organization-specific activities based on the processed mixture of knowledge (Pangarkar 2009: 983–985). Even though, Heimeriks and Duyster (2007: 30) found in their research that the experience in alliance management and alliance portfolio management tend to be quite reliable predictor for the performance of alliances, many scholars (Pfeffer & Sutton 1999; Heimeriks & Duyster 2007; Pugh & Dixon 2008: 21–22; Wassmer 2010) emphasize and address the importance of further exploitation of the knowledge instead of focusing on just gaining experience. Hence, organizational learning regarding alliances, aims to capture, formalize, store, embed and reorganize alliance know-how through established mechanisms and routines for further exploitation (Wassmer 2010: 159–160).

However, learning process may be seen as rather complex and the facilitation of the process is one of the most challenging tasks of managers (Pangarkar 2009: 983–985). Especially for companies collaborating with very dissimilar partners, the experience may not be directly exploited with new partnerships. Hence, alliance experience may be partner-related experience, experience in operating with very dissimilar partners or general collaboration experience. (Wassmer 2010: 158–160.) Moreover, lessons may be learned either from success or failure. Success may not be the most efficient teacher, whereas failure increases awareness of risk fostering the motivation to improve operations and act differently next time. To increase learning readiness, failure provides effective starting shot, which otherwise would not exist in most of the organizations. (Pangarkar 2009: 985) Learning from prior relationships and mistakes made earlier improves the future success rate (Heimeriks & Duyster 2007: 42).

In addition, it is beneficial to recognize that failures are natural part of the learning process and should not be avoided at least at the minor level. Organizations failing to learn from small failures show ignorance to external environment exposing them to danger of major failure. Therefore, inability to identify risks of failure on timely manner often determines the difference between success and failure. (Pangarkar 2009: 985.)

The challenging part is developing appropriate routines and mechanisms. Development of routines may be seen as one of the key elements in the process as the knowledge transfer does not happen by itself, but requires enabling mechanisms (Zahra & George 2002; Esterby-Smith et al. 2008: 687; Squire et al. 2008: 463). Mechanisms should enable on demand easy access and exploitation of the knowledge gained in prior relationships. Optimizing an alliance may be enabled by providing critical alliance knowledge to people who need it and when they need it. (Heimeriks & Duyster 2007: 41) This means that learning outcomes must be documented and institutionalized (Pangarkar 2009: 984–985). Hence, learning process includes delivering lessons learned to managers and executives by training and institutionalized databases or by establishing even separate alliance functions or departments (Heimeriks & Duyster 2007). Circulating knowledge and sharing the lessons learned may increase the total productivity (Pugh & Dixon 2008: 21–22). If the best practices are shared and exploited across the organization, there is a possibility to enhance both individual alliance account performance but also the performance of the entire alliance portfolio (Heimeriks & Duyster 2007; Wassmer 2010: 159–160).

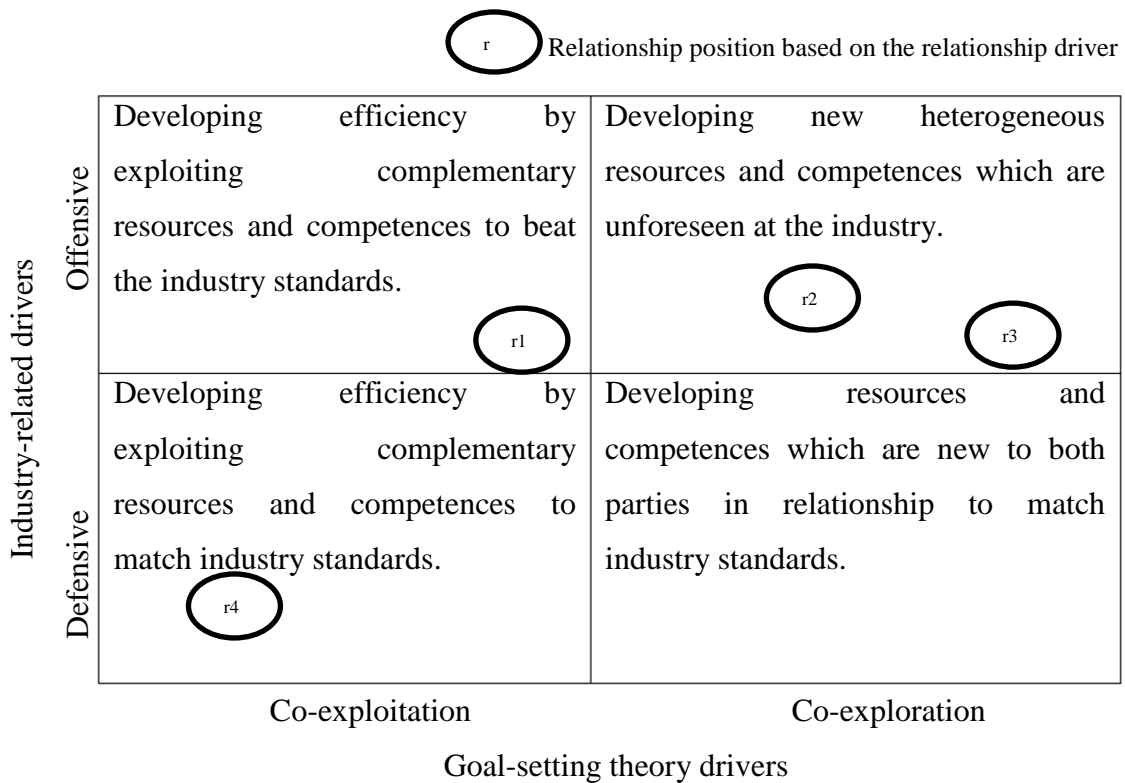
Mason and Leek (2008: 793) suggest in their paper that organizations must deploy both "hard" and "soft" mechanisms to fully support dynamic knowledge transfer learning. By hard mechanisms they refer to structures and routines that enable the actual knowledge transfer. Soft mechanism, for one, is more informal social activity that facilitates identification of problems in the structures and routines. Through soft mechanisms may facilitate social interaction to improve the mechanisms and thereby make the capability flexible and dynamic. (Mason & Leek 2008: 793.)

## 2.8 Summary

The literature review has discussed three areas affecting the managerial success of an inter-organizational strategic relationship. Drivers for strategic relationships, factors affecting inter-organizational knowledge exchange and management of the relationship compile the concepts that are covered. In this chapter these concepts are summarized.

Firstly, the strategic management approach suggests that drivers to form an inter-organizational relationships are either defensive, meaning that the organization aspires to respond to the current industry structure, or offensive, referring to the actions aiming to introduce unforeseen value proposition. Both defensive and offensive drivers tend to cause resource gaps which may be filled through resource accumulation (developing resources internally) or resource acquisition (attaining resources from external sources). If the gap is filled through an external source, compared to purchasing an entire company possessing the resources wanted, establishing inter-organizational relationship (IOR) has various benefits such as flexibility and strategic invisibility.

Another approach to examine drivers found in literature is the goal-setting theory of the relationship. Similarly to the strategic management approach, the goal-setting theory suggests that the drivers for IORs may be divided into two groups: co-exploitation and co-exploration. The first option refers to a situation in which both organizations exploit their own existing competences that are different from each other and hence comprise a complement joint resource pool. The latter alternative, for one, promotes the development of something completely new. Co-exploration is not just a sum of each other's competences, but in such mind set parties may be able to invent a totally new resource or competence. By bringing both approaches together, the strategic management approach and the goal-setting theory, it is possible to place relationships into a four-field-tool in a way that indicates the combined driver for the cooperation (see **Figure 10**). Depending on the key drivers of the relationship, the type of knowledge that is exchanged in the relationship appears to vary. Especially co-explorative efforts appear to require the exchange of tacit knowledge.



**Figure 10.** The four fields of strategic drivers for inter-organizational relationship.

The second part of the literature review discussed the factors affect inter-organizational knowledge exchange. As discussed earlier in the paper, there is rather significant number of factors affecting inter-organizational knowledge exchange. The factors may be roughly divided into three groups: the characteristics of the knowledge; the characteristics of the donor and the receiver; and the contextual factors (see **Table 2** in page 64). To holistically approach knowledge transfer, the analysis may be conducted at different levels such as inter-personal, intra-organizational, inter-organizational, intra-network and inter-network. Moreover, one must understand that the analysis of only dyadic knowledge transfer may not be seen as adequate approach to extensively consider the knowledge transfer affecting to the success of a strategic relationship but one must consider also the intra-organizational knowledge transfer.

Discussion regarding characteristics of knowledge revealed that characteristics have impact on the attractiveness of knowledge but also the transferability of the knowledge. According to RBV, knowledge resources that are valuable, rare, immobile and



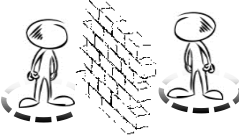

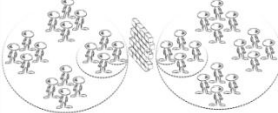
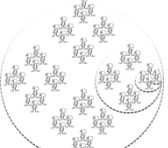

organizationally embedded tend to be perceived as attractive by the recipient of knowledge and thereby fostering the knowledge exchange. It was also mentioned that tacit knowledge rather than explicit, tend to provide the source for more sustainable competitive advantage. However, tacit knowledge was recognized to be hard to codify, communicate and absorb. Therefore, characteristics appear to create a dilemma by simultaneously recognizing the tacit knowledge more valuable but at the same time being harder to transfer.

Second category of the influential factors, the donor and the recipient characteristics, were discussed at two levels. At the inter-personal level the influential characteristics were found to be the field of expertise, social status and personality of both the donor and the recipient. In addition, the type of knowledge the sender possesses and the attractiveness as a knowledge source were found to affect knowledge transfer. Moreover, formal power was recognized to be fostering the willingness to receive knowledge and ability to implement knowledge into practice.

At the higher levels of analysis – referring to collectives such as teams, business unit or companies – collaboration capacity and company size were found to be characteristics that are equally important to both the donor and the recipient. In addition, transmission capacity, teaching capability, innovation capability and performance were discussed as characteristics of the sender. Moreover, learning intent and absorptive capacity tend to be influential characteristics of the recipient regarding knowledge transfer.

Third category, the contextual factors, was discussed at all levels and one should notice that when moving to higher levels of analysis, the number of the influential factors increases. This is the result of the fact that all the factors affecting at lower levels, have also impact on knowledge transfer at higher levels. The paper covered contextual factors that are related to direction of knowledge flow, governance forms, network structure, geographical and cultural distance, interest alignment and power imbalance.

**Table 2.** Factors affecting to inter-organizational knowledge transfer.

Level of analysis	Donor / sender characteristics	Contextual factors	Receiver / Recipient characteristics
Inter-personal 	<ul style="list-style-type: none"> <li>• Expertise</li> <li>• Status</li> <li>• Personality</li> <li>• Possessed knowledge</li> <li>• Attractiveness as a knowledge source</li> </ul>	<ul style="list-style-type: none"> <li>• Direction of knowledge flow (vertical/horizontal/hierarchical)</li> <li>• Interest alignment</li> <li>• Distance in professional cultures</li> <li>• Distance in national cultures</li> <li>• Cognitive distance</li> <li>• Geographical distance</li> <li>• Industry specific policies</li> <li>• Structure of the inter-personal network</li> <li>• Network density</li> <li>• Tie strength</li> <li>• Trust</li> <li>• Difference in knowledge base</li> </ul>	<ul style="list-style-type: none"> <li>• Expertise</li> <li>• Status</li> <li>• Personality</li> <li>• Formal power</li> </ul>
Intra-organizational 	<ul style="list-style-type: none"> <li>• Transmission capacity</li> <li>• Teaching capability</li> <li>• Collaboration capacity</li> <li>• Innovation capability</li> </ul>	<ul style="list-style-type: none"> <li>• Interest alignment</li> <li>• Governance forms</li> <li>• Distance in culture among units or groups</li> <li>• Position in the intra-organizational network (Network centrality)</li> <li>• Network density</li> <li>• Tie strength</li> <li>• Trust</li> <li>• Difference in collective knowledge base</li> </ul>	<ul style="list-style-type: none"> <li>• Learning intent</li> <li>• Absorptive capacity</li> <li>• Collaboration capacity</li> </ul>
Inter-organizational 	<ul style="list-style-type: none"> <li>• Company size</li> <li>• Performance</li> </ul>	<ul style="list-style-type: none"> <li>• Interest alignment</li> <li>• Power imbalance</li> <li>• Distance in organization cultures</li> <li>• Tie strength</li> <li>• Trust</li> <li>• Relation specific investments</li> <li>• Difference in collective knowledge base</li> </ul>	<ul style="list-style-type: none"> <li>• Company size</li> </ul>
Intra-network 		<ul style="list-style-type: none"> <li>• Position in the organization network (Network centrality)</li> <li>• Network density</li> <li>• Cluster boundaries</li> </ul>	
Inter-network 			

In the third part of the literature review the focus was on the management of a relationship. By emphasizing alliance capability, alliance management capability and portfolio management approaches, the structure of the discussion followed two main directions; managerial routines and learning routines. Managerial routines were thereafter further divided into formulation, configuration and dissolution phases to illustrate the lifecycle of a relationship.

The review revealed that in the formulation phase the managerial focus appears to be on recognizing the current and upcoming market need and continuously seeking attractive partnering opportunities. The market need appears to determine whether the required resources are complementary or supplementary. In addition, with a right partner a company can create a unique relationship that may be seen as a valuable resource itself. It was also mentioned that good partners are difficult to identify. In addition to possessing attractive resources, a partner candidate should also have an attractive social match. If both parties focus on gaining success rather than preventing failure, the relationship is more likely successful. Experience in inter-organizational collaboration may also positively affect to the attractiveness as a partner.

The second phase of a relationship lifecycle and the managerial routines considered the configuration of the relationship. Coordinating and transforming joint activities and measuring the key performance indicators in both at the relationship level and at the portfolio level were suggested. It was also pointed out that the single relationship level coordination may be easier and as the experience increase, companies are more likely to increase the portfolio level coordination as well. In addition the importance of open, transparent and stable decision making process appears to be important mainly because of the decisions regarding a relationship involves both parties. The decision maker must be identified and he or she should be the person who has the best insight into the matter. The literature underline that there are many people in many function in both organizations that may have valuable knowledge regarding the matter. Hence, open knowledge flow through functional, hierarchical and organizational barriers is encouraged and managed.

Dissolution of a relationship was third phase discussed. Many authors remarked that the majority of the alliances terminate before achieving the goals. In addition to change in markets, trust violations were the most common reasons for relationship dissolution. Change in in the market may lead to a situation where the demand for collaboration declines or disappears completely. This is a natural reason for dissolution and often includes no drama. Exiting relationship caused by distrust, for one, may include incidents. The literature suggests that the trust violations may be divided into two classes: competence based violations; and integrity violation. The first one refers to inability to deliver what agreed despite the effort, whereas the latter refers to actions indicating dishonesty. In an event of violation, one may try to repair the trust. However, depending on the level of the violation and the efforts, trust may be or may not be repaired.

The second dimension of the alliance management capability that was discussed in the paper was the learning routines. Whereas managerial routines emphasize the actual activities that the management executes in the alliance management process, learning routines refer to activities aiming to capture, analyze, formalize and further exploit the cumulative experience and further develop the managerial routines. It was mentioned that the learning routines appears to be rather challenging activities to managers as the experience may be highly relationship-specific and the learning outcomes are not easily transferred to other partnerships. In practice the mechanisms could include storing the captured experiences into a database where they could be examined by the any one when required. This means that learning outcomes should be documented in order to be able to institutionalize them. If the experiences and best practices would be shared and exploited across the company, cumulative knowledge would support the development single relationships and entire partner portfolio.

### 3 METHODOLOGY

In this chapter the focus is on explaining the main decisions regarding the research methods. In addition, the reliability and validity are discussed. Also contextual limitations are presented.

#### 3.1 Selecting methods

Research design refers to the logic that links the data to be collected and the conclusions to be drawn to the initial questions of the study (Yin 2009: 24). As a part of research design, researcher must decide the research method. Scholars have two main methodologies, quantitative and qualitative, to collect primary research data. Quantitative methods require standardization of terminology and operationalization of phenomena whereas qualitative methods may be used to research the certain phenomena more in depth when the boundaries between the phenomena and context are not clearly evident. (Patton 1990: 13–14.)

As there is no clearly defined and commonly exploited terminology among scholars and practitioners regarding concepts in the field of management of inter-organizational relationships, the qualitative research methods appear to be more appropriate tool to approach the topic. Because case study may be seen as an applicable empirical enquiry that investigates contemporary phenomena in depth and within real life context (Yin 2009: 18), this paper exploits adjusted case study design. Moreover, to be able to draw as unbiased conclusions as possible regarding research question, this study examines multiple separate cases experienced by several organizations (Yin 2009: 27). Hence, this study may be seen as a multiple case study.

Case study evidence may come from six sources: documents, archival records, interviews, direct observation, participant observation and physical artifacts (Yin 2009: 98). This study exploits personal thematic interviews. Thematic interview as a research method can be seen as an intermediate method between structured questionnaire and deep interview. Therefore, it is also often called semi structured interview which is capable to follow the key areas of the research but at the same time enabling the

interviewee the opportunity to emphasize the most important factors. Thematic interview also release the interviewee from the tight boundary of theoretical terminology and hence protecting the interviewee from the opinions of the researcher. (Hirsjärvi & Hurme 2000: 47–48.)

According to Yin (2009: 38) after collecting data, there are five specific techniques for analyzing case studies: pattern matching, explanation building, time series analysis, logic models, and cross-case synthesis. Data of this study was analyzed through three of these tools: cross-case synthesis, explanation building and pattern matching. Firstly, all the interviews were littered and examined to identify commonalities and patterns in order to find factors affecting to the successful management of the inter-organizational relationships. Then the findings of the separate cases were brought together for cross-case synthesis to analyze the entire data simultaneously. Lastly, the explanation provided by the empirical data was matched to patterns found from prior research papers.

### 3.2 Validity and reliability

According to Hirsjärvi, Remes and Sajavaara (2009: 231–233) it is important to evaluate the reliability of the research outcomes and validity of the selected research method. Reliability refers to the ability of the study to provide the results that can be achieved again if the study is repeated. One can verify the reliability by having two or more researchers using the same research method to measure the phenomena or by doing the same measurements once again later on. Regarding this study the repetition or involving another researcher may not be seen as a possibility. However, to increase the reliability of the study, the researcher has aspired to explain the entire research process in detail and to provide rather high number of direct quotations from interviews.

Validity, for one, refers to the applicability of the selected research method to measure the phenomena that is under examination (Hirsjärvi et al. 2009: 231–233). The author believes that the selected method has managed to provide the data that enables answering the research question. However, one may argue that to increase the richness of the empirical data, the author could have exploited several methods to achieve

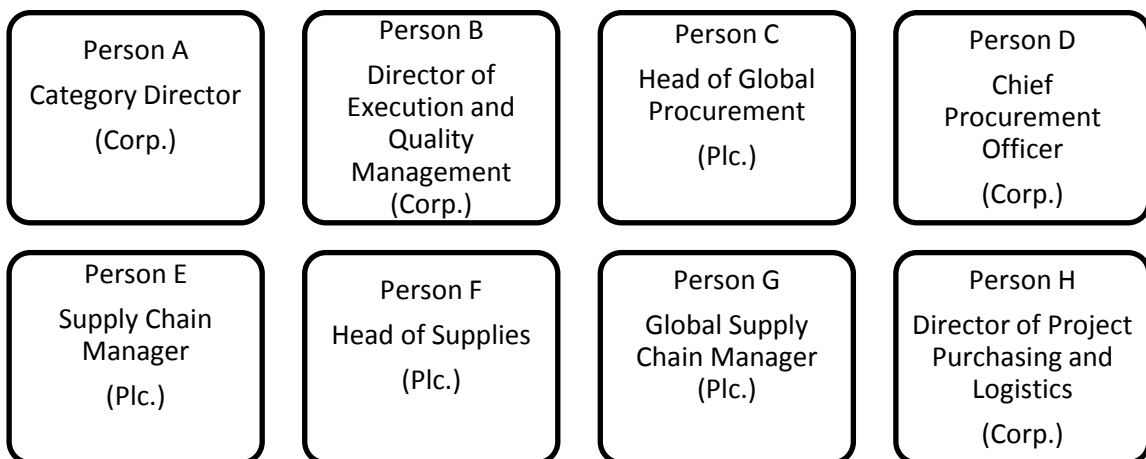
triangulation. In order to do so, the research would have required a timeframe not available for this research.

### 3.3 Context

As an economic influencer, the Finnish technology industry is responsible for 60 % of the export of Finland and consists of five large branches (Teknologiateollisuus 2013):

1. Electronics and the Electro technical Industry
2. Mechanical Engineering
3. Metals Industry
4. Consulting Engineering
5. Information Technology Industries

Technology industry employ directly or indirectly around 700 000 people. This means that one fourth of the entire workforce of the country is affected by the industry (Teknologiateollisuus 2013). Therefore, even though the direct generalization of the results of this paper may not be applied to other industries, the findings of this study touch directly or indirectly a significant share of the Finnish workforce and companies.



**Figure 11.** Interviewees.

The primary research data consists of eight (8) interviews of 90 minutes each. The interviews were recorded and completely littered to increase the reliability of the study.

The data was gathered during the October and November in 2012. The companies for interviews were randomly selected among the largest technology companies listed by Talouselämä journal in 2012. Hence, the research results may not be directly applicable to other industries or technology industries in other countries. Both public listed companies (Corp.) and public limited companies (Plc.) were included. However, one should notice that some of these limited companies are owned by another company listed in stock exchange outside Finland and thereby part of an Exchange Corporation.

As the focus of the study is on inter-organizational relationships, the interviewees were selected among the top managers, directors and executives responsible for inter-organizational interfaces. More specifically, the empirical data consists of top managers responsible for sourcing. Therefore, the study may be seen to be limited to provide a truthful picture only from the buyer side and may not represent the viewpoint of the suppliers. Even though companies were selected by random sample, all the interviewees are male.



## 4 EMPIRICAL FINDINGS

In this chapter the focus is on describing the results of the interviews. Moreover, the final topic in the chapter summarizes the results. As one can see from the interview template (see appendix 2) the question setting in the interview was rather open-ended to ensure the creation of as holistic picture as possible. Hence, the comments of the interviewees tend to be wide and touching many areas of partnerships, management and business in general. In addition, to ensure that the factors affecting to successful management of a partnership will be discovered, the phenomena was approached through various angles. Interviewees were asked to describe their managerial practices but moreover encouraged to share also the challenges, failures and key success factors affecting the success of the partnership management. Hence, the topics below will describe the comments regarding the importance of partners, the role of sourcing in partnership management, practices of partnership management, challenges in partnership management, and reasons for dissolution and the key success factors for partnerships.

### 4.1 The importance of partnerships and business networks

Interviews showed that the rapid and continuous changes in business environment have changed the role of suppliers, increased the importance of developing competitive business network and partnering in areas that have been previously unforeseen. In the traditional model of purchasing companies have been trying to exploit others as much as possible, whereas the current trend seems to be changing into finding ways to save in costs, increase the quality and seek competitiveness together with the suppliers.

Interviews revealed that all the case companies without exceptions recognize the strategic importance of the suppliers. Purchasing strategy is part of corporate and business unit strategies (Persons B, C, E, G) and top management is actively involved in decision making regarding supply chain (Persons A, B, D, E, H).

*“Huge meaning, both in good and bad [...] without these partners we could not make it, but fortunately without us they could not make it either...”* (Person A)

*“Those are the key of our success, the management of business networks and right technology decisions.”* (Person B)

*“Business networks are vital for us, the fact that we know our suppliers; recognize their capabilities and that they can respond with quality products in timely manner.”* (Person C)

*“... clearly it is important. As a company, we cannot meet our goals only with our own competences.”* (Person D)

*“It is one of the cornerstones [...] the strategic partners are the lifeline to our business and that both understand the end customer needs...”* (Person E)

*“In general it has a great impact and it plays an important role in our strategies”* (Person F)

*“It is the enabler of our entire business [...] you just cannot make it by yourself...”* (Person G)

*“It is hugely important and the importance of the partners is constantly increasing”* (Person H)

Moreover, the interview data appears to emphasize the idea that competition has moved to ecosystem level. *“The one, who has the most competitive business network, is the most competitive in its field.”* (Person G) *“... in delivering this kind of projects, the delivery of the project is as weak as the weakest link in the chain...”* (Person H)

The company at the end customer interface may be seen to have the greatest responsibility for the competitiveness the entire network. There is no other way to assure that the suppliers are and will remain competitive and commit required investments into the machinery and competences, than by showing and communicating the partners the key areas that are important to the competitiveness of the entire network (Persons C, G, H).

Competitiveness appears to be in many cases related to purchasing costs. However, it also tends to be that the tone of voice has been changing from cost reduction to cost

efficiency, which includes also additional parameters instead focusing only on price. Delivery reliability, terms of payment, time of delivery and quality may be seen as factors affecting to cost efficiency. What are the direct and indirect costs determine the total costs. *“In addition to direct costs, you will have these indirect ones as well. You must be truly honest to yourself with these...”* (Person A)

As the value proposition to the end customer is becoming increasingly complex, costs are not the only variable affecting to the competitiveness. *“...who has the best products, maintenance services, product support, spare parts, price, quality, performance [...] the others will follow.”* (Person E) Therefore, one must continuously consider all the factors that are essential regarding the competitiveness. Everything must be aligned to support the key success factors. This has the direct impact on the number of partners and diversity of the required partners.

Increasing competence requirements drive to increase the number of suppliers (Persons A, F, H), but simultaneously to be able to manage all the complex subsystems of the final value proposition, many interviewees (Persons A, C, D, G) emphasize the idea of having less suppliers who are capable to provide larger entities.

*“Our category management team tries to decrease the number of suppliers [...] the number of system suppliers will increase.”* (Person A)

*“Another trend is buying larger entities...”* (Person C)

*“Less suppliers and more long term relationships [...] to gain industrial peace to focus on the core areas of own business.”* (Person D)

*“In the future, first the number of suppliers increases, and then the number will be adjusted to match the business requirements.”* (Person F)

*“By operating with larger players and decreasing the number of direct ties meaning that someone else will take responsibility of a certain subsystem, we will have fewer organizations to deal with, less executives to deal with, less relationships to maintain and develop further [...] risks are lower.”* (Person G)

*“The network has been diversified as projects require wider range of competencies and therefore the number of companies involved increase. Managing new competences, products and suppliers is challenging.”* (Person H)

Also suppliers can network and provide unite offering to the focal company. The problem in such arrangement is that who is responsible if problems occur. The benefits of the model are lost if the focal company must communicate with every party in the network. *“There must be one organization that cooperates with the focal company[...] there is no sense to hassle with everybody...”* (Person C)

Hence, less and stronger ties appears to be the trend. Through deep collaboration and clearly defined business model and roles, a group of companies can introduce products faster than any company could alone. However, interviews revealed that it appears be quite challenging and the reason for this may be partly because of the characteristics of the industry. The Finnish technology industry is still quite traditional and partly living the ideology of *“I do what I do, and others should focus on their own problems”* (Person D). However, way of thinking may change in the future. *“... the x and y generations [...] and the openness to collaborate with others is different...”* (Person D). Many of today’s leaders do not represent x or y generation. The focus appears to still be on protecting the own fortress rather than jointly conquering the markets.

However, within past couple of years the industry has shown early signs of the change in the industry culture. Collaboration in areas that have not been common in the past has already begun. Many of the interviewed organizations (B, D, G, E) have implemented so called early supplier involvement process into their R&D processes and some of the interviewees (Persons A, F, H) recognize that the R&D collaboration will be increasing in the future. It is interesting to notice that the tenure of the relationship and cultural differences are instantly mentioned when discussing about R&D cooperation.

*“When we start developing a new product, we immediately engage the proper suppliers who have succeeded in partnership measurements and start joint development. Target costs, quality standards, specifications, and both know the direction. This approach has integrated into our policy in recent years and it was not so common a few years ago. This cannot be done anyhow without deep partnership. This may be culturally bounded*

*behavior as well; we have not managed to share the information as openly with Swedes for example.” (Person E)*

*“We have started DFM (design for manufacturability cooperation) with strategic partners to (a) decrease manufacturing costs at the supplier’s end and to (b) facilitate the installation to the final product at the buyer’s end. Minimizing waste where ever possible is the aim. To do this one must have strategic partners to count on. In Finland and in Northern countries this is easier. Starting level of trust is high and you can then lose it if you break the trust. In other places the starting level of trust is low and then you can increase it by collaborating several years. It is quite opposite in here.” (Person G)*

Supplier’s role as an innovator and developer increase as the companies address the ability to focus on core competencies (Persons E, F, D, G, H). If the focal company is looking for a value adding part to the value proposition and someone has already invented a suitable solution for it, there is usually no sense to invent the bicycle again. *“If a partner is clearly technologically ahead of us, we rather give the task to them.” (Person E)*

Partners are also expected to understand the end customer value creation process. *“Earlier the supplier was told what the buyer wants tomorrow and what to do, but nowadays the logic is turned around, and the supplier is expected to show the value that the end customer will receive.” (Person D)* Hence, the suppliers are required understand the end customer needs and to possess competences adding value to the final value proposition. Moreover, it is not enough that the supplier understand the current needs but the upcoming trends as well. *“Partner’s ability to see the future will be increasingly important.” (Person H)*

Even though R&D activities is the area of increasing collaboration, sometimes supporting the competitiveness of the final value proposition does not mean that the partner must be the most innovative player at the market. *“... you have couple of highly innovative partners that generate the innovations, but you can not only operate with innovation factories as they lack the facilities for high volume manufacturing...” (Person B)* Sometimes competences the focal company seeks are complement and sometimes supplement (Persons B, C, E, H). *“In some project we may use partners and*

*in some project we can do the same task by ourselves.*” (Person E) Partners are simply used in areas where the company lacks resources. In addition to increasing R&D collaboration, many of the interviewed companies have become highly or completely dependent on their partners’ manufacturing capacity.

*“95% of the manufacturing is bought outside”* (Person A)

*“We do not manufacture nearly anything, everything comes from our suppliers.”* (Person C)

*“Purchasing cover around 70% of the added value of our products.”* (Person G)

*“In the future more than 50% of product costs are external”* (Person H)

Partners can be divided into different categories based on their role in the supplier portfolio. The role and the value of the partner may be based on efficiency through large scale manufacturing facilities, creating high tech innovations, increasing flexibility or enhancing global foot print. The supplier can be a company that has been operating in the market for a long time and has efficient processes and large facilities. These suppliers are important in providing cost efficient production facilities. Another group of suppliers have high innovation capability and they are important in actively developing high end solutions. However, they often lack the scale to manufacture the required amount of products.

In addition global competition has also driven companies to seek for partnerships that are geographically close to customers or close to the facilities of the focal company. Transportation of large items is expensive, require a lot of time and involve various risks. Based on these factors, the partners who are geographically close either to the end customer or to the focal company are often used. *“We try to build and manufacture on site as much as possible”* (Person A) *“nowadays we often think that all the suppliers, no matter where they are located, are equal when choosing the partner, but only seldom we think what we lose when choosing a supplier far away.”* (Person H)

Another group of suppliers consists of companies that provide standard components with market price. The relationship is not deep and the processes are not usually integrated with the focal company. Moreover, these companies are usually not called partners. Definition of a partnership appears to vary among the interviewees and partnership as a word tends to be rather complicated to use.

*“Definition of the partner is that we are dependent on that company.”* (Person A)

*“Sometimes it is complementary, sometimes it is supplementary competences you are looking for, sometimes it is creating something completely new that does not exist anywhere [...] but what you can create in the relationship between two companies that no other two companies can create, that is the most interesting thing and something that can provide a source for competitive advantage to your network. That is the deepest level of partnership.”* (Person B)

*“If partnership is used to describe a relationship where parties share profits and loss and operate the business through joint venture, not many relationships fill the definition. We rather talk about strong business relationships.”* (Person D)

*“When we use partner to describe a supplier, it always means that they are somehow strategically important to us.”* (Person F)

In the future partnerships will be more carefully evaluated as a partnership is not the answer for every situation. In some product areas market transaction type of sourcing may increase. Market transaction is still mostly used when purchasing commodity type of resources whereas in innovation intensive relationships deep partnerships are the preferred way of operating.

*“Markets change and one must change along, in areas where the partnership is not creating innovations that increase competitiveness, the market transaction may be better to both.”* (Person B)

*“... right scale of cooperation, realistic expectations and realistic promises...”* (Person C)

*“How to organize joint operations [...] there is no need to have high level of joint integration if the business between companies is small...”* (Person G)

One way of categorizing suppliers can be the level of their involvement in the focal company's R&D process. There are at least four different levels that one can find from interview data (Persons C, G):

1. Market transaction (commodities/bulk products/extension to manufacturing capacity)
2. Providing some engineering/planning in addition to manufacturing capacity
3. Participating R&D process from very beginning and may provide manufacturing capacity
4. Responsible for R&D and production of a certain system and may be responsible for the manufacturing as well

One can also distinguish suppliers whether they are direct material suppliers or indirect suppliers. The importance of these suppliers may be thereafter evaluated based on the possessed competence. Strategic partners may be seen to have competences that are valuable for the focal company and it is rather complicated to change the partner without significant value loss. In addition, the value may be currently realized or it can be potential future value.

*“Another strategically important group is the future partners that do not deliver anything yet but hold highly valuable competences that can be exploited in the future.”* (Person D)

Despite the parameters to categorize suppliers, more important is that both parties understand the root reason for collaboration. *“As long as both understand and accept the role of the partner in the focal company's supplier portfolio, the relationship can succeed.”* (Person B) If the expectations are not transparent and congruent, for example buyer is looking for efficiency and the supplier aspires to sell innovativeness, problems tend to occur. In such scenario the relationship must be re-evaluated and decided how to proceed. In some cases the changing the role is possible if both parties agree. Sometimes the suppliers notice that the role that was planned for it is not interesting and withdraw from the business. Mutual vision, strategy, willingness and commitment are also factors that repeat under the upcoming topics as well.



#### 4.2 The role of sourcing and the ownership of the partnership

The role of strategic sourcing has changed from price based commodity purchasing to more value-based purchasing.

*“The role is not only based on hunting the lowest price, but to ensure the availability, delivery and cost at the right time [...] in a way that the company can make profit.”*  
(Person B)

*“Purchaser is more like a relationship builder [...] rather than a commodity purchaser. Rather than doing everything by itself, the aim is in compiling suitable value proposition from the parts that are available [...] There are many parameters to take into consideration when deciding if the supplier manager is ready to succeed in the task. They are trained for the job to increase the readiness...”* (Person D)

As mentioned earlier, suppliers must understand the value they can provide to the end customer through the focal company. The added value can be also created by forming extraordinary relationship with the focal company. *“The focus is on understanding the value of the relationship between supplier and buyer and use the relationship as an asset.”* (Person D) This has dramatically changed the role and profile of the purchasing people, which has led to that the purchaser is completely different type of person compared to past.

*“SRM owner is responsible for communication, problem solving and escalation and development of accounts.”* (Person A)

*“There has been internal organizational change where the focus has moved to deep collaboration between other parties in the value chain [...] This requires enormous changes in our organization culture and processes.”* (Person E)

*“The competence profile of people working in sourcing has dramatically changed. It is not the easiest job in the company any more. The person must have basic technical understanding of products, understand the processes and the cost drivers behind the processes and he/she must be internationally oriented.”* (Person G)

Sourcing has a role of a connector. It appears to be the function that opens the connection to a supplier. After that the R&D function and other functions if required, may be in direct interaction with the supplier's different functions. *"The role of sourcing is to connect internal and external."* (Person B)

In addition to buying manufacturing capacity, sourcing has an important role in selecting external resources possessing all types of competencies and capabilities. *"... Project team will not choose any supplier; they only make order from suppliers chosen by sourcing."* (Person A) This has made the role of the sourcing even more critical and strategic and the purchaser's tasks increasingly demanding. When asking interviewees what are the factors affecting partner selection, the very first thing is that there must be a market need that can be fulfilled with the help of the competences of the partner candidate.

*"Organization must have something that is needed and that is valuable and it is better than its competitors [...] A company that is capable to continuously improve and develop new and is able to support our key competitive factors [...] Good match to the needs [...] if you need flexibility, then you look for a supplier that is flexible, but understand that it may not be the most cost efficient..."* (Person G)

*"First we recognize the need, can we fulfill the need by using existing partners, if we cannot then look for a company who can [...] technical requirements, audits, price, time of delivery, tests [...] It is a long and heavy process..."* (Person H)

Secondly, the candidate must have realistic ability to fulfill the need and further develop their products or services.

*"Ability to deliver must be proved, and usually relationship starts with a small order... Certain people seek suitable suppliers from certain areas, the auditors ensure that the candidate is capable to deliver what is needed and after that the purchase is made [...] how does the supplier fit into our picture in long term? What are the long term plans for the supplier?"* (Person C)

*"Consider where we are as a company in 3 to 5 years from now. Portfolio analysis, what kind of partners we already have and what kind of competences we require meeting the*

*goals. Then choose the partners. Earlier we needed more mechanical competences and ability to modify steel, the focus is turning into electricity, electronics and software... ”*  
(Person D)

*“Competences, capability to deliver, continuously developing new and improving performance, ability to take risks [...] facilities, quality standards, cost monitoring, fact based measurement, adding value, transparency.”* (Person F)

Thirdly, one must evaluate the match in values and culture.

*“...our supply chain has the greatest impact on our carbon footprint [...] thinking these aspects of our operations play increasing part of the job before making the purchasing decisions...”* (Person B)

*“...they must have interesting products [...] similar working ethics and values among the people [...] Innovativeness [...] best in class [...] Costs are important.”* (Person E)

Sourcing has also an important role as an owner of the supplier relationship.

*“Supplier interface is owned by sourcing. They control who communicate and what in the relationship.”* (Person B)

*“Sourcing gives the face to the supplier. Contracts and orders are handled by sourcing but delivery management and monitoring is often done by the project manager.”* (Person C)

*“Strategic sourcing owns the supplier interface. Project leadership however is not usually in sourcing. Project may be led by business unit manager or other stakeholder...”*  
(Person D)

Interview data indicated that it is common to have one single person owning the most important relationships. In some organizations, there are named individuals at each level of hierarchy.

*“Vendors have vendor manager, but with partners there are named person at each level. Also the top management is involved as some cultures require face to face meetings between executives to get processes moving...”* (Person F)

*“Supply management at corporation level owns the relationship, category managers and strategic purchasers...” (Person H)*

The most important thing appears to be that the people in both companies know who that person is or who these people that are responsible for the relationship.

*“Suppliers in SRM program have a responsible relationship owner who may be category manager, sourcing manager, account manager or in some case the head of a business unit.” (Person A)*

*“We have key account manager type of person for the most important partners [...] it is important to know who is the authority and person making the call when required...” (Person B)*

*“For the top 100 suppliers we have responsible person titled supplier manager. He or she is responsible for day to day activities and communicating quarter review to the supplier...” (Person D)*

*“Every supplier has supply base manager who is responsible for monitoring and improving the relationship and he or she has responsibility to report to higher levels. Every supply base manager has around 5 relationships on their responsibility giving the face for the company.” (Person E)*

#### 4.3 Management of partnership

The actual management of the relationship appears to be interesting topic to discuss. Most commonly the answers of interviewees indicate that the relationship is led by the buyer rather than the supplier. However, there are also comments that underline the joint management or even giving the supplier the power to steer to cooperation.

*“If the relationship includes high levels of trust and if both recognize the benefits of the cooperation, the management of the relationship could be on the supplier’s side. But in general, both parties are required to use effort in managing the relationship. Both parties must be active and willing to improve the relationship, otherwise it may collapse.” (Person D)*

*“...can one party manage the relationship where two organizations are involved? [...] it requires joint leadership [...] actually it would be better if the supplier would lead the relationship, it would mean that they really understand the end customer’s business and the market.”* (Person H)

When asking interviewees what and how they actually manage when they manage partnerships, the answers were quite diverse. However, there are several clear consistencies in the answers. One can notice that according to the interviewees, the management occurs at many levels, from very top level of strategic management till all the way to the daily operative level. Research data indicates that the shift is from operative level management to the more holistic approach. Management of delivery in comparison to the management of delivery simultaneously with the relationship can be seen as a distinctive difference between vendor management and partnership management.

Most commonly partnerships are managed at the single relationship level. The role in the supplier portfolio is commonly identified, but usually relationships are solely managed. There is some evidence to indicate that also the network level management occurs. However, network management is not that common, even though many of the organizations have recognized the competition between ecosystems as mentioned in earlier. Network level management is seen more complicated and as an area that may be considered more in the future.

*“Sometimes we sit down with several suppliers to seek solution together for a certain issue. However, the basic level of partnership management focuses on one to one relationship and depending on the company’s capability; it may or may not develop synergies with several suppliers simultaneously.”* (Person D)

*“Relationship is always analyzed between the buyer and the supplier. But in addition to that, development activities may sometimes involve network level development. For example, a group of our local networked suppliers in Finland meet every year to discuss the challenges the industry is currently facing. They also divide tasks inside the network to avoid too much overlapping areas of business. Moreover to increase bargaining power, they have stated to joint purchase... more active management of the network and*

*networking with other organizations in the industry to develop competitiveness together at the national level in the future [...] it is far more complicated.” (Person E)*

When trying to manage network, one should be aware of the competences possessed by other companies in the network and align operations accordingly. Network centricity affects to organization’s ability to influence on the direction of the network.

*“At the network level the competitiveness of the entire network should be seen as one. The better the fellow organization is doing the better is the entire network doing. Companies in the network should have an attractive match supporting each other’s competences. In best case scenario players in the network could learn from each other and share best practices.” (Person G)*

*“More relationship specific management. Internal units have a network of their own, and that is often dissimilar to other internal units [...] if you are trying to manage a network, it should be managed from the center [...] you cannot lead network from periphery.” (Person H)*

At the relationship level many of the companies do have a fact based meters to show the numerical performance of the relationship. This is to ensure that the business fundamentals such as costs, quality and time of delivery are at the required level.

*“Processes are measured based on facts with numerical values to monitor how the supply chain is doing” (Person B)*

*“Monitoring and management of delivery is part of daily operational routines, but partnership requires also open communication.” (Person C)*

*“We have processes how to cooperate with, how to measure and how to reward our partners [...] Parameters include quality, time and reliability of delivery, technical support, relationship and cost management. The aim of the discussions and measurements are to erase problems from mutual processes.” (Person E)*

*“... mutually agreed tools and meters to measure the relationship, both quantitative and qualitative.” (Person G)*

Even though measuring will be vital in the future as well, the partner management appears to be increasingly management of supplier’s direction and involve steering the

direction of the partner's management. Eventually management of partnership involves management of people.

*“One can strategically manage the supplier portfolio and technology choices that affect the portfolio, but in addition, people operating at the interface must be also led.”* (Person B)

*“Managing partnership means managing the business and the areas of supplier's business that have impact on our business [...] There must be a link between top management, middle management and operations.”* (Person F)

*“Managing partnership is managing the management of the supplier.”* (Person G)

*“...human relationships and communication between individuals...”* (Person H)

Hence, partnerships should be lead at every level of the organizational hierarchy and it is important that the person at the supplier interface at any level is capable of acting consistently and make decisions that are aligned with the strategic objectives. *“Suppliers are able to exploit the weakness of management or operative personnel if their actions are not aligned.”* (Person B) As inconsistency creates hassle, some interviewees (Persons A, G) pointed out that predetermined problem escalation process must be implemented.

*“There are different people owning the operative decision making and different people owning the higher level decision making, CEO, chief procurement officer, business unit leaders depending on matter...”* (Person G)

According to interviews, communication appears to possess the key to successful management of the partnership and people involved.

*“Trust is to be managed. One can build trust through continuous dialogue and open communication [...] if any difficulties occur; we expect to hear from them [...] without two way communication the management of partnership is just management of delivery.”* (Person C)

*“We have an annual supplier day for the top 100 suppliers where the entire executive board is explaining explicitly the future strategy of the corporation. This group of suppliers enjoys the full business review for the next 3-5 years ahead.”* (Person D)

*“Measurements are updated twice a year and as part of the process face to face or virtual meetings are held [...] As the experience increase in these processes, we are able to help our suppliers to improve their processes and quality which is good for their other customers as well [...] we share technical information, cost structure, anything that is required to create a solution and have automated order-delivery process, FTP servers, web portals and tools...”* (Person E)

*“Insufficient communication may be seen as root cause that often generates the problems that eventually lead to termination of the relationship.”* (Person H)

Moreover, communication should be facilitated at all the levels of hierarchy and the knowledge should flow to both directions between different departments.

*“Meetings with partners twice a year to discuss about manufacturability, cost efficiency, shorten delivery times and reliability, decrease stocks and respond quicker to end customer needs. In addition there are additional meetings among R&D people.”* (Person A)

*“Every year we have our supplier day where our top executives meet 150-200 people of our top suppliers’ people. CEOs, key account managers and other relationship critical people are invited [...] we share our technology map four times a year [...] R&D people meet partner’s R&D people in different exhibitions. We forward the estimation of sales to our suppliers and our suppliers have insight into the demand of our products... we have different time period estimations; those that change 2 to 3 times per day, those that change once a month and those that change once in 3 months [...] Suppliers share information about the mainstream technology decisions and directions of competitors.”* (Person B)

*“The meeting routines are important. Who, why and when? Weekly meetings with the operative personnel, twice or once a month a meeting with R&D people and four times a year meeting with suppliers’ executives and our top management.”* (Person G)

In addition to mentioned above, there are various ways of organizing people around the relationship to enhance communication. For example to ensure open dialogue some of



the designers of suppliers sit in the focal company's facilities, provide additional training or strategic guidance.

*"Sometimes we have own designers and designers of two other companies to jointly create solutions [...] they work here in our premises..." (Person C)*

*"Our suppliers train us [...] when both contribute to the relationship and provide additional value; it strengthens the tie between us" (Person D)*

*"There can be representative of our company sitting at the supplier's board to support and enhance the strategy and business understanding of the supplier. I think that supplier should be very happy if this kind of assistance is provided..." (Person G)*

The new communication technologies create opportunities for inter-organizational collaboration but also challenges. Many of the interviewees still emphasize the meaning of the face to face meetings.

*"Someone must travel to the supplier and tell them exactly what they are supposed to do." (Person A)*

*"Messages and meetings are important and it is important to notice that through face to face meetings people can establish a personal connection with other individuals and thereby the company gives a face for the relationship. Both sides must have a face." (Person C)*

*"New communication technologies. The fact that people collaborating do not ever necessarily see each other face to face may challenge the efficiency of the communication. Communication through systems is often faceless and delivering the meaning of the message can be difficult or impossible [...] suppliers may be far away which increase facelessness, which leads to the situation that development activities do not progress as the message is not clearly understood..." (Person H)*

#### 4.4 Challenges in partnership management

When asking interviewees what is challenging regarding management of partnership and what may lead to the termination of a relationship, many answers were somehow related to communication. In addition, culture, commitment of management, different

types of changes and learning from experience were areas that appears to be challenging.

Traditionally suppliers have been trying to sell capacity of their machines. A challenge can be how to turnaround the question and make suppliers to focus on added value they can provide rather than just available hours of their machinery. This may be result of supplier's constricted strategic management capability to see the future.

*"...we are not interested in how many turning machines they have, but how can they increase our competitiveness towards the end customer[...] Instead of being reactive, suppliers are rather expected to be proactive."* (Person D)

The new open way of collaboration requires change in organization culture in both sides. Supplier must understand that they should focus on communicating about added value and be able to actually provide it and the people in the focal company must understand that open collaboration is the key for successful relationship.

*"...inability to openly discuss about problems and inability to understand the needs of the target market is a challenge..."* (Person G)

*"At some point the partner may be able to adopt some of the core competences and aspire to bypass the focal company by trying to sell the solution directly to the end customer [...] There is always such risk, however that is a risk one must take and if both parties seek long term benefits, openness fosters the relationship."* (Person D)

Sometimes a supplier manages to sell something it cannot deliver. This is opposite situation to the inability to communicate the value. Buying the value that the supplier cannot provide may also be the focal company's inability to evaluate the supplier's capabilities or inability to decide what they are trying to buy.

*"If we are not capable to buy correctly."* (Person A)

*"...supplier's inability to deliver what was promised..."* (Person C)

*"...partly it is the focal company's inability to manage risk."* (Person F)

*“It is easy to blame counterpart but in many cases the root problem is on our side [...] when you point out someone with a finger, four fingers point at you and that is the case many times if there are problems with the supplier.” (Person G)*

National culture may be seen as a barrier hindering the collaboration and misinterpretation may be caused by these differences.

*“Cultural differences, the further one go from Europe the challenging the partnership management will get. When considering China and India, the supervision must be arranged. One must invest a lot, travel to the location, arrange audits or hire external supervision.” (Person A)*

*“Culture, in China and globally culture is different. You may be nodding and if you are asked did you understand, the answer is always yes. Also level of education and level of actual doing in practice differ [...] One must understand cultural differences and educate own people to be able to work with different cultures. Increasing transparency through organization culture one can solve issues involved national culture...” (Person F)*

*“Cultural differences in designing standards [...] cultural differences in hierarchical structures [...] It is challenging to measure the actually realized gains that choosing Asian supplier instead of a supplier geographically close to the focal company will provide.” (Person H)*

Another mentioned challenge was business crises. When the business is in crisis it is harder to manage the relationship. Difficulties may be caused by the changes in business environment, natural catastrophes or financial imbalance of the partner. When something disastrous occurs the relationship is truly tested.

*“... when the tsunami hit Japan, our supplier gave the drawings to their competitor and taught them to manufacture the component [...] without strong prior partnership, they would have never done that [...] social balance sheet is easily forgotten...” (Person B)*

*“Forecasting future is hard, major problem in quality is difficult... in crisis the partnership is measured...” (Person E)*

*“Changes in business environment [...] and ability to share information to increase everybody’s ability to react on these changes...” (Person G)*

*“Price, quality, ability to deliver. Risk management and continuity in the network’s operations. Catastrophes such as Sandy storm [...] similarly if the supplier go bankruptcy similarly the company will disappear...” (Person H)*

In addition, commitment of the management is required but challenging to achieve. Especially if the management team change or the relationship owner changes, how to ensure the commitment of the new people. In project type of business these problems may occur even more often.

*“In project business, who will pay the development of the partnership, the project manager from the project budget or someone else in long term?” (Person C)*

*“Commitment of the management may be hard to attain, and if the management changes and the direction with it, a good partnership may corrupt.” (Person E)*

*“Changes in management and people at the interface...” (Person G)*

Moreover, learning from prior experience appears to be a challenge. How to ensure that the same mistakes are not repeated again? Also how to ensure that lessons learned from success are delivered to both internal and external stakeholders appears to be difficult.

*“Documentation of lessons learned, what was good what did not go well [...] Project documents and contracts are archived into web portals and SharePoint [...] but the problem is that you cannot ever document that in great detail... the most important source is people who has participated the projects...” (Person B)*

*“In the project closing the team should do the lessons learned. Even if they do remember to do it, it is challenging to communicate to the rest of the people. After a project people are assigned to new projects and the same mistakes are done again. SRM system implementation is something we launch in the near future [...] this will hopefully solve many problems regarding learning and transparency.” (Person C)*

*“The entire network learns from the experience as the people inside the network gain experience and participate successful and unsuccessful relationships. It is important to*

*remember to share the gathered experience. Internally we share the success stories through different channels [...] This is huge challenge, for many people the change away from the old way of not collaborating to the new way of openly sharing the knowledge and experience is huge.” (Person D)*

The interview data also showed that companies tend to vary considering their learning mechanisms.

*“...no shared databases [...] memos from partner meetings are shared to participants and management...” (Person A)*

*“We should document and measure the learning outcomes better in order to continuously improve [...] Quality, costs and numbers of reclamations are what we follow now...” (Person F)*

#### 4.5 Dissolution of the partnership

The best scenario is that the suppliers in the portfolio will not constantly change. However, there are various situations that can lead to the termination of the relationship. Most commonly dissolution is caused by a change. Changes in the business environment, strategy, people, performance or levels of trust were the most common issues interviews revealed. If the premises for collaboration disappear, the best option is to leave the relationship and move on.

*“In a good partnership, like in any other good relationship, when the time is to exit, you should then exit and do not unnecessarily try to delay the decision [...] by delaying problems occur.” (Person B)*

Natural situation for exit can be the change in the market condition or change in strategy.

*“...in such situation the demand for certain type of competences and partners may decrease or disappear completely.” (Person D)*

Sometimes management change and organization culture and strategy may change along. If the strategy of one party changes the need for that particular partnership may

vanish. Changes in management may occur as commitment problems. The supplier that does not actively invest into the product portfolio serving the focal company or transfers the best R&D teams to work on other fields of their business indicates lack of commitment.

*“Long term relationship, good partnership, and mutual vision will provide access to the best R&D teams, unique solutions and distinguish the company from its competitors... That may be seen as quite alarming if the strategy is based on innovation and high end solutions and you will not get the brightest R&D teams.”* (Person B)

*“...changes in management is a challenge...”* (Person E)

*“Disagreement where to steer the business. Lack of commitment to required investments. Distrust, decreased competitiveness. Inability to improve operations.”* (Person G)

Another reason for dissolution can be the outcomes of the relationship and if the partner does not meet the expectations. In such scenario the relationship does not serve the long term success and it is not reasonable for either party to artificially continue.

*“All the relationships are monitored and evaluated based on facts such as delivery reliability, quality and costs and if the supplier cannot meet the required levels and continuously fail to meet the targets, the relationship is then challenged and developed based on feedback and if these will not help, the relationship will be terminated. Shutting down the relationship may take considerable amount of time and if the partner is not easy to replace, the process is more difficult. However often the root problem tends to be in the commitment of the management... a firm that is willing to make business with you will not systematically let you down.”* (Person B)

*“Difficulties in quality or delivery times [...] financial situation of the supplier do not convince...”* (Person C)

The supplier must understand factors behind of its competitiveness. For example Finnish suppliers may not compete with price.

*“If the supplier is not interested in adding value or is not capable to provide added value, the relationship may lead to termination.”* (Person D)

*“For a Finnish supplier the competitiveness, if the other parameters are the same but the price is clearly too high, one will probably change to the cheaper supplier...”* (Person E)

The end of relationship may not always mean dissolving a contract, but just decreasing the purchasing volumes.

*“Inadequate quality, price, contract violations [...] nowadays only rarely the contracts are cancelled, most commonly the volumes of purchasing just decrease or disappear completely...”* (Person H)

Trust violation also appears to be one of the key reasons for partnership dissolution. Trust can be violated through contract violation (Persons A, E, F, G, H) or through dishonesty (Persons A, B, F, G). There are some areas where no single violating act is allowed leading to an instant exit of a relationship.

*“If the partner breaks the trust in a matter that is not optional such as some ethical matters, the relationship will terminate overnight.”* (Person B)

*“Violation of supplier code of conduct regarding zero tolerance matters such as child labor, forced labor, environmental regulations, and safety regulations will lead automatically to relationship termination.”* (Person E)

When interviewees were asked to describe a failure, similarities with answers to describe challenges or reasons for dissolution were mentioned. One common reason appears to be the inability to evaluate partner candidate's ability to deliver or define what the focal company wants to buy.

*“...we did not know if we are buying hands or brains...”* (Person B)

*“Lack of competences, time of delivery, costs, quality [...] we were not able to evaluate risks properly.”* (Person F)

In addition, cultural differences in national culture or organization culture may also lead to failure. Also if the internal organization culture does not support openness, there may occur difficulties. Moreover, wrong managers or key people at the relationship interface can cause dissolution.

*“Delivery times fail, cultural differences, not suitable suppliers, wrong people at the interface in both sides [...] a French supplier informed that unfortunately they are two months late already, but on august they are having their holidays anyway... a Chinese supplier would have never done that...” (Person C)*

*“Willingness was good, expectations were similar, but the leadership did not succeed. Probably party because of wrong people, not one but group of people. If people are or are not ready to move on into an open collaboration determine the success [...] It is easier to say that you are the supplier and I am the customer and accuse the counterpart, rather than realize that both are sitting in the same boat...” (Person D)*

*“Similar circumstances with the success story, but the counter part was huge corporation. They were acting opportunistically and trying to milk us and make quick cash. The key factor of failure was insufficient long term commitment of the management...” (Person E)*

#### 4.6 Key success factors

There are various factors affecting to the success of partnership. When the interviewees were asked to explain the most critical factors that affect the success of partnership, the answers were diverse as expected. Once again, the existence of the market need was one of the recognized factors. *“there must be a need.. and the offering of the supplier must fit to that need, willingness, flexibility of both, trust, long term mutual goals.”* (Person F) In addition, one must understand the partners ability to respond to the need. *“You must know your network and be aware who can do what and not to run after the lowest price [...] Trust, right scale of cooperation, realistic expectations and realistic promises, eagerness to increase efficiency in the future.”* (Person C) Moreover, the driver for collaboration must be understood by both parties and communicated to the people in both companies.

*“You must have a clear vision of what are you looking for: transactional or partnership-based relationship... You must recognize what are the capabilities of different companies [...] have convergent strategy and vision, both parties know what are the objectives [...] It is highly critical that you can manage the relationship in a way that both wins”* (Person B)



*“By clearly identifying the competences of the supplier and the role that it will play in the portfolio, one can fully benefit from the relationship.” (Person D)*

*“Relationships between people, how to cooperate [...] There are different types of relationships for various purposes [...] what is important in all relationships is the communication [...] in long term relationship the communication, innovation sharing and dialogue is required.” (Person H)*

The willingness and commitment appears to be very important factor as well.

*“Partner must be interested in the business of the focal company [...] Collective responsibility for the success: good times are good for both parties and similarly bad times are bad for both [...] Loyalty is important as we do not have production of our own...” (Person A)*

*“Mutual willingness, competences that are valuable for the focal company, similar goals, aligned strategy, trust, managers and owners and interface people and their synergies, the supplier has face, leadership, genuine willingness to serve the end customer well, understand key competitive factors, what can the supplier provide to foster those factors, continuous dialogue” (Person G)*

*“The management of both parties is committed and ability to commit the lower levels as well. Then the parameters to measure the performance that are agreed by both companies. Face to face meetings, not only phone or email communication. Depending on the partner, it may require quite a lot of sitting down together. There must be need and offering filling the need and realistic ability to really do it. The opponent of same size. Personal chemistry must meet, if they does not the people must be changed. Strategies must fit and both sides must share their strategies openly to be able to create joint strategy.” (Person E)*

When asking interviewees to describe a success story the same factors repeat as mentioned above: market need, required competences, shared goals, willingness, commitment of management and leadership skills.

*“The proficiency and commitment of the people and personal desire to create something extraordinary [...] both parties were committed and understand what the goals are...” (Person B)*

*“Supplier introduced completely new markets and showed clearly value that they could add to the final proposal. The success was dependent on the leadership capability and the willingness of both organizations. Both companies understood the business success parameters, had willingness to reach those, had capability to sell the idea of collaboration inside the company and get people to act accordingly.” (Person D)*

*“Passionate new supplier who was willing to test and develop. The management was committed. The result was that the supplier won the supplier of the year award after six years of hard work in developing the joint solution and the partnership. Size of the business was same scale, there was a mutual goal, market need, required competences, and both parties were willing to learn.” (Person E)*

Interviewees were also asked how can one know when the partnership management has been successful? Interview data indicates some factors that appears to repeat: quality meets requirements, costs are as agreed, deliveries are on time and joint processes run without interruption.

*“The outcome of the partnership would rather be decreasing costs than increasing costs.” (Person A)*

*“Successful partnership is cost efficient, deliveries are on time and the quality is as ordered [...] there is a saying that you will not get what you order but what you supervise [...] in partnership trust means that you will get what you order [...] Regarding R&D cooperation every project is an indicator of success and milestone itself.” (Person C)*

*“In daily routines there are no breaks in production, quality is as planned and customers happy [...] The partnership is working well when there is nothing to do [...] and everyone is getting paid.” (Person E)*

*“...delivery on time, quality meet requirements, costs are as agreed, only few reclamations.” (Person F)*

Also when the end customer perceives the expected value and everybody in the value chain make profit, one may argue that the partnership has been successfully managed.

*“Healthy portfolio [...] everybody is able to make profit and there are more companies willing to participate the network that can be taken onboard.” (Person B)*

*“The best measurement of success is the positive feedback from the end customer. One may say that the company has been successful when the end customer has received value that no other could have delivered. How to measure the impact of the partners in that outcome is complicated. It appears to be difficult to set any numerical parameters that indicate transparently the involvement of supplier to the final outcome. The barometer tends to be rather qualitative or even just a “gut feeling”. The feeling that sales and product launch efforts have been successful and supported by the partners... We are looking for long term relationships where both parties make good money...” (Person D)*

#### 4.7 Summary

The interview data revealed that the companies in Finnish technology industry appear to emphasize the importance of the partnerships and the management of the business networks. Every interviewee mentioned that without their partners they are not able to meet their strategic goals. This is completely aligned with the findings in the literature and Parmigiani and Rivera-Santos’ (2011: 1109) comment *“No organization is an island”*. In addition, the influence of the partnerships on the focal company’s success is predicted to grow in the future. The interview data presented some evidence that the competition is recognized to occur at the network level and that the company at the end customer interface is recognized to be the most responsible for the competitiveness of the entire network.

Interviewed companies appear to have various types of partnerships that are strategically important. Some of them are aiming to achieving cost efficiency through state of art manufacturing facilities and others are based on high innovation capability. There are also partnerships which are between these two main drivers. In addition, geographically well located partners and flexible partners were also mentioned as important. Mutually understanding the role of each partner appears to be highly important.

Another trend one can find from the interview data is that the interviewees expect to have less suppliers but more long term relationships in the future. Partners are expected to be able to deliver more and larger entities. As companies are focusing on their core competences and value propositions are becoming increasingly complex, partnerships are to be built on strong relationships where both parties understand the end customer value creation process. Open collaboration and communication, which are seen as the key elements for success, appear to be challenging to achieve in a traditional industry such as Finnish technology industry. However, the change in the industry culture can be seen to begun.

In addition, the shift into more complex value propositions and collaboration in unforeseen areas has also changed the role of the sourcing and the skill profile of the purchasers. Sourcing is seen as a connector between internal and external resources and it is also commonly seen as the owner of the relationship. Sourcing is the face of the company, and having a face appears to be very important.

Moreover, sourcing is often responsible for partner selection as well. The tasks of sourcing has become rather demanding as the activities may include areas such as: understanding the presence of a market need; analysis of the current partner portfolio; recognize the need to increase competences in the portfolio; identify suitable candidates; evaluate candidate's ability to fulfill the need; evaluate supplier's ability to continuously improve their solutions; evaluate the match in values and culture.

The actual management of the partnership appears to occur more often at the relationship level than network level, even though some evidence of network level management was reveal by the interviews. Almost every interviewee emphasizes the idea of evaluating partners and their role in the partner portfolio, but the most of the managerial activities tend to be related to a single relationship level. The relationship is most commonly led by the buyer, but some interviewees argued that the relationship of two parties cannot be led solely and both parties must have a contribution in it. Majority of the interviewees monitor facts such as quality, time of delivery and costs. The distinctive factor between vendor management and partnership management appears to

be that in addition to facts, the importance of open two way communication is emphasized. To foster the relationship, the communication must be enabled at all the hierarchical levels between companies and it must be cohesive at every level. Moreover, people at both sides must also know the authority making decisions. Organizing joint operations around the relationship in a way that the responsibilities are clear and the communication is enabled tend to be important.

Moreover, communication appears to be also one of the main challenges. Especially modern communication technologies were mentioned as a challenge as they tend to increase the facelessness. Face to face meetings are still required and play an important role in establishing a personal connection, which facilitates communication between individuals. In addition to communication, organizational culture, national culture, industry culture, learning from experience, achieving commitment of management and various kinds of changes were mentioned as a source for challenges in partnership management.

The most common reasons for the dissolution of a relationship appears to derive from change in business environment, change in strategy, change in people, change in performance, or change in level of trust. In addition, if the organization culture does not support the openness, management is not committed or the supplier fail to deliver what was agreed the relationship often lead to termination. Hence, one may argue that many challenging areas are highly people related.

The key factors for a successful partnerships that arise from the interview data consists of factors such as: recognized market need, willingness of both parties, clear mutual vision, open two way communication, understanding of each other's capabilities, realistic ability to jointly fulfill the market need, high level of trust, chemistry between key individuals, ability to implement the joint strategy, commitment of management and mutually agreed performance indicators. It is to be noticed that many interviewees pointed out the importance of the market need for the collaboration and realistic ability to deliver what is required to fulfill the need. These two factors must exist and thereafter the commitment and willingness of the management and the key interface people tend

to determine the success of the relationship. Similarly to the factors being key challenges, in center of the solution tend to be the people and communication between people. It appears to be highly important that the communication at every level is constant to ensure that the mutual goals are transparent and present at all times.

Interview data also revealed some performance indicators that are in use. Many of the companies measure facts and manage relationship accordingly. This means that quality must meet requirements, costs are as agreed, deliveries are on time, joint processes run without interruptions, customer receives the expected value, and everybody is making money.

If all these findings are drawn together, one may argue that there are seven themes that appear to continuously repeat in the answers:

1. Existence of a market need
2. Realistic ability to fulfill the market need together (possession of the required competences)
3. Willingness and commitment of the management and the key people to fulfill the market need together
4. Jointly agreed goals
5. Capability to implement jointly agreed strategy
6. Open two way communication at all hierarchical levels
7. Overcoming cultural barriers (organization culture, industry culture, national culture)

## 5 DISCUSSION AND CONCLUSIONS

This paper investigated the factors affecting to the managerial success of inter-organizational strategic relationships. To be able to measure whether a relationship has been successful, one must understand the fundamental drivers for collaboration, the root reason. To approach the drivers, the paper examined two alternative angles – strategic management point of view (Teng 2007; Wassmer 2010; Maritan & Peteraf 2011); and co-exploitation & co-exploration viewpoints (March 1991; Parmigiani & Rivera-Santos 2011) – which were found through the literature review. The idea of these approaches relies on the aspiration to identify and classify the drivers of all the inter-organizational relationships that a company has. The literature recognized that depending on the driver, some relationships tend to be more knowledge intensive than others (Phelps et al. 2011).

The empirical data provided direct support for applicability of the co-exploration & co-exploitation approach as some of the interviews mentioned that they have different partners to reach for efficiency and different to pursue innovativeness. Several interviewees explained that some suppliers aspire to provide both. The empirical data did not provide direct support for strategic management classification of offensive and defensive motivation. However, this particular interview structure (see appendix 2) that was used did not directly focus on revealing this single specific theoretical angle. To be able to evaluate the applicability of the four field model presented in **Figure 10** (page 62), one should empirically investigate the model more explicitly. This could be a topic for a future study.

In general, the interviewees emphasized the importance of understanding the reason (drivers) why the companies collaborate and the goals which they are aspiring to achieve through the relationship. Hence, as mentioned in the literature (Gottschalg & Zollo 2007), one may argue that the transparent and mutually agreed goals may be as a one of the key success factors.

The second theoretical area of the paper discussed the factors affecting the inter-organizational knowledge exchange, which was commonly recognized as one of the key elements in enabling relationship success (Esterby-Smith et al. 2008; Squire et al. 2008;

Van Wijk et al. 2008; Grimpe & Kaiser 2010; Phelps et al. 2011). This argumentation was strongly supported by the empirical data and therefore one may argue that the inter-organizational communication is definitely one of the factors affecting to success of a strategic relationship. The prior research suggested that the knowledge exchange may be seen to occur at different levels such as inter-personal, intra-organizational, inter-organizational, intra-network and inter-network (Squire et al. 2008: 463; Phelps et al. 2011: 1). There are also the characteristics of knowledge (Esterby-Smith et al. 2008; Pérez-Nordtvedt et al. 2008; Squire et al. 2008); the characteristics of the donor and the recipient (Cohen & Levinthal 1990; Esterby-Smith et al. 2008; Squire et al. 2008; Khoja & Maranville 2009; Phelps et al. 2011); and the contextual characteristics (Inkipen 2000; Teng 2007; Mason & Leek 2008; Squire et al. 2008; Makadok & Coff 2009) that affect the success in knowledge transfer.

Culture as a contextual characteristic was strongly emphasized by empirical data as an important factor. The data showed support that firstly the organization culture has great influence on the openness to share knowledge with internal and external stakeholders. This finding is aligned with the wide recognition (Esterby-Smith et al. 2008; Pugh & Dixon 2008; Van Wijk et al. 2008; Grimpe & Kaiser 2010) regarding dependency between intra- and inter-organizational knowledge sharing. In addition, the Finnish technology industry was recognized to be rather conservative and the industry culture does not fully support the open collaboration. However, one may interpret from the answers that the trend is towards more open cooperation. Thirdly, the national culture was mentioned by interviewees and especially the distance between Finnish and Asian cultures. Some cultural differences between Finns and Swedes and between Chinese and French were also mentioned.

Geographical distance was also discussed as a contextual factor affecting to knowledge exchange. Theory suggests that whereas high geographical distance may increase the diversity and heterogeneity of the accessible knowledge (Phelps et al. 2011), high distance may cause problems through diminishing communication forms (Esterby-Smith et al. 2008; Sammarra & Biggiero 2008). Empirical data indicates that geographical distance is seen as a challenge. The main reason for this is that face to face



meetings are still required and play an important role in establishing a personal connection, which facilitates communication between individuals. Moreover, the empirical evidence highly emphasized the idea that companies must have a face in order to succeed in the relationship and geographical distance may increase facelessness.

In addition, the discussion regarding the direction of knowledge flow (chapter 2.5.1) and the tie density (chapter 2.5.3) was strongly supported by empirical data. Hence, the argumentation behalf of strong direct ties (Nonaka & Takeuchi 1995; Cavusgil et al. 2003; Squire et al. 2008) and transparent knowledge flow at all hierarchical levels (Yanow 2004; Esterby-Smith et al. 2008) may be seen applicable. In addition, the empirical data indicated the trend of decreasing the number of direct ties and purchasing larger entities from the partners. This notification supports Wassmer's (2010) finding that direct ties are costly to maintain and one should rather have direct ties only with companies that have further networked.

Interest alignment and motivation to share knowledge and cooperate was also discussed as a contextual factor. Gottschalg and Zollo (2007) argued that in order to achieve competitive advantage through collaboration both ability to exchange knowledge but also willingness must be solid. Empirical evidence showed very strong support to Gottschalg and Zollo's (2007) argumentation. Mutual willingness and commitment of especially management towards cooperation were the factors mentioned by the most of the interviewees.

The third area of the literature review discussed the management of a relationship. Alliance capability (Heimeriks & Duyster 2007), alliance management capability (Schilke & Goerzen 2010) and alliance portfolio management (Wassmer 2010) were main concepts contributing to building a framework for relationship management. Based on the findings in the literature, the topic was divided into subtopics to cover managerial routines and learning routines, both important to all of these three contributing concepts.

As a managerial practice, theory recognizes a relationship and portfolio levels of management (Heimeriks & Duyster 2007; Dimitratos et al. 2009; Mitsuhashi & Greve 2009; Wassmer 2010). For inexperienced companies the single relationship level may be more beneficial whereas for experienced corporations the portfolio level of analysis tend to deliver additional value (Wassmer 2010). Empirical findings were similar. Almost every interviewee emphasized the idea of evaluating partners and their role in the partner portfolio, but the most of the managerial activities tend to be related to a single relationship level.

Managerial routines vary in different phases of the relationship life cycle. In the phase before entering, the literature recognizes three key activities for partner selection: recognizing current and upcoming market needs (Mitsuhashi & Greve 2009; Schilke & Goerzen 2010); new partnering opportunity identification (Teng 2007; Wassmer 2010); and evaluating social match (Mitsuhashi & Greve 2009; Das & Kumar 2011). The empirical data indicates that the tasks of people operating in the supplier interface consist of wide range of activities. The interface people must be able to understand the presence of a market need; analysis of the current partner portfolio; recognize the need to increase competences in the portfolio; identify suitable candidates; evaluate candidate's ability to fulfill the need; evaluate supplier's ability to continuously improve their solutions; evaluate the match in values and culture. Hence, one may argue that the importance of activities in relationship formulation phase is emphasized by both prior research and the empirical data.

Theory also suggests that the main objective of portfolio management is to achieve the strategic goals through configuration of relationships of the entire alliance portfolio. Measuring key performance indicators can help in the configuration task. In knowledge intensive relationship, also monitoring innovation performance could be beneficial. In addition, at the corporate level the analysis should show the success in meeting the strategic goals (Wassmer 2010). Empirical data showed that the majority of the interviewees monitor facts such as quality, time of delivery and costs. In addition, common opinion was that the distinctive factor between vendor management and partnership management appears to be open two way communication and organizing

joint operations around the relationship in a way that the responsibilities are clear and processes run without interruption. The empirical data also supported the idea of measuring the strategic goals by arguing that alliance performance may be also measured based on ability to satisfy end customer needs and make profit.

Moreover, as the alliance is relationship of two market operators, decisions to adjust the relationship involve both organizations (Wassmer 2010). Empirical data indicated that the relationship is most commonly led by the buyer, but some interviewees argued that the relationship of two parties cannot be led solely and both parties must have a contribution in it. Theory suggested that the decisions should be made in the company and by the people who has the best knowledge regarding a certain matter (Walter et al. 2008). Hence, one may argue that there is still a gap between suggestions of the theory and present managerial practices.

The literature recognizes two main factors that most commonly lead to dissolution of a relationship. Change in the markets where the premises for collaboration suddenly disappear may be seen as the first one (Greve et al. 2010). Second factor that many scholars (Teng 2007; Walter et al. 2008; Squire et al. 2008; Dirks et al. 2009; Janowicz-Panjaitan & Khrisnan 2009; Mitsuhashi & Greve 2009; Greve et al. 2010; Wassmer 2010; Das & Kumar 2011; Phelps et al. 2011) recognize is trust, which appears to be the most important element determining the success of the relationship. Violations may be either competence-based violations, meaning that the partner fails in fulfilling the agreement despite the effort, whereas integrity-based violation means that the partner shows dishonestly (Janowicz-Panjaitan & Khrisnan 2009). The empirical data suggests that the most common reasons for the dissolution derive from change in business environment, change in strategy, change in people, change in the partner's performance, or change in the level of trust. Findings are congruent with prior research. Hence, the management of the both parties must be aware of the changing market needs, be able to ensure the required level of performance and honor the strict requirement of honesty.

The final topic of the literature review discussed learning routines. Whereas managerial routines emphasize the actual activities that the management executes in the alliance management process, learning routines refer to activities aiming to capture, analyze, formalize and further exploit the cumulative experience and further develop the managerial routines (Pangarkar 2009). Prior research recognize the learning routines to be rather challenging activities for managers as the experience may be highly relationship-specific and the learning outcomes are not easily transferred to other (Wassmer 2010). The empirical data indicated that learning from prior experience is one of the challenges in relationship management. In addition, empirical data showed that experience appears to be highly people embedded and even though some of the interviewees revealed that they have certain collective places where they store data, experience may be hard to codify and store in a database. Empirical data showed that companies vary in their learning practices.

### 5.1 Answer to the research question

The primary research question of this study was to investigate:

- What are the most important factors affecting to managerial success of an inter-organizational strategic relationship?

Based on the findings discussed earlier in this paper one may notice that there is relatively high number of factors influencing the managerial success inter-organizational strategic relationships. However, to summarize the most important factors the author has come up with a list of five themes to consider:

1. Both parties recognize the existing and/or the future market needs
2. Realistic ability to fulfill the need together
3. Willingness and commitment to fulfill the need together
4. Capability to implement the jointly agreed strategy
5. Continuous open communication to keep the goals transparent and present

*Both parties recognize the existing and/or the future market needs*

The very first fundament for a relationship appears to be the existence of a market need and recognition of it. The market need may be current or future. It is important that the need is opportunity for both organizations and both organizations understand the need. This means that in a vertical partnership, such as buyer-supplier relationship, both companies must understand the end customer market and the opportunities of the market. Even though, the company at the direct end customer interface has a better position to observe the markets and identify the changing needs, also the supplier must understand the impact of their contribution on the final value proposition and continuously aspire to improve their ability to add value to the proposition.

*Realistic ability to fulfill the need together*

When the market need is recognized, the company continues to evaluation of its ability to fulfill the need by using the resources of its own or the resources of the existing partners. Knowing the internal capabilities and the capabilities of the companies in the partner portfolio is hugely important in order to make the evaluation. If the need cannot be fulfilled through the existing internal or external sources, the company must begin searching a suitable partner candidate possessing the missing resourced. Before entering a relationship one must understand exactly the value that the final value proposition lacks. A partner can add value through efficient and/or flexible manufacturing, innovation generation or something else but the critical point is to jointly agree how the partner is planned to add value. In other words, both parties must know why they are about to collaborate and what do the counterparts expect from each other. If the lacking resource is knowledge intensive, the relationship must be strong and trustful. However, as the direct and dense relationships are costly, heavy and complicated to maintain and manage, it appears to be beneficial have as few direct and dense relationships as possible and therefore, one should carefully evaluate if accessing the resource really require a strong tie.

*Willingness and commitment to fulfill the need together*

In addition to existing market need and possession of required competences to fulfill the need, both parties must be willing and committed to the collaboration. To reach jointly agreed goals the commitment of the owners, managers and the key interface people appears to be also highly influential factor affecting to success. Strategic goals of both companies must be aligned and genuinely aiming to serve the end customer. If the willingness is at high level, possible problems with quality, deliveries or any other operative matter it is probable that difficulties will disappear rather quickly.

*Capability to implement the jointly agreed strategy*

The fourth key theme is ability to implement the strategy. If there is a market need; realistic ability to respond to that need together with a partner; and the management of both companies is committed; the rest appears to be dependent on the managerial and leadership skills. Defining responsibilities, modeling joint processes, agreeing performance indicators, naming decision makers at different levels, and joint organizing around the relationship are all important. However, eventually managers' ability to internally organize operations and ability act properly with the partner interface affects to the success of the relationship. The role of interface people and managers has become increasingly complex and demanding, which means that the skill profile have enormously extended. Hence, one must pay attention to the training of the interface people.

*Continuous open communication to keep the goals transparent and present*

Finally, the fifth important theme is the open two way communication. To ensure that the companies move towards the joint goals, open communication between all hierarchical levels, different functions and departments should be facilitated. This means facilitating both intra- and inter-organizational knowledge exchanges. Continuous presence of the goals and transparency of interactions between different people in the relationship enables the steering of the relationship to the right direction.

This may be challenging from various reasons as discussed earlier, but the most important factors appear to be cultural differences and geographical distance.

Cultural differences may be national, industry related or organizationally embedded. Through organization culture of open communication one may overcome barriers created by national culture. Creating open communication culture may not be easy to create, but appears to be rewarding when successful. High geographical distance is another challenge. Even though, the modern communication technologies have provided unforeseen tools to communicate with people located far away, face to face meetings are still required. By personally meeting each other, individuals may establish a social bond which also supports the communication through less rich channels such as phone, email, chat or video conference. Knowing the face of the counterpart appears to be very important and never meeting each other increase facelessness.

As a conclusion the author suggest that if there are a market need, realistic ability to fulfill the need, willingness to fulfill the need and ability to lead, through open communication strategic relationships may be quite close to the success. Obviously it may not be easy and all the changes in the markets, strategy or people may cause challenges. However, whereas changes may decrease or demolish the fundamentals for the relationship, they may also increase or create new attractive partnering opportunities.

## 5.2 Managerial implications

The author believes that the findings presented in this paper have direct managerial implications. The paper has upraised areas that are beneficial for managers and executives to consider. In addition, the findings may be relevant to other key interface people as well. The discussion under previous topic (5.1) presents the findings that may be also seen as the managerial implications.

### 5.3 Limitations and topics for future studies

Even though, the author believes that this paper has managed to provide rather extensive insight into the latest academic literature and truthful empirical evidence regarding factors and concepts affecting to success of strategic inter-organizational relationships, there are some limitations that one must consider when applying the findings of this study. Firstly, even though the literature review was conducted in a systematic manner, the selection of core articles in this paper is based on the subjective evaluation of the author. Hence, it is possible that some highly relevant articles may not be represented in this paper. In addition, the author has based the literature review on the articles found in top journals listed by Association of Business Studies, and therefore it is also possible that some applicable concepts and viewpoints may have been outlined already by using limited number of the journals.

In addition to limitations regarding literature selection, one must take into consideration the contextual limitations concerning empirical data as well. The empirical evidence has been gathered from Finnish technology industry and may not be directly applicable in other national contexts or in other industries in Finland. In addition, as the strategic relationships are not necessarily supplier-buyer relationships, the empirical evidence may not be directly applicable to other types of knowledge intensive relationships. Moreover, the data was collected from the purchaser side of a relationship and therefore may not represent the opinions of the suppliers. Hence, the author suggests that the framework provided by the literature should be examined also through supplier related empirical data and through other strategic relationships in addition to supplier-buyer relationships.

Moreover, as pointed out in the discussion, this paper did not find clear direct support from the empirical evidence to show the applicability of the four field frame for strategic drivers presented **Figure 10** in page 62. The author encourages scholars to further develop the tool. One way of strengthening the theoretical foundations of the tool could be adding more discussion and theoretical background regarding offensive and defensive drivers. There appears to be a link between Porter's (1980) industry-based view and the defensive drivers; and Kim and Mauborgne's (2004) theory of blue



ocean strategy may be seen linked with offensive drivers. These views could be further investigated and the author also encourages empirically test the model explicitly.

As another future study direction, the author suggests updating the current understanding of the skill profile of an ideal relationship manager. The prior research literature (Davies 2004) and the empirical data of this study recognize the increasing complexity of market demand and accordingly changed requirements for collaboration. However, the empirical data also point out the changed role of sourcing and the changed competence requirements for the people working in sourcing. The job of a purchaser appears to change from the observer of day to day activities such as deliveries, quality and costs into more strategic partnership developer. By referring to all the tasks mentioned earlier in this paper, the person responsible for the relationship must be very well aware of strategic direction as well as the cost drivers at the operative process level. This could be an interesting topic to cover.

Finally, based on the discussion in this paper, one highly interesting area for further investigation could be examining different possibilities to make the end customer value creation process transparent to the all the companies in a value chain to enhance the understanding of each other's impact on the final value proposition. The author believes that the possibilities of the modern information technologies are not efficiently discovered to increase this transparency. Hence, the area could be an attractive topic for a future study.

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## APPENDICES

### Appendix 1 Hybrid governance forms

<i>Relationship</i>	<i>Asset ownership (Principal/Agent)</i>	<i>Productivity incentives (Strong/ intermediate/ weak)</i>	<i>Authority (Strong / intermediate/ weak)</i>	<i>Description</i>
Pure market	Agent	Strong	Weak	Agent determines how to execute the work owns the required assets and is paid for the output. Agent carries the risk of failure, but also will be highly rewarded in the case of success.
Pure hierachy	Principal	Weak	Strong	The work will be executed under superior's authority without productivity incentives. The organization owns the key assets and bears the risk of failure, but simultaneously collects the profit when successful. Agents (employees organization's sub units) performing the work are paid for their input.
Intermediate	Both	Intermediate	Intermediate	Intermediate indicates of a form in which all the dimensions are in the middle. Basically joint ventures represent such form as everything is shared between two partners.
Empowerment	Principal	Weak	Weak	Employees or business units with self-governance, but without strong performance incentives
Piece-rate employment	Principal	Strong	Strong	Many sales jobs are nowadays strongly based on performance incentives, but otherwise part of hierarchy
Autonomous profit center	Principal	Strong	Weak	Some in-house units may be autonomous and free to exploit internal and external business opportunities. Business units may be treated as market suppliers despite that they eventually are part of the same hierarchy. Similar governance form is widely exploited in professional service industries. There professionals are counted as profit centers with strong autonomy and responsibility of productivity. Intellectual property, client relationships and reputation are at least formally owned by the mother company.
Consortium	Agent	Weak	Weak	Mechanism which connects individuals or firms developing or exploiting joint technologies or standards. For example open-source or Wikipedia-like resources.
Franchasing	Agent	Strong	Strong	Commonly exploited form especially in retail business (33% of all U.S. retail businesses in 1998). Quite strong authority where the franchisor (principal) is providing business model, knowledge, skills, procedures, processes, rules and policies.
Quasi-integration	Agent	Weak	Strong	Market suppliers are governed as if they were part of organization's own hierarchy. In such case, customer tends to be vital to supplier's existence and therefore have strong power over the relationship. Sometimes the power asymmetry leads to the situation where customer actually decides what other customers supplier may serve, the suppliers they can use, which technologies to exploit and even people managing the organization.

(Adapted from Makadok & Coff 2009: 298–301)

**Appendix 2** Interview structure

Date	
Place	
Company	
Interviewee	
Title	

1. How would you describe the meaning of the partnerships and business networks to your company?
2. How would you describe the changes in business networks in recent years? Are there phases you can identify?
3. How does the partnership management occur in the strategy work?
4. What kind of partnerships do you have?
5. Is every type of partnership equally important?
6. What are the key elements of a successful partnership?
7. What makes a company an interesting partner? How do you select your partners?
8. What are the challenges in partnerships?
9. What kind of situations may lead to termination of a relationship?
10. What and how do you manage when you manage a partnership?
11. How would you describe successful partnership management?
12. Who manages the partnership?
13. Who owns the partnership?
14. Do you manage partnerships solely or do you take into consideration the entire network? How?
15. Is there a success story you would like to share? What were the critical success factors? How about any failures? What caused the failure?
16. Are you trying to learn from the experience? How?
17. What kind of partnerships would you prefer in the future?